In Search of an Efficient Marketing Strategy
- for an Internet-based New Service in B2B Market

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May 2010

Master Thesis
Study programme in
Master of Business Administration
15 credits

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Abstract

Title: In Search of an Efficient Marketing Strategy - for an Internet-based New Service in B2B Market

Level: Final Thesis for Master of Business Administration in Marketing Management

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Date: 2010-05-30

Aim: In accordance with a company’s business model, explore and analyse alternative marketing strategies for the market introduction of an Internet-based New Service in the B2B market. This study is interesting as it explores theories within different fields of research (new services, online-services and B2B market) and analyses them together to provide alternative marketing strategies.

Method: A qualitative research approach was conducted. By deskwork, secondary data was collected and analyzed. Formal half-structured interviews were carried out with the company from which we had received an assignment in order to enable a comparison between our theoretical findings and the knowledge the company already had.

Result & Conclusions: Based on the theoretical research and analysis, alternative marketing strategies are suggested. The contribution of this study to the mission company is presented.

Suggestions for future research: This study took a theoretical approach to the study of marketing strategies for an Internet-based new service in a B2B-market. Further research should concern a comprehensive quantitative research to capture currently employed strategies and analyse their consequences.

Contribution of the thesis: This study suggests alternative marketing strategies that can contribute to the re-evaluation of the preliminary business model of the mission company which envisage launching an Internet-based service in a B2B market.

Keywords: Marketing strategy, innovation, new service, e-service, B2B, Cloud Computing
Acknowledgements

“As long as the road is the right one, we would not be afraid that this road would be very long.” ---- Anonymous

Our deepest gratitude goes to the people who aroused our interests in knowledge during the thesis’ journey and supported us through the difficulties. We gratefully acknowledge the help from our supervisor, Professor Lars-Torsten Eriksson, who has offered us valuable and inspired guidance during the academic study. A heartfelt gratitude is directed towards the founder of the anonymous company for the inspiration that he gave us that made us endure hardships. Last but not least, a special gratitude to our beloved parents who have always been helping us overcome difficulties and supporting us without a word of complaint.

Cen Chen & Ulf Johnsen
2010-6-22
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Definitions of key terms

**Business-to-business (B2B):** the “commercial transactions between an organization and other organizations (inter-organizational marketing)”.

**Cloud Computing:** an “Internet-based computing, whereby shared resources, software and information, are provided to computers and other devices on-demand, like the electricity grid.”

**E-business:** “…all electronically mediated information exchanges, both within an organization and with external stakeholders, supporting the range of business processes”.

**E-commerce:** “…financial and informational electronically mediated exchanges between an organization and its stakeholders.”

**Electronic marketing:** a way of achieving marketing objectives through the use of electronic communications technology.

**E-service quality (E-SQ):** “…the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery”.

**Goods-dominant (G-D) logic:** G-D logic considers goods are considered as tangible output as a primary focus of economic exchange, while services are usually regarded as either a type of intangible good, or append value of goods.

**Innovation:** the “management of all the activities involved in the process of idea generation, technology development, manufacturing and marketing of a new (or improved) product or manufacturing process or equipment”.

**Lean production:** a method seeking to improve efficiency and reduce waste.

**New products:** New products can be defined as a good, service, or idea that is perceived by some customers as new, which is including three elements: form, technology, and need.

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New product development (NPD): the development of original products, product improvements, product modifications, and new brands through the firm’s own R&D efforts.11

New service development (NSD): the “overall process of developing new service offerings from idea generation to market launch”.12

Positioning: “Arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers”.13

Service: “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything”.14

Service-dominant (S-D) logic: S-D logic considers service as an independent process without relation to tangible goods as a primary focus on exchange activities.15

Service inseparability: “services are produced and consumed at the same time, and cannot be separated from their providers”.16

Service intangibility: cannot be “seen, tasted, felt, heard, or smelled” before purchase.17

Service perishability: “services cannot be stored for later sale or use”.18

Service variability: quality may “vary greatly, depending on who provides them and when, where and how”.19

14 Ibid. P. 218.
17 Ibid. P. 239
List of abbreviation

ASP: Application Service Provider
B2B: Business-to-Business
B2C: Business-to-Consumer
CIO: Chief Information Officer
CRM: Customer Relationship Management
E-SQ: E-Service Quality
ERP: Enterprise Resource Planning
G-D Logic: Goods-dominant Logic
IT: Information Technology
KIBS: Knowledge-intensive Business Services
NPD: New Product Development
NSD: New Service Development
RIMS: Risk and Insurance Management Society
S-D Logic: Service-dominant Logic
SaaS: Software as a Service
SME: Small and Medium Enterprises
TCO: Total Cost of Ownership
1. Introduction

In this chapter we describe the background of the study. The background is the basis for the problem discussion that leads to a defined purpose of this study and the work’s limitations. Following this we present the target group we had in mind and the disposition of the paper.

1.1 Background

In the initial stage of this study, there was an interest from both authors to study within the research field of marketing. An informal interview was carried out with a company A that we had a personal connection to. The company, which is currently at the stage of product development, envisages introducing a new service to a new market, in a non-traditional way. This evidently caught our interest, and as a result, this study was conducted.

The company A, which has requested to be anonymous, is a recently established company that has developed a computer program for the planning of material flows and optimization of resource in workshops, through the integration of information technology and the Lean Production method. This program would be distributed as a service over the Internet, according to the company’s preliminary plans.

There has been a growing interest among manufacturing companies in later years for the elimination of all such activities that do not add value to the end product; in other words, to the customer.20 Lean production is a method seeking to improve efficiency and reduce waste which, for example, could be the outcome of inefficient use of production resources. Lean is a method that should be implemented in all activities of a company. It is heavily customer focused, and the idea is that most activities should add value for the customer. A principle of Lean is that only that which is demanded by the customer (customer driven) should be produced and delivered Just-In-Time. This puts high requirements on production to be efficient while ensuring that agreed delivery times are met.21

Service over the Internet has become a trend among many (software) companies, and is often referred to as Cloud Computing. Multinational companies, such as Microsoft and IBM, have evidently realized that this is a profitable future market. Microsoft provides service over

Internet as an option to their traditional distribution. IBM’s vice-presidents state that they are moving the whole company towards Cloud computing; thus providing their services over the Internet. Companies, especially those under severe economic stress, may find that flexibility and lower costs is associated with these online-services. According to Gartner (IT consultancy), smaller firms that have most to gain from running their IT as cloud computing, have not yet realized this or taken advantage of this. With current changes of how services can be carried out, it is of interest to examine the consequences of marketing strategies from the perspectives of new service, B2B market and online.

1.2 Mission assignment and company A’s business model

An assignment was agreed upon between company A and the authors and the Supervisor of this study. The company A’s preliminary business model for the new service is to distribute a software application for users as a service over the Internet (Web application). The target group are production managers of machining workshops in Sweden and China. The company hopes to learn from our study about alternative marketing strategies that are related to the company’s preliminary business model. This could prove helpful for the company when re-evaluating its business model. The perspectives provided by this study could provide new insights for the company or, indeed, confirm the ones it already has. This paper is not a case study, however. It is our belief that other companies, with similar characteristics, could make use of the insights of this study. Also, this study will not provide a market plan for the company.

It is not a part of this mission assignment to study and evaluate pricing strategies, i.e. service’s value and pricing, as service is a niche product within a narrow specialist area that requires expert knowledge of production economy in machining workshop in general and Lean Production in particular, which the author’s do not possess. Also, the company’s own research has shown that there are no competitor systems on the market today, which means that evaluating competitive pricing strategies will be more relevant in the future. The company’s price strategy is connected to the benefit it can bring the customer, which would be dependent on each customer’s ability to exploit the service provided. This is an important reason to why the assignment does not include price strategy.

22 Stone, Andrew (for The Sunday Times, 2009). We only keep our IT in the clouds. Available at Times Online: http://business.timesonline.co.uk/tol/business/article6719085.ece (2010-05-18); Harvey, Mike (for The Times, 2009). With their heads in the cloud, the old dogs of technology are bent on learning some new tricks. Available at Times Online: http://business.timesonline.co.uk/tol/business/industry_sectors/technology/article6074181.ece (2010-05-18)
The company A has expressed that its present organisation and resource situation must not have any influence upon the research of alternate marketing strategies. The reason is that the company is a software development company at present, and in order to define its commercial strategies in view of becoming a commercial organisation with appropriate financial and human resources, the company is in need of an initial research study of alternate marketing strategies and a discussion of the special characteristics and critical aspects of new online B2B services, especially.

1.3 Problem discussion

A marketing strategy is concerned with how a company plans to achieve its marketing objectives: customer value and profitable relations. This includes a plan for which customers to target (segmenting and targeting), and how (differentiation and positioning). The problems addressed by the company A relates to the need to examine different established strategies, in order for the company to be able to choose the one that best serves its objectives and capacity. To provide this, it is helpful to explore the theoretical research which has already been carried out within the different fields of research that relate to the business model. Therefore, in this study, a theoretical research will be carried out, so to provide theory to apply empirically, depending on the company A specific characteristics and environmental factors.

These fields of research could be identified from the key characteristics of the business model of the company A. The study aims to analyse the marketing strategies from four perspectives: new product, new service, online-service and online-B2B, making it an efficient study. This conceptual framework serves to divide the research field into different areas, and give a logical process for conducting a theoretical study.

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For reasons explained further in the theoretical framework (3.1.1 Alternative logics on goods and services), new services are discussed firstly from the perspective of a new product. We are concerned with which particular problems there are with regard to the marketing and introduction of new products, in general, and new services, in particular, of web-based services in general, and web-based B2B-services, in particular.

It is widely accepted nowadays that, without the ability to innovate, companies will quickly lose their competitive advantages. Four factors are the main motivations for companies to engage in innovation activities: technological advances, change of customer characteristics and needs, intensified competition, and the changing business environment. Even though the importance of innovation is recognized, there are still difficulties for companies to develop their new products successfully. As the first key element of this topic, innovation was addressed together with the newness of products in the discussion of new products. Marketing strategies for new products will be suggested. They could be considered as essential extended knowledge in the discussion on developing new services.

A service has different characteristics compared to tangible products. This is also the case of new services. Companies will, based on the service’s specific nature in specific industries, develop specific innovation activities. In the discussion of new services, the impact of service characteristics and other relevant thoughts of developing new services need to be suggested.

Globalization blurs the boundaries of social cultures between countries around the world. It also stimulates the emergence and development of international companies. Electronic communication enables world-wide communication companies to achieve their global business objectives. Web-based and B2B are two key issues which relate to this topic. In the discussion of online-services, more efforts have been put on e-marketplace conditions, while in the discussion of B2B-online, the input is mostly focused on B2B marketing strategies. It is considered that B2B market is more complex than B2C as the market requirements will change according to different types of organizations and the people involved in the buying process within the organizations. Therefore, a series of discussion about product/service strategies is carried out in B2B-online section.

From these different perspectives, as answer to the following question may be given. What alternative marketing strategies can company A choose among and what differences are there between these, mainly? What conclusions can be drawn and how should they affect the business’ service and marketing?

1.4 Purpose
Examine alternative marketing strategies for the market introduction of an Internet-based New Service in B2B market, in accordance with company A’s business model.

1.5 Limitations
The assignment does not include data technical issues, production management issues, marketing or distribution channels in addition to the Internet. The study does not take any consideration to country specific conditions; also collaboration of any sort is not within this study. Pricing strategy will not be fully researched or included in our conclusion of this research as we believe it requires specialist expertise and could be a comprehensive research area by itself. The study will not provide a business plan.

1.6 Target group of this study
The target group of this paper is both the company A described above and students who wish to study within the research field of marketing and online-services in B2B market.

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27 Ibid. P. 144.
1.7 Disposition

Chapter 1 – Introduction
The subject of the study is described and the interest motivated. Problem discussion and mission assignment motivate the chosen purpose for the study and limitations are also presented. The target group in mind is described.

Chapter 2 – Method
Methodology is described and choice motivated for this study, as well as how the research was conducted and conclusions drawn.

Chapter 3 – Theoretical framework
The theoretical framework describes theories according to the four categories described in the problem discussion: new product, new service, online-service and B2B-online. Fundamental theory is followed by a discussion of specific issues that need to be considered when evaluating alternative marketing strategies.

Chapter 4 – The Company A
The interview held with the founder of the company A, as described in the mission assignment, is reviewed. The company A is firstly introduced and later the interviewee’s perspective on different business-critical issues is summarised.

Chapter 5 – Analysis
Analysis of the theoretical framework, the four categories mentioned above, is conducted. Also the interview with the company is taken into consideration, to highlight insights that were already there and those that might need to be given from this study, from a theoretical point of view.

Chapter 6 – Conclusion
Alternative strategies are recommended, based on the theoretical research that has been carried out.

Chapter 7 – Reflections and further research
In this chapter the results of this study, and how it was conducted, is discussed. Further research is recommended within the research area of this study.
2. Method

In this chapter we will describe and motivate the method we have chosen for this study, and how our research was conducted and conclusions drawn.

2.1 Alternative research methods

There are different approaches to conduct a research. Depending on which one is chosen, often depending on the purpose of the study, different answers may be given. How research is conducted is also reflected by whether information is already available or not.

2.1.1 Qualitative and Quantitative method

Qualitative and quantitative methods can both be used to collect, analyse and interpret information. Many investigations could be done with either one of these, or both; however, the two research methods have different approaches to study a phenomenon, and may give different answers to problem research. The quality of a study is not dependent on which one of these approaches is chosen, but the design of the study and how well it is conducted. 28

A qualitative method answers to what, by interpreting the meaning. It may analyse words, sentences and narratives in an often not so rigorously structured way. This probably leads to some missed information, but for the same reason it enables the research to give unexpected information by a wider exploration of the subject. Secondary data is prominent in this research method. 29

Quantitative method answers to how much, by assuming a meaning and referring to the measure of it. It typically analyses data in terms of numbers and figures, statistically, and tends to be more structured, and restricted, than the qualitative method. 30

2.1.2 Deskwork and Fieldwork method

Another two approaches to research are deskwork and fieldwork. Fieldwork is the process of collecting primary data; that is data collection for a specific study. Deskwork is to analyse data previously collected by other researchers (secondary data). 31

Many social science researchers’ data collection is done by fieldwork. They need to ‘go into

29 Ibid. PP. 191-193, 328.
30 Ibid. PP. 191-193.
the field’ to collect data directly, by observing and questioning. However, in economic researches, the abstract nature could make a fieldwork less reliable. Much research, in different disciplines, is done by deskwork. It is not a demand of a scientific paper to provide a fieldwork.  

2.2 Choice of research method

To examine alternative B2B marketing strategies, we have chosen to use a qualitative method. An exploratory study was conducted in order to build up a clearer idea of the problems related to our mission assignment; allowing further study in the, for mission assignment, relevant findings. Our conclusions are the result of qualitative interpretation according to qualitative method. An interview has been made by using a qualitative technique, a half-structured interview, with the founder of the company A.

We have made a deskwork research, where mainly secondary data is used. The reasons are to save time and that our primarily source research indicated that it would be sufficient for providing to the problems as defined in this paper.

2.3 Data collection

Primary data is the information that has not been gathered earlier; it is collected for use in a specific study. Secondary data however, is the outcome of other studies’ collected information. Secondary data can be used efficiently to better understand a problem and is often a first step in a study. There are many sources of secondary data, for example literature, journals and internet.

The approach of collecting secondary data can save time and money. However, this approach requires the identifying of potential sources, which might not be easily accessed. In these cases, it may instead become time consuming. Also many sources may be incomplete, requiring the researcher to consult multiple resources to verify the information’s validity.

The primary data in this study was gathered from interviewing the founder of the company A. Secondary data, which we have relied on mostly in this paper, includes literature and databases, journals. We have also used the search engine Google to find information.

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34 Ibid. Chap. 316-317.
In our search for sources we searched with keywords as well as more broadly by looking through available literature in relevant categories. Categories browsed through are marketing, new products (product development), information and communication, and B2B-marketing. Initially, our research was led by the key characteristics we found from the business model of the company A. As our knowledge increased, we could narrow our search to the most relevant and adequate academic terms for our research area. Keywords used to find information in library, internet and databases were: new product/service, innovation, marketing, marketing management, service management, internet marketing, online-marketing, e-marketing, e-business, business-to-business. Most literature we could access had a goods-dominance logic, why also our theoretical framework is heavily influenced by this logic and discusses product-oriented theory. This is explained further in theory section 3.1 Alternative logics on goods and services.

The amount of literature in the field of our study is easily accessed and we made use of several libraries to meet our need. Although we found plenty of useful information in literature we also needed to access journals and the Internet to learn about the latest discussions concerning our research field. Literature takes time to write and risk to be out-of-date already when published; especially in a fast changing business environment like online-services. For findings on the Internet where there is an absence of authority we consulted multiple resources to verify the information.

Collected data was initially thoroughly described, enabling a later selection and categorization of the data. To make our work more efficient, we have been using a specific computer program, called Treepad, which enables us to sort information in a structured way. Being more than just a word-processing program, it enabled us to gather our thoughts and sources in a structured way at an early stage of our study. We thereafter simplified and improved the presentation of the logical steps, so it would be easier for the reader to follow and overview.

2.4 Interview method

In a qualitative research, interviews may be structured, semi-structured or unstructured. Structured interviews, i.e. when interviews are following an interview schedule, are helpful when one wishes to describe or explain a phenomenon; but only a less structured interview would allow the exploration of the topic to new sub-topics which also includes the
interviewee’s further development of his own thoughts. The structure is partly affected by which data-collection strategy has been chosen previously. A semi- or unstructured interview is especially suitable when there are many problems to address, and where the relevant information must be identified.\textsuperscript{35} A semi-structured interview appears to combine the best from two opposite characteristics. This is done by having an interview schedule, in order to have a specific topic clarified, but without following it strictly, allowing new thoughts that appear as a result of the process of exploring the topic to be included.

For our work, a semi-structured, open-ended interview method has been chosen, in order to cover important questions but also, which seems important for our study, allowing for the interviewee to further develop his own further thoughts. One interview was held face-to-face, which made it flexible and easy to add additional questions.

Our interviewee is the founder of the company A and is selected so to give the company’s perspective on its business and factors affecting marketing strategy, in general and in particular. The founder is heading all business development activities, and is therefore the most suitable interviewee.

Through initial informal interviews we have received much information helping us to understand the business and its concerns. This has helped us in formulating the mission assignment and problem discussion, and together with the theoretical insight which we have acquired through our research work, we consider that we could ask relevant pertinent questions to the interviewee.

\section*{2.5 Research process}

\emph{Construction of research field}

In the initial stage of this study there was an interest from both authors to study within the research field of marketing. One of the authors had knowledge about a company (Company A) that was, at this time, in an interesting phase of development that required further marketing insights.

**Problem formulation & Informal meeting with company A**

An informal meeting with the company A was held to discuss the problem formulation. With regard to the business model of the company A, and with guidance from our supervisor, we decided to narrow the rather broad study that we first had in mind down to what appeared to us as being its most essential issues. This resulted in the definition of the company A’s mission assignment and the purpose of the study.

**Development of theoretical framework & Choice of research method**

After the purpose of this study had been defined, the choice of a research method could be made, as well. Much of the time making this study has been dedicated to the searching and reading of secondary data. While thus increasing our knowledge of the research area of this paper, preparations were also made for a formal interview with the company A’s founder.

**Interview review & Theoretical discussion & logical structure**

At this stage of our study we had already created a good logical work order, although it needed to be further revisions and improvements. The conceptual frameworks that had been followed could now be visualized.

**Analysis**

Our review of the interview showed us that the company A had good knowledge of and insights into its field of business. In our theoretical discussions we attempt to analyse generally important strategies to consider in this field.

**Conclusion and reflection**

In our conclusion, the alternative strategies are firstly presented and then follow a reflection on how these correspond to the purpose of this paper. We then offer a critical reflection on how this conclusion could be drawn.

*Figure 2: Working procedure*
2.6 Critical reflections

For the research results of a scientific paper to be useful for any business decisions, it is required that scientific methods are used and conducted correctly. Nine useful criteria give guidelines to how this is achieved successfully.\textsuperscript{36}

- Purpose clearly defined
- Research process detailed
- Research design thoroughly planned
- High ethical standards applied
- Limitations frankly revealed
- Adequate analysis for decision-maker’s needs
- Findings presented unambiguously
- Conclusions justified
- Researcher’s experience reflected

Validity and reliability need to be redefined if they are to be used for qualitative research, as they were always used in quantitative research.\textsuperscript{37} Because this study is made by qualitative research, the question of validity and reliability of this study may not be answered. Instead one must rely on other methods described above.

2.7 Chapter summary

In this chapter we have described and motivated our choice of methods for this study. Our chosen method was a qualitative research approach and, further, to use the deskwork method for the collecting of data. This method was chosen as we assumed that the information we needed was already available and that theories were easily accessible through secondary data. An informal interview was made initially with the company A for a better understanding of its business. A formal half-structured interview was then conducted with the founder of the company A with the purpose of comparing theoretical findings with the knowledge and insights that the company may or may not have had prior to this study.

3. Theoretical Framework

With the business model of the company A as a framework, we here describe the current theoretical framework and identify essential theory to use when evaluating alternative marketing strategies. Two different logical thoughts on the perception of service are presented. This is followed by a discussion of relevant aspects on new products and innovation. New service development (NSD) is discussed afterward with regard to differentiation between services and physical products. Possible consequences and strategies of NSD are illustrated based on the aforementioned marketing strategies for new products/services. The involvement of web-technology brings the discussion to efficient and effective solutions in the online-service section. Last but not least, the product/service strategies in B2B market are given based on a general understanding about B2B in e-marketplaces.

3.1 Alternative logics on goods and services

To explain the reasons of starting with new products in the theoretical framework in this paper, it is necessary to start with the distinctive logics of goods and services. According to Vargo and Lusch, there are two perspectives on seeing services in general. The first logic, where goods are considered as the tangible output has a primary focus on economic exchange, while services are usually regarded as either a type of intangible goods, or something that adds value to the goods. The second logic considers service as an independent process without relation to tangible goods and with the primary focus on the exchange of activities; this can be exemplified by how value is seen as something created in interaction with the customer, not only something embedded in the product. In Vargo and Lusch’s research, these alternative logics are respectively called goods-dominant (G-D) logic and service-dominant (S-D) logic.\(^\text{38}\)

The most distinctive difference between G-D logic and S-D logic originates from the conceptualization of service. That is, G-D logic sees services as inferior to tangible goods whereas S-D logic views service, compared to goods, as a superordinate collaborative process with the locus on value creation. It is important to understand that S-D logic represents a shift in logic of exchange and not just a shift in type of product.\(^\text{39}\)

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\(^{39}\) Ibid.
In this paper, we consider that the perspectives would be mostly restricted by the traditional views of services – G-D logic, because there are abundant research results. Nevertheless, S-D logic is also considered, for its different focus. Innovation is another critical reference together with thoughts of goods and services throughout the study. Traditionally, innovation literature did not regard services as products, i.e. innovation was considered as something that concerned exclusively the development of new physical products – New Product Development. This would suggest a traditional perspective, G-D logic, as the theoretical framework for services. However, it has been clearly illustrated through the rapid development of internet-based business, for example eBay, that innovation indeed concerns services and, therefore, the perspective offered by the S-D logic will be maintained throughout the study.

3.2 New Product and Innovation

This section focuses on different aspects of new product and innovation. Alternative logics concerning goods and services are stated at the beginning of this section to explain the choice of logical thoughts. Based on the conceptual framework, we consider a differentiation strategy and two concepts, innovation and new product, as relevant. Then a further understanding of NPD (new product development) and diffusion and adoption process in relation to innovation are offered.

Figure 3: Conceptual framework of new products

3.2.1 New Products

The majority of new products are developed on existing formats; only ten percent of new products are truly innovative. With new product, the meaning is new to either the company or

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41 Ibid.
the market place (Booz, Allen & Hamilton, 1982). New to the company means that the company has not sold the same type of product before, while new to the market means that this type of product did not exist in the market before. A new product can also be defined as goods, a service, or an idea that is perceived by some customers as being new.

### 3.2.1.1 Concept of New Products

Crawford (1997) suggests that three elements are required in a new product concept: *form, technology, and need*. Form normally refers to the physical object to be created or the sequence of steps in the case of services. Technology is always the foundation of innovation. Need concerns the benefits that may be derived by customers from a product’s value. As aforementioned, the definition of new products is they are either new to the company or the market place or to both (Booz, Allen & Hamilton, 1982). New products may be categorised as: new-to-the-world products, new product lines (new to the firm), additions to existing lines, improvements and revisions to existing products, cost reductions, and repositioning.

### 3.2.1.2 New product development

New products are important for a company’s success. However, many new products fail; 41 percent of new products fail after the phase of market introduction and even more fail before the introduction. And initially successful products are often threatened by a rapid technological change that shortens the product life cycle.

NPD is one of the ways in which that a company can acquire new products. It concerns the development of original products, product improvements, product modifications, and new brands through the firm’s own R&D efforts. Here it is important to involve customers as a resource, co-creator and user; which will be discussed later in this section. NPD is regarded as a strategy for growth by a majority of companies. Ansoff’s directional policy matrix is one of the clearest ways of identifying the variety of growth options applying to a company’s NPD.

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strategy.\textsuperscript{49} At the same time, it is also a commonly used model to formulate appropriate marketing strategies.\textsuperscript{50}

**Ansoff’s Matrix**

By combining two essential variables which enable a company to grow, *current and new products*, and *current and new markets*, this matrix shows four different profitable strategies. These could be chosen by companies to fulfil their increasing objective.\textsuperscript{51} See the figure as bellow.

![Figure 4: Ansoff’s Matrix\textsuperscript{52}](image)

**Market Penetration Strategy**

It adequately exploits the current product’s potential in current markets to achieve an increase of market share. This strategy is regarded as the most basic development strategy for a company.\textsuperscript{53}

**Marketing Development Strategy**

Without changing the core technology of the current product, the company utilizes the same type of product to develop and enter into new markets. With this strategy a company would


\textsuperscript{52} Ibid. P. 392.

\textsuperscript{53} Ibid. PP. 392-393.
more or less adjust promotion or positioning of current product.\textsuperscript{54}

\textit{Product Development Strategy}

By updating the current product to a new product, stretching both horizontally and vertically, companies tend to improve the market share of the same type of product within existing markets.\textsuperscript{55}

\textit{Diversification Strategy}

Basically, a diversification strategy aims at selling new products to new customers. Considering the unknown interaction between new products and new markets, this strategy is the mostly risky strategy. It would be appropriate when good opportunities occur in business areas which have not existed before, while it is considered that the company has the necessary skills and strengths to develop new products in those unknown markets successfully. Three types of diversification can be envisaged to achieve a success. Firstly, with a concentric diversification strategy, a company may enter a new market by acquiring technology or utilizing its present technology of its core business to develop; for instance, a car company could start to produce trucks. Secondly, with a horizontal diversification strategy, a company could develop or acquire a new product that is different from the present technology or core business but where the target customers of the new product are highly relevant to or the same as for the current products. Thirdly, a conglomerate diversification strategy is a strategy which is usually adopted by companies with abundant strengths and resources. They have enough capital and advanced technology to develop new products for new markets, where the technology is unrelated with the existing products and the market unrelated to current market.\textsuperscript{56}

However, Ansoff’s matrix was issued under a condition that the opportunities for growth exist which may not always be the case. Also it is an unrealistic assumption that companies would always seek opportunities to increase its profits instead of considering other options, such as retrenchment, especially under a depressed economic environment.\textsuperscript{57}

\textsuperscript{55} Ibid.
Importance of Customers Relationships

Involving customers in the NPD process is considered highly valuable and necessary for a successful launch of new product; not only for product design to meet customers’ needs. The involvement of customers creates the perception that the product is tailored for those customers; hence creating strong relationships and loyalty. In the development stage, customer (as users) may test the product and give valuable feedback, or use it for longer time and become a reference customer. The collaboration with customers can go further, as to help them achieving better competitive performance by understanding their market better and aligning the company’s plans with the customer’s; this could better fulfil the needs of the customer and boost the company’s product’s adoption.

Positive feedback and network externalities

Consumers benefit often from using popular products (systems). When the value of a product to a customer depends on how many other users there are, it indicates that the product has a so-called network effect. The result can be rewarding for a company because of its nature of positive feedback: as the number of existing users grows, even more users will find that adoption of the product (system) is a good choice.

Lock-in of customer (Switching cost)

Switching cost is something that both a customer and supplier need to consider as the choice of systems technology may have the effect of locking-in customers due to the high cost of switching to a different system. Essentially, future options may be limited to those systems that are compatible with the technology of previous investments. Customer lock-in is a common phenomenon in the information technology economy. For a system supplier it can become a critical issue by either anticipating or neglecting it. Before a supplier can consider a lock-in strategy, there should be a substantial customer base to lock-in. It is assumed that customers that have invested much in a system will not switch from this product to a new product (and they are locked-in) unless there are other very strong reasons to do so. If we take

62 Ibid.
the customer’s perspective, it can be assumed that he will try and avoid suppliers of products that mean a very long-term commitment to the product investment and a risk of being locked-in.

**Compatibility and performance**

For an industry that is subject to the effect of positive feedback, as mentioned earlier, there are different strategies to convince customers. For a product to go on the positive feedback curve, an evolution strategy of compatibility and a revolution strategy of compelling performance are fundamental approaches that must be understood properly. These two can be contradictory at times, and the ideal product that is both improved and compatible can sometimes be very difficult to find.63

**Openness and control**

Openness attracts more allies and assures potential customers that they would not be locked-in and can choose suppliers as they like further ahead. The strategy of openness improves the prospects of finding customers at the expense of control. Openness is especially important if the product needs to be compatible with other companies’ products. Maintaining control, on the other hand, which is closely related to the lock-in effect, can be very awarding for the supplier if the product would be successful. This is, however, requiring a company with a strong position in the market.64

**3.2.2 Differentiation strategy**

Differentiation is a strategic choice by a company that is concerned with how it competes, i.e. the ways in which it can offer uniqueness to customers. Differentiation is concerned with a company positioning within a market in relation to the product, service, and image characteristics that influence customer choice. Differentiation is what the company does to be seen as different from competitors.65 New products (innovations) should have a differential competitiveness by uniqueness and superiority in the market. This is done by identifying a truly unique product with a meaningful differential competitive advantage. It is also necessary to have knowledge of the marketplace and proficiency in marketing activities. A new product needs to offer an economic advantage and be priced competitively. The attitude and preference of potential customers, who are well satisfied with entrenched competitors, must

64 Ibid. PP. 196- 203.
be taken into consideration when marketing a new product.66

Comparing differentiation with pricing

A low cost strategy offers less security than do differentiation. Because of international competition, cost leadership becomes more difficult to achieve. Very similar products (commodity industry) lead to price wars between competitors. Price competition is less likely in industries where products are clearly differentiated. Even if there are many firms competing about a given market, price sensitiveness is less where the product constitutes an important part of the buyer’s own product. In an industry where products are differentiated, established companies have the advantage of recognition and customer loyalty. New entrants must spend much more on advertisement and such, to take market shares from them.67 The following table is a list of common differentiation strategies.

| Being the first to enter the market (ex. pioneer by innovation) |
| Owning a product attribute or quality in the consumer’s mind |
| Demonstrating product leadership |
| Utilizing an impressive company history or heritage |
| Supporting and demonstrating the differentiating idea |
| Communicating the difference |

Table 1: Common differentiation strategies68

Differentiation strategies of online-business

The above-mentioned common strategies apply to both offline and online products or services. However, for an online business, other specific considerations (strategies) also should be considered. Differentiation strategies can be said to be particularly important in online business because the marketing strategy for these business often needs to focus on the company’s image and product information. Despite generally low entry barriers on the Internet, a strong brand image can create a competitive advantage. When the Internet was new, aggressive pricing strategies were more common. Nowadays, product differentiation is more common. Conducting business on the Internet usually requires a company to have a website for customers’ access. It is important that the customer have an overall good impression from

visiting this website (through its interface); the offer should be easily accessed and other expectations customers may have should be met as far as possible. On a web site, intangible products, services, can be made more tangible by providing the customers larger images, trial downloads, virtual tours, customer reviews and more. It is common that users use Internet-based forums to express their dissatisfaction with products and services and this causes bad will to spread very fast. Therefore, it is advisable to strive towards a situation with fully satisfied customers. One way, now predominant, is Customer Relationship Management (CRM).

**Customer Relationship Management (CRM)**

Companies have increasingly been interested in customer oriented processes. CRM enables personalization, one-to-one relationships between company and customer; supplier and buyer. Internet makes it easier to offer differentiated offers, according to the information provided by the customer relationship. This is possible due to a CRM system that collects all different kinds of information they have, within a company, about each customer. This enables the providing of better information that can be used for direct marketing, which leads to better results as the offers may be more relevant to customers. With data mining, which is the analysis of data in database, it is possible to use the collected data of a CRM system to work with customer patterns and work with customer loyalty and profitability. Also marketing automation is possible, which coordinates the communication with customers, based on the information gathered. Anyone in the company could easily access the necessary information about a customer, to best serve him.

Databases and better programs and communication tools can ease the job of segmenting customer groups. The idea of segmenting, ideally, is a customer development that leads to a one-to-one relationship between customer and company, which could be enabled by CRM as mentioned above. Segmenting can also be seen as a strategy of selecting the customer groups that should be prioritized in marketing, which may be the most profitable customers or for the purpose of differentiating the relationship to the specific groups identified. These are identified and differentiated according to some criteria, and adaptation of offers can in this way be done to customer. The segmenting can or is normally done on several levels. The one

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that takes individual customers into account requires databases to be handled.  

3.2.3 Innovation

Innovation has been argued for a long time that it stimulates the growth, even regardless of the macro economy condition.  Christopher Freeman said that “…not to innovate is to die”.

Innovation has already penetrated into companies’ consideration as essential ability to change or adapt to survive.

3.2.3.1 Concept of Innovation

The following equation shows Trott’s idea about innovation adequately: Innovation = theoretical conception + technical invention + commercial exploitation. Trott expresses his understanding of innovation by giving an own definition. It identifies the essential sub processes of innovation: “Innovation is the management of all the activities involved in the process of idea generation, technology development, manufacturing and marketing of a new (or improved) product or manufacturing process or equipment”.

Based on previous definitions of innovation, it can be seen that a holistic innovation process covers: newness of products or process; newness of extent (how much is new); newness of source and the influence of the newness.

3.2.3.2 Diffusion of Innovation

Diffusion is concerned with the communication of an innovation, how something new is perceived by people. A company that takes a pioneering role and chooses a proactive strategy is mostly concerned with the rate of diffusion; the relative speed by which an innovation is adopted. In general, first adopters need less time to adopt than late adopters. An innovation needs to be special enough to keep customers from competitors later on. In the

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75 Ibid. P. 4.
77 Ibid. PP. 14-15.
78 Ibid.
82 Ibid.
introduction phase company wants to expand the market. To stimulate initial purchase and diffusion of innovation, heavy expenditures are usual to put on advertisement and other promotional activities.\(^\text{83}\)

### 3.2.3.3 Characteristics of innovation affecting diffusion

Some characteristics of innovation have been found to affect the rate of diffusion. Relative advantage, that is how much better the innovation is by economic or non-economic factors, affects how fast the adoption process will be. Compatibility is how well the innovation fits existing skills, equipment, procedures and performance criteria; as well as how easily it is assessed. Too big differences will require a change of innovation and/or organization. Compatibility can relate to network externalities, where other criteria than the product itself affect the adoption process, for example the availability of information about the technology from other users and complementary innovations. Complexity is how the innovation is perceived as being easy to use. Trialability concerns the ability to try out, experiment, with the innovation. This kind of innovation results in less uncertainty, if it is not too difficult. Observability is the extent it is visible to others, the benefits of the innovation. This simple epidemic model assumes that existing customers will spread the word to other potential customers.\(^\text{84}\)

### 3.2.3.4 Diffusion affecting adoption process

When a new product (innovation) is marketed, it is expected that customers’ adoption of the new product will more or less follow the traditional S-curve (called diffusion curve) for new products. Initially, the rate of adoption is low and it may only attract the interest of innovators.\(^\text{85}\)


Early in the adoption process, early adopters show interest, and it is here that the feedback is of much importance. According to Rogers, it is important to select the right customers and ensure positive feedback from early adopters, in order to reach a critical mass of adopters that will make the rest of the adoption process self-sustained. After early adopters the majority also will start to adopt the new product. In practice, the precise pattern will depend on the interaction of demand-side and supply-side factors. Eventually, the product will reach saturation on the market, at which time it is fully penetrated in the market.

Adoption process of customer groups

The product adoption process has five stages: awareness, interest, evaluation, trial, and adoption. How customers respond to a new product depends both on their own characteristics and the new product’s. The adoption process can be categorized according to the groups of adopters that differ in their attitudes. Innovators are venturesome, they can accept some risk. Early adopters are opinion leaders that adopt new ideas early, but carefully. Early majority adopt early, but not without weighing facts and arguments. Late majority is sceptical, and only adopt when a majority of people already have. Finally, laggards only adopt innovation when it has become very rooted in the society already.

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Figure 6: The diffusion of innovations \(^{90}\)

The yellow line shows the overall adoption process, as a new innovation becomes more and more adopted, which eventually leads to a saturation of the market. The blue line shows in which stages different customer groups adopt to a new innovation.

The above model is a widely accepted model by Rogers. However, it is considered to have disadvantages of actually not being able to predict the outcome and may therefore not give proper guidelines for market strategy. Empirical studies have shown that there are inconsistent results for adopter groups, making it unpredictable. “Individuals can be innovators in certain areas and laggards in others”. Rogers acknowledge that the product profiles are product specific, and provide no general rules to sort out who the first purchasers would be. \(^{91}\)

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In comparison, Bass' model can better predict the adoption process. Although it is not within the scope of this paper to go into the details here, it is basically possible due to that: “Because of the long time intervals between individual purchase occasions for consumer durables, the number of adopters in a time period is virtually identical to the number of sales throughout most of the diffusion process. This enables the number of adoptions in a period to be used as a proxy for sales, and vice versa.”93 For this reason, it should be more useful for innovations that require methods that predict the future development.

**Early and late adopters of innovation**

*Early adopters*

A company may need to focus on early adopters to maximize positive feedback as this will increase the rate of diffusion. Pricing is here an important issue. If the price is set high, it might allow competitors to enter under this price level and not suffer the penalties associated with late entry to the market. A low price will be more effective for achieving penetration by creating an entry barrier for competitors. On the other hand pricing must be such that initial costs eventually get covered.94

*Late adopters*

Factors affecting late adoption are according to a study somewhat different from the factors explaining early adoption. The study was conducted by observing the adoption of ERP

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93 Ibid.

(Enterprise resource planning) software but the evidence may not be limited to this industry. Supplier activities are especially important in early adoption, whereas in late adoption, implementation issues are more common, such as scalability, number of seats and yearly available budget etc., and common. The study suggests that in the early market phase, firms need to be convinced by new technology; so strategic value and credibility of the new technology is essential. In the case of ERP vendors, it is suggested to reduce the perceived switching cost and risk that firms will associate with early adoption, for example by using pilots. Also compatibility is important, especially at the very beginning of the life cycle of the innovation, because it may also speed up the adoption by increased compatibility. When targeting majority groups, it was shown that practical problems related to the scalability of the product and the reduction of implementation period should be prioritized. Because of the costs and risks that are involved, the most common customer reaction is to further postpone adoption. Some ERP vendors start to partition their monolithic products into components, so that investment may produce lower risk of implementation.95

3.2.4 Section summary

In this section, it is important to start the discussion of choosing between G-D logic and S-D logic. In order to avoid narrowing down the perspectives of how services are viewed, G-D logic is more in focus than S-D logic, while S-D logic is also considered. Concepts of new product and innovation are essential foundations of further understanding on NPD, diffusion and adoption process. Differentiation strategy is from another perspective, where a company’s new product most of all should acquire a differential competitiveness by uniqueness and superiority in the markets. It is about how a company competes with other competitors. NPD is regarded as a strategy for growth by most companies. Ansoff’s matrix is one of the clearest models, which shows up different ways of growth options applied to a company’s NPD strategy. Diffusion is concerned with how people perceive innovation or the newness of a product. Some characteristics of innovation are found to have an effect on diffusion, while diffusion has an effect on adoption process, which could be predicted; the right incitements and the right adaptors could contribute to a faster and more profitable market launch of an innovation.

### 3.3 New services

The conceptual framework structures the logical thoughts of this section which is shown from figure 8.

![Figure 8: Conceptual framework of new services](image)

In this section the New Services Development (NSD) process is understood on the basis of definition of services (new services) along with the differentiation between new services and tangible products, and by types of new services. By understanding the characteristics and essential aspects of NSD process, a collection of relevant strategic thoughts are gathered afterwards, which are considered as possible consequences or strategies of NSD.

#### 3.3.1 Definition of service

Service was described very simply in Zeithaml and Bitner’s book as the “deeds, processes, and performances”. Because people understand the concept of services and the services sector of the economy differently, a broader and more comprehensive definition from someone else was given in their book, “include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of its first purchaser”.96 Kotler gave his definition of services as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything”.97 Intangibility, as one of the major characteristics of services, was emphasised in above definitions as essential distinction from tangible products. Also, service would be consumed in real time at the same time of delivery. Kotler chooses a more generalized perspective to identify services and then discusses about

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four services characteristics in detail.

Service intangibility
Intangibility is the main characteristic of services. It cannot be “seen, tasted, felt, heard, or smelled” before purchase. Customers would usually distinguish a suitable service by, such as, people, price, location, equipment, environment, and communication.98

Service inseparability
It means that the “services are produced and consumed at the same time, and cannot be separated from their providers”. Unlike tangible goods are produced firstly, then stored, sold and consumed. On the service delivering process, employee becomes part of the service.99

Service variability
It refers to the fact that service quality may “vary greatly, depending on who provides them and when, where and how”. The way of an individual employee to implement the services decides the services quality to that certain customer.100

Service perishability
The fourth major characteristic of services is that “services cannot be stored for later sale or use”. The perishability would only be a problem for service companies when demand fluctuates. This could be the result of supply not being adequate to the demand or vice versa.101

3.3.2 Differences between new service and new products
Earlier, we discussed differences between services and products. Significantly, those different characteristics of services are transferable to the differentiation of new services and new products. It is actually a result of rethink and redesign in business development process of new offerings.102

99 Ibid. P. 240.
100 Ibid.
101 Ibid.
Intangibility

Compared to tangible products, it is sometimes easier to develop new service processes. NSD could be organised as a real-time ongoing development according to the changes of clients’ needs or competitive offerings. However, the intangible nature of services makes it difficult to test in the concept development process. Because of this, the testing of new service usually end up in the actual market. Nevertheless, the usage of different levels of technology in services innovation increases the possible chance of improving the concept testing in NSD.104

Another thought about the intangibility of services is that an NSD process could be easily copied by competitors because new services are difficult to protect by patents, which causes a reduction of incentive to invent or invest in new services. Then a “me too” service can be processed with small and incremental changes in NSD process.105 Due to the ease of coping, competitors can be identified as a new resource of ideas which might be more important than customers’ contribution for NSD. However, keeping focus on “me-too” services with a mostly

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104 Ibid. P. 463.
105 Ibid.
reactive and defensive development could be risky.\textsuperscript{106}

*Heterogeneity (i.e. variability)*

In a traditional service delivery procedure, services are produced by both suppliers and customers, which means services depend on human interaction. In technology-based services, technology tends to enhance the standardisation of services, which the variation in heterogeneity depends quite a lot on, from the supplier side. However, service itself may still change due to technical weakness and customer-oriented issues. For technology-based services, it is essential to make sure that the technology fulfils the service quality requirement.\textsuperscript{107}

*Simultaneous production and consumption (i.e. inseparability)*

Services are produced and consumed simultaneously, with interaction of customers and staff, while tangible products are different. The involvement of employees and customers is more significant for its influence in NSD processes. People’s feedback and suggestions provide an important source of new ideas for NSD.\textsuperscript{108}

*Perishability*

Concerning perishability within technology-based services, problems often arise due to technical flaws. Such as if an ATM (automated teller machine) is out of order when it is needed. So companies should well manage their capacity efficiently even in a negative economic conditions.\textsuperscript{109}

### 3.3.3 Types of New Services

In much the same way as new products, new services are classified dependent on level of newness and change. Among researches, Lovelock’s (1984) category of new services is the most widely known, which illustrated from major innovation to minor style changes.


\textsuperscript{108} Ibid. P. 464.

\textsuperscript{109} Ibid.
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<td>New-to-the-world products</td>
<td>Major innovation</td>
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<td>New product lines (new to the firm)</td>
<td>Start-up business</td>
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<td>Additions to existing product lines</td>
<td>New services for the market presently served</td>
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<td>Improvements &amp; revisions to existing products</td>
<td>Service line extensions</td>
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<td>Repositioning</td>
<td>Service improvements</td>
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<td>Cost reductions</td>
<td>Style changes</td>
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*Table 2: Typologies for innovation* \(^{110}\)

First of all, innovation now and in the future will more often be driven by information and internet-based technologies. A new service is undefined for the market which is called major innovation. For companies, new services consisting in a market which is already served by existing services also meet the same needs, are called start-up business. \(^{111}\) New services for the market presently served means that new services, which were not previously offered by the company, are offered although they also could be available from other companies. Then it is a matter of service line extensions. It means the augmentations of existing service line, such as adding new courses from school and new menu from restaurant. \(^{112}\) A most common type of services innovation is called service improvements. It represents incremental changes in features of existing services, which might be the most common type of services innovation. \(^{113}\) Last but not least, there is the modest services innovation with visible changes that could have significant impact on customers’ attitudes, emotions and perceptions, is called style change, such as changing of services appearance. \(^{114}\)

### 3.3.4 New services Development Process

As aforementioned, traditional literature viewed services differently apart from new products by its intangibility. However, the key behind the service development of the world economics nowadays is KIBS (knowledge-intensive business services). As a matter of fact, the growth in application of technologies has let the companies invest a large amount of money to enhance


their competitive capability in the last two decades. Technology becomes the most significant elements of innovative services. Different technology put to use in the existing services which has been improved the way services are carried out. Internet as the most innovative service process during the last twenty years, the attendant competitive technologies varies internet-based services rapidly and profoundly. Additionally, technology may also transform the construction of NSD.\textsuperscript{115} Process technology innovation in services is often utilized to reduce operational and time costs, improve service quality and increase flexibility. Service process innovation is actually a new service delivery system.\textsuperscript{116}

NSD can be defined as “the overall process of developing new service offerings from idea generation to market launch”.\textsuperscript{117} Zeithaml et al claims that the intangibility of services makes it imperative for a NSD process to develop the services in a structured planning framework, which have following characteristics: objective and not subjective, precise and not vague, fact driven and not opinion driven, and methodological and not philosophical.\textsuperscript{118}

New services are more often introduced by companies’ subjective ideas instead of an objective design based on customers’ perception, market demands, and feasibility. What’s more, new services development might be imprecise designed because of the nature of the services concept, which might be perceived as intangible processes that cannot be designed precisely. Employees involves in the services delivery process are frequently close to customers. Their psychological and physical experiences are critical in choosing, designing, and implementing new services. Customers are always actively in participating service delivery process. They could be beneficial on companies’ NSD, particularly in those services which require the customers to carry out a part of service by themselves.\textsuperscript{119}

There are several aspects needed to be considered when companies developing new services: customer involvement, the human element, making the service tangible, and hierarchy of service development.\textsuperscript{120}

\textsuperscript{116} Ibid. PP. 464-465.
\textsuperscript{117} Ibid. P. 466.
\textsuperscript{119} Ibid. PP. 222-223.
Customer involvement

Customers and customer interaction could be more important than employees within NSD process. It is regarded the key to ensuring market success from academic point of view. The key element of making customers involve into development process is to create a knowledge base of customers. And the ways/methods of doing this could be, such as, CRM systems, complaints, interviews, focus groups or questionnaires.\(^\text{121}\) Also as mentioned before, customers’ role in NSD process could be that of the users in testing new services which customers are co-creators of new services. Because the intangible nature of services, customers always test services following market launch instead of during the initial stages of NSD.\(^\text{122}\)

The human element

The importance of involving customers in NSD has already been emphasised. There are still two groups of people that should be managed, to enable effective development process; in essence: the development staff (developers) and the customer-contact staff. Company staffs are the ones to deliver the service process to the customer, which implies that new service has to be supported through company culture also. The contact-staff could increase the likelihood of positive implementation and be beneficial to market the new service internally. Of equal importance are the developers, when implementing new services. Inexperienced or less skilled development staff could be a main barrier to NSD.\(^\text{123}\)

Contact-staff, those with customer contact, create a direct contribution to service development. Schneider and Bowen (1984) suggested four groups of benefits of encouraging company staff involves to the NSD process. Firstly, employee involvement is good for identifying customers’ requirements. Secondly, it creates the likelihood of positive implementation. Thirdly, it benefits the importance of needs of customers instead of processing efficiency considerations. Last, but not least, employee involvement could lead to a better service treatment towards the customers.\(^\text{124}\)

Making the service tangible

The customer is both participant and co-creator in service’s purest form. Self-service technology requires customers serve themselves, which is believed to have 70% errors in the process as a cause by customers. It is the tangible traces, making the intangible service more tangible that must be made in a way so it does not need users to be experts or well trained in order to use the service. The tangible traces are used to judge the degree of service quality.\textsuperscript{125}

Hierarchy of service development

There are very few companies providing one sole service. So the hierarchy of service development refers to if a company offers co-existing services; the degree of maturity in service developing system is different.\textsuperscript{126}

\textbf{3.3.5 A Collection of Relevant Thoughts}

Different factors were found to affect innovation and performance in NSD of service firm. From different perspectives various thoughts about strategies, on developing new services for a firm, is gathered and illustrated in this segment.

\textbf{3.3.5.1 New Service Development Strategy}

Defining a new service strategy makes it easier for a firm to formulate ideas. The strategy must be in line with company’s goals, vision, capabilities and growth plans. A framework for identifying growth opportunities, similar to Ansoff’s matrix, can be used to formulate a new service strategy.\textsuperscript{127}

\textsuperscript{126} Ibid. P. 106.
With combinations of new or current services and customers, different new service strategies are suggested. The understanding of new service strategy matrix can however be tidally relate to new product strategies, which is suggested by Ansoff’s matrix. This framework for new service does not contribute to additional insights. Diversification is still associated with great risk, and share building is just another term for market penetration.\textsuperscript{129}

\subsection*{3.3.5.2 Relationship marketing of service}

Relationship marketing emerged from the maturing of service marketing; the realizations that people rather form a relationship to people than to goods. Repeated contacts, reselling efforts, are necessary to remind customer of what they get. Service marketing argues the importance of service quality, to build loyalty. And this is strongly related to the building of relationship to the customer. Successful relationship marketing would enable the service improvements necessary to keep customers. When the concept of relationship marketing was first established, emphasise was on quality, and the increased recognition of potential benefits for both firm and customer, and technological advances.\textsuperscript{130}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{service_strategy_matrix.png}
\caption{New Service Strategy Matrix for Identifying Growth Opportunities\textsuperscript{128}}
\end{figure}

\begin{minipage}{\textwidth}
\begin{tabular}{|c|c|}
\hline
\textbf{Existing Services} & \textbf{New Services} \\
\hline
\textbf{Share building} & \textbf{Service development} \\
\hline
\textbf{Market development} & \textbf{Diversification} \\
\hline
\end{tabular}
\end{minipage}

\textsuperscript{129} Ibid. P. 229.
Drivers of Relationship marketing: benefits to both firm and customer

Internal relationship marketing serves the purpose of reducing customer-defections, which has a high effect on the company’s profits. It has been shown by study, that gaining new customers instead of keeping the current ones satisfied is much more costly for the company. Therefore, customer loyalty is very important to any company. For personally important services, customers perceive relationship (to company) as something important; this is not less true for high-involvement services. Intangibility makes a service harder to evaluate for customers before they’ve experienced it. Heterogeneity makes them willing to stay with a company they have experienced excellent service from. Advances in technology have made the move from mass marketing to relationship marketing, and thus made it a more attractive choice. It enables many practical performances efficiently. 131

Additionally to quality, other acknowledgements have been made. Firstly, the identifying of profitable customers is essential. Because some customer are more likely than others to become loyal to a company, this group should be targeted and the overall strategy should be developed with this customer group in focus; this because higher rate of loyalty also is believed to result in higher retention rates. Secondly, internal marketing, the marketing towards employees, is important because service (usually) is a performance by the employees. Every employee is at least a part-time marketer, in that they are more or less encountering (potential) customers, and therefore affect customer’s perception of the company. Finally, building trust is essential for the success of relationship marketing. Complex service may be too complex for the customer to understand, like a “black box”, and therefore needs to trust the seller if he would buy it. Open two-way communication is a way to build trust. Also the guaranteeing of service performance can enable trust to grow, but this must be done after analysing its consequences and company’s ability to manage it. 132

The practice of relationship marketing follows five strategy elements: “developing a core service around which to build a customer relationship, customizing the relationship to the individual customer, augmenting the core service with extra benefits, pricing services to encourage customer loyalty, and marketing to employees so that they, in turn, will perform well for customers” However, many questions remain unanswered by earlier study, in how to

132 Ibid.
successfully employ relationship marketing. Service firms can increase market share in three ways: attract new customers, do more business with existing customers or reduce the loss of customers. The consequence of successful relationship marketing efforts can result in two of them: do more business with existing customers or reduce the loss of customers.  

### 3.3.5.3 Determinants of New Services Development

Jaw Chyi et al issued that services characteristics, market orientation, and actualizing innovation efforts are the three determinants of NSD. Jaw et al focus on differentiating service and manufacturing industry, because they believes that different industry will follow different innovation patterns. And these patterns are depending on its structural specific natures within its specific industry. Services characteristics should be strongly considered when business refers to NSD. Because of the natures of services could predict company’s resource distribution and employee system. It is important for company to understand the resources of people, budget, time or other innovation activities of developing a new service. For instance, service companies would establish a specific department for researching new services, evaluating natures of services which aim at reducing the impact from services characteristics. A self-service system such as ATM would provide 24 hours service which is enlarging its servicing time.  

Customer orientation within market orientation in service development is different from that in the manufacturing industry. It actually requires a better understanding of buyer’s requirements. Competitor orientation requires more attention on understanding strengths and weakness of the company. It is also more risky for a service company, than a manufacturing company to choose a competition orientation because of the difficulties of protecting services through copyrights and patents. Therefore, service innovation is likely to have a relatively short life cycle. Furthermore, cross-functional integration requires that the company listen to the customers’ voice and monitoring competitors’ activities. An innovation reward system should be utilized for market-oriented culture.  

Jaw mentioned that a substantial innovation effort ensure NSD performance. Service quality standard is fulfilled by supporting technology resource from service providers, improving  

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135 Ibid.
access and convenience for customers. And as a manager of a service firm, it is required to acquire, develop, combine, deploy and optimize value-added resources to the service company. 

3.3.5.4 Five scenarios of new services development

Innovation is risky and complicated because it involves various resource investments and a high possibility of failure. Bretani carried out a study about five scenarios of NSD. He believed that knowing the types of NSD situation would be determining an important success or failure to company’s decision making. 

In terms of intrinsic nature of ventures, three successful situations are identified in Bretani’s study in an industrial services company perspective. Firstly, a successful scenario refers to the customized expert service. According to Bretani’s empirical researches, this is a situation regarded as the most potentially successful performance in the B2B service sector. It abundantly measures a company’s capabilities and resources, personnel expertise in particular. Because of a service’s intangibility and a more intensive or longer-term buyer-seller’s relationship in industrial sector, client companies will judge the service quality from previous expertise of the service providers.

The second successful situation in NSD relates to the planned pioneering venture. It targets the high attractiveness of market. It requires company to be pioneering venture that is both being new to the market and truly innovative. A company also need to meet customer demands. Formal internal and external marketing program occur in this scenario. Service companies would use tangible evidence to promote the service. Pioneering venture will be successful when it is invested correctly.

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138 Ibid.
139 Ibid.
**Success1-Customized Expert Service:**
New Services that fully leverage the firm’s expert capabilities and resources-in particular, its expert personnel-in providing clients with a customized and high quality service outcome. Success at new service development depends on a high-involvement and innovation-oriented corporate environment.

**Success2-Planned "Pioneering" Venture:**
Pioneering new service ventures aimed at attractive, high volume markets. Key descriptive factors include: companies first to market, excellent fit with customer/market segment needs, as well as with the company expertise and resources, tangible evidence used to promote the service, and a detailed and high quality execution of the stages of the new service development (NSD) process.

**Success3-Improved Service Experience:**
Enhanced speed and reliability are essential features of these equipment-based new service offerings. Developers have a good understanding of client needs, they have a reputation for service quality, and they use a fairly planned approach for researching, designing, and marketing the new service product.

**Failure1-Peripheral, Low Market Potential, Service:**
The service offers few real benefits and has only low market potential. It is peripheral to the firm’s core line of services and appears to lack any real commitment on the part of the firm. The NSD process is haphazard and companies misuse tangible evidence to feign service quality.

**Failure2-Poorly Planned, "Industrialized" Clone:**
These are failed "me-too" attempts at "industrializing" complex, equipment-based services. Entering the market long after competitors, the new service projects are deficient in terms of: customer orientation, service quality and innovativeness, their fit with corporate capabilities and resources, and the quality of execution of new service development activities.

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**Table 3: New Industrial Service Development Scenarios: Summary Descriptions**

A third type of successful scenario is the improved service experience. Projects in this situation mostly benefits front-end activities in NSD, such as, prelaunch, evaluating, blueprinting. It is known that service firms seldom plan, develop, and launch new services/products in a formal process because the cost is high. But according to Brentani, more and more researchers and companies think that high quality of execution of key NSD activities are most essential to achieve success for firms.

The first failure scenario in Brentani’s study is the peripheral, low market potential service. This situation refers to little efforts was made to understand client’s need and value-added process. In this sector, the foremost factor is low market potential and real benefits to customers. The other factor is low assurance from companies to client firms. From Brentani’s research, new services are usually not the core service of company offerings. These

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141 Ibid.
companies lack of potential market evaluation, market research and design.\textsuperscript{142}

The least successful new services situation is the poorly planned "industrialized" clone. In this scenario, one kind of project that has been suggested is insufficient planning and judgment within new service efforts. This includes the following traits: in-abundantly response to customers’ need; without real innovative and late launch into the market when competitor already captured most of the market; besides hardware condition, customer experience is not improved; services are difficult to evaluate for customers, service launch do not put effort of establishing good image, and not enough to make service tangible; corporate synergy is not good enough; activities from idea generation to service launch is not planned. Moreover, Brentani noticed that the efforts to “industrialize” service is mentioned above as one of the successful factors, however, a qualification to fulfil this factor as a success is company has the good fit with customer and efficient solutions of problems.\textsuperscript{143}

3.3.5.5 Keys of Successful New Service Development

In a later study, Brentani suggested six key elements of making the NSD successful; this from a perspective on different degrees of newness of new services. First of all, the extent of newness of new products/services affects focus and approach of new products/services development. A normal institution of successful NPD is to have different achieving approach in accordance with different level of innovativeness, which is that companies should adjust focus and approach accordingly to the level of risk, uncertainty, and difficulties of new development, effort and resources that is required or met, depending on the newness of a service. Discontinued innovations are considered more risky, as the technology is totally new to the firm. But this also can achieve more profit, if successful. Incremental innovation on the other hand, is more safe but also associated with smaller profits. It is attractive because of less uncertainty for failure, as a consequence of better match between innovation and company’s experience and resources.\textsuperscript{144}

Secondly, understanding the customers’ needs is the most essential factor for a successful NSD. Both truly innovative and incremental innovative services are affected strongly by this factor. In particular, it places a crucial role in distinguishing success and failure in incremental

\textsuperscript{143} Ibid.
new service offerings. Brentani believes that, for customers it could be time-consuming and costly to change service provider which might require extra efforts on both customers and providers to rebuild relationships also to fit the new specific service system. To be successful in commodity-type new services, it requires companies to have a thorough understanding of customers’ demands, operations and systems. By understanding those to encourage a value adding process among customers, additionally, companies could also create a unique series strategic activity within the new service, hence, to differentiate from those of competitors. Customer satisfaction is also very important. To achieve a long-term relationship with customers, lead users in particular, company has to research more about customers’ long-term demands and to found out the changing orientation of technology or market needs which could be adapted by company’s new services development.145

Thirdly, to use experts as front-line service delivery is critical for successful new services ventures for both truly innovative and incremental new services. For new-to-the world services, it could create value in different stages of new services development process. At the beginning of developing a new service, expertise could help company have an in-depth insight about customers’ requirements and opportunities; then it can help in designing a customer fit service; afterward, their knowledge about customers’ system and needs could help to market the new service successfully. For less newness services, because of intangibility and simultaneous consumption process of service are highly involves with customers and employees, expertise could help to exemplify service itself, differentiate with competitors similar services, and help with customers modify decisions.146

Fourthly, a well planned NSD process is a value-adding process, for modification-type of new services in particular. In Bretani’s research, company operates best in lower innovative services from idea generation to post launch recovery process. When it comes to new services design, company would always perform carefully in such as defining customization and standardization, solutions for potential failures. There are several special activities company will put forward in new service launch, such as, prelaunch customer testing and a carefully planned service positioning, well trained front line employees, and value adding communication with customers. Bretani reckoned because of the natures of incremental new

146 Ibid.
services, company would gain fully benefits from advance planning in its methodical approach. It accelerates new service market introduction and increase the likelihood of success of service design.147

Fifthly, an open new service culture is important within the firm, especially in truly innovative development. Because highly innovative service involves new technologies and creativities of thinking ways, it requires an open corporate business environment, to achieve a success, particularly in professional services industries.148

Last but not least, a successful NSD and marketing needs excellent strategic and resource fit. In Bretani’s study, lots of failed new services projects shows that company might only see their so-called new ideas, and believe it is new to the market or technology, although it may only be new to the developing firm. The consequence of this could be that the company would not gain the benefits associated with learning from a pioneer’s mistakes, which could result in such as, lower costs, higher speed, fewer error, good image of company’s new investment. For incremental new service, resource fit is important for the efficient and error-free development. An inappropriate strategic fit would cost more and make it more difficult against competitor. Company must figure out the fit between the company objectives and NSD, and the possibility for it to help company achieve a competitive advantage. A pioneer’s position, providing a new-to-the-world service, would have advantage of creating reputation before competitors, and this can generate positive performance.149

3.3.6 Section summary

Because of the special characteristics of service (new service), it is sometimes easier to develop new services than products. However, there are still difficulties when developing new services. Jaw et al suggested that different industries will follow different innovation patterns, which depends on its specific nature within the specific industry. The nature of service guides the development of resource distribution and employee system of the company. Service characteristics are recommended to be considered when company is developing new services. Innovation will more often be driven by information and internet-based technology, which means that technology, will become the most significant factor of innovative services.

148 Ibid.
149 Ibid.
Therefore, the types of new service place an important role on company’s decision making on NSD. Consequently, a gathering of factors with influence upon the management of a company to success or failure in NSD, were identified, and possible strategies were described.

### 3.4 Online-services

The following figure presents the logical connection between the segments of this section.

![Conceptual framework of online-service](image)

**Figure 11: Conceptual framework of online-service**

Three equivalent extensions of online-services (e-service quality, digital systems in companies and from on-premise solution to online-service) are illustrated, based on definitions of e-business, e-commerce, and e-marketing. A need for more efficient and cost effective solutions is indicated in the third extension: from on-premise solution to online-service. SaaS (Software as a Service), which is regarded as the solution for both increasing efficiency and lowering of costs, is discussed in this extension from four different perspectives.

### 3.4.1 Definitions

E-business is “…all electronically mediated information exchanges, both within an organization and with external stakeholders, supporting the range of business processes”.\(^{150}\)

E-business should be looked upon as a tool that enables business (globally), where commercial incitements exist. This, rather than the media itself, is what drives e-business.\(^{151}\)

E-commerce is a subset to e-business, and e-marketing only a part of an organization’s e-business activities.\(^{152}\) E-commerce is both the “…financial and informational electronically mediated exchanges between an organisation and its stakeholders”. Electronic marketing, e-marketing is a way of achieving marketing objectives through the use of electronic

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communications technology. This is not limited to the use of the Internet and other channels, but also how marketing is done by the use of database and electronic Customer Relationship Management (CRM). 153

Internet has made it possible to customize product offerings to individual customers, in terms of customer-specific combinations of services and attractive prices. Online-service can receive feedback at anytime, from anywhere, and it enables responding to customer’s concerns in real-time. This supports a one-to-one relationship between customer and service provider, which does not need to be costly if automating the process is done successfully.154

3.4.2 E-service Quality

Globalisation and e-business has contributed to the lowering of entry barriers, with the result of increased competition.155 E-business is with its connection to the Internet, a global tool, enabling the selling globally. However, even though internet has indeed made it easier, there is still a necessity of gathering much knowledge about local markets, language, culture, and behaviour patterns when selling abroad.156 The mobility that the Internet offers suits people’s requirements well and has led to an increased willingness to use web-based services, e-service, for higher efficiency.157 And the most vivid impression of service occurs in the "moment of truth"; when customers and service-companies interact. Although other encounters are also very important, the very first encounter is when the customer forms his overall impression, of the perceived quality, of the service and the company. Increasingly, service is delivered by the use of technology. In this case, the customer would perceive the quality of a service on the basis of the type of encounter, which could be a matter of judging the quality of delivered information, technical processes and systems.158

Service quality is the dominant factor in customers’ evaluations of pure service (i.e. no self-service by technology). Several dimensions of service quality represent how customers perceive a service. Five specific dimensions (for online-services), stated as relevant to business services among others, have been identified by Parasuraman, Zeithaml, and Berry in

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their research; which is: reliability, responsiveness, assurance, empathy, and tangibles.¹⁵⁹

The increasing use of online-services has made it crucial for companies to better understand how customers evaluate service quality of online-services (E-service) and online-service in particular. E-service quality (E-SQ) is defined as “…the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery”. Studies with focus groups have identified eleven factors of online-service that are essential to customers: access, ease of navigation, efficiency, flexibility, reliability, personalization, security/privacy, responsiveness, assurance/trust, site aesthetics, and price knowledge. These can all be summarized within four core dimensions: efficiency (how easily it can be accessed and navigated), fulfilment (company fulfilment of commitments of delivery and item), reliability (the correct technical functioning) and privacy (the safety of customers and their information). When customers face difficulties, their judgement on e-service also includes another three dimensions: responsiveness (how companies handle the problems), compensation (the degree of compensation for problems) and contact (the possibility to receive help from representatives via telephone or web).¹⁶⁰

Although e-SQ has some similarities with traditional service quality, there are some differences, as well. In e-SQ, efficiency and fulfilment are the most critical dimensions in customer’s perception. And, although not presented in any dimension, the technology and visual presentation of website is critical for the efficiency and also the overall image.¹⁶¹

¹⁶⁰ Ibid. PP. 98-99.
¹⁶¹ Ibid. P. 99.
3.4.3 Digital systems in companies

![E-ladder - the process of maturity when implementing e-business](image)

Information Technology (IT) affects the relationships in different branches differently. However, the common scenario for these is explained in an e-ladder. It can be divided into two parts: the first includes improvements of efficiency and rationalisation, the second includes renewal and transformation of the company. In the first part, IT is used for spreading information, the communication may be more flexible as a result of the interactivity through IT and the Internet may be used for ordering and payment. In the case of services, it could also be delivered through the Internet. In the second part, the company goes further to implement IT solutions in the whole organization; integration of different business processes by digital business system. Traditionally, the idea has been to customize a system to user requirements and wishes. This however, sometimes had the result of automating working procedures that were less suitable for automation or even incorrect. For this reason, it is important that those responsible for designing a business system also very well understand the suitable methodology that should be implemented in the system.

For companies that are going to implement digital solutions of some sort, there are some things that need to be taken into account. Changes often go slower than the impression one gets from, for example, mass media. There is good reason to have in mind that some new

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technologies can be premature, and might be overrated (see Gartner’s hype-curve). Only when technology and expectations are on an equal level, can the growth be considered to follow the traditional S-line for innovations.\textsuperscript{165}

Figure 13: Hype-curve

The changes should be adapted not to the technology itself, but to the people that will use it in business or as customer. Changes should be planned far ahead according to the previous mentioned e-ladder, where the company starts with the first stages of improvements by use of technology, and only later reconsider the value chain as IT could contribute to other ways of building value.\textsuperscript{166}

3.4.4 From on-premise solution to online-service

The contribution of information and communication technologies has become increasingly business critical, and even though the benefits are sought after, it has become increasingly difficult to manage the traditional on-premise systems (in-house systems) with SMEs’ (Small and Medium Enterprises) own limited resources.\textsuperscript{167} On-premise development of applications has often not achieved the expected results, according to industry studies. Around thirty percent of all projects are not completed, and over fifty percent of the completed developments have exceeded the expectations with twice as long time or cost of development. Even when their applications are running, they could be very costly to maintain, and not

\textsuperscript{167} Institute of Directors, The (IoD). \textit{Briefing Paper: Software as a Service (SaaS)}. Available on: \textlink{link}.
flexible to the workforce in the company. They also often lack the important features necessary today.\textsuperscript{168} Therefore, there is a need for more efficient and cost effective solutions.

Companies are now realizing their need of and searching for provided and managed IT systems for their organisation. The reason is costly in-sourcing of IT systems, as a consequence of the high cost of personnel to maintain the required expertise as well as liability and physical space to maintain an IT system.\textsuperscript{169} Rather than investing in a costly IT system, companies would by logical reasoning want to use their assets for their core business. Business systems may require large investments, but that does not constitute a guarantee for a success\textsuperscript{170}.

As late as January 2010, a world leading information technology research and advisory company, Gartner, predicted that by “2012, 20 percent of businesses will own no IT assets. Several interrelated trends are driving the movement toward decreased IT hardware assets, such as virtualization, cloud-enabled services, and employees running personal desktops and notebook systems on corporate networks”.\textsuperscript{171}

3.4.4.1 A paradigm shift: Cloud Computing

A change has emerged since the early days of software distribution. Now, cloud computing contributes to the possibility of on-demand services that enables the sharing of resources, software and information. This is often accessed software such as a web browser, while the software and data is stored on off-set servers. Customers no longer need to have the expertise or control over the technology infrastructure that holds the service. Customers avoid costly expenditures for IT assets by renting usage from a third-party provider; the service could be charged by usage or by a subscription basis.\textsuperscript{172}

In recent years, widely accessible, fast and affordable broadband has made it possible for SMEs to run applications off site; only needing to use very thin clients to access the applications. Services through internet can help companies to the extent that they can focus on their own, actual business instead of loosing time cause by software issues. More specifically,

\textsuperscript{168} ThinkStrategies. SaaS Primer. Available on: \url{http://www.itbusinessedge.com/cm/docs/DOC-1202}
\textsuperscript{169} Unknown author. Software as a Service. Available on: \url{http://en.wikipedia.org/wiki/Software_as_a_service}
\textsuperscript{171} Gartner. Gartner Highlights Key Predictions for IT Organizations and Users in 2010 and Beyond. Available on: \url{http://www.gartner.com/it/page.jsp?id=1278413}
SMEs now start to regard SaaS (Software as a Service) as the solution for both increasing efficiency in their company, and at the same time lower costs.\textsuperscript{173}

### 3.4.4.2 Concept of SaaS (a cloud-enabled service)

SaaS solutions are models that have been developed on basis of the ideas presented above. It’s an on-demand software service provided by a service provider to its consumers, who can access it through a web such as the Internet at anytime, from anywhere. It is very different from the traditional and more risky on-premise systems, which require investments by customer companies in technology such as IT infrastructure implementations. This could be especially important for small businesses with capital restraints.\textsuperscript{174} SaaS solution providers also offer a benefit for customers over traditional on-premise solutions by taking full responsibility for the delivery and security of the system and data.\textsuperscript{175} SaaS was developed especially to leverage web technologies, and it has multi-tenant backends which enables multiple customers to access a shared data model, through a single license. This solution provides considerable benefits, as providers of SaaS leverage economies of scale in deployment, management and support during the software development lifecycle. By the fact of specializing in an application service area, the provider can achieve economies of scale and therefore offer better, cheaper and more reliable applications than could a company, with other objectives with its business.\textsuperscript{176} To have many customers means that no individual customers need to bear the whole burden of developing costs, and therefore it can be more affordable for companies to buy it from third party as a service. It is much more adjusted than its predecessor’s traditional client/server or ASP (Application Service Provider) solutions.\textsuperscript{177} The following list gives the key benefits of SaaS:

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\textsuperscript{173} Institute of Directors, The (IoD). Briefing Paper: Software as a Service (SaaS). Available on: [link](#).


<table>
<thead>
<tr>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated software deployment with less risk</td>
</tr>
<tr>
<td>Lower up-front costs</td>
</tr>
<tr>
<td>No additional hardware and lower internal staffing requirements</td>
</tr>
<tr>
<td>Greater reliability, security and privacy</td>
</tr>
<tr>
<td>Higher productivity/Return of investment, at a lower Total Cost of Ownership (TCO)</td>
</tr>
<tr>
<td>Greater agility to scale software to meet changing business requirements</td>
</tr>
<tr>
<td>Quicker time to value</td>
</tr>
<tr>
<td>Incorporating client feedback and providing immediate results is far easier with a SaaS application than with other platforms</td>
</tr>
</tbody>
</table>

Table 4: Key benefits of SaaS

### 3.4.4.3 Comparison to traditional solutions

As ASP solution means that the operation of a certain system is managed by a service provider; the customer is allocated space on a server where installed programs can be run, which the provider owns. As opposed to SaaS solutions, ASP is often bought through license. The availability of systems over the Internet does not guarantee that it is a SaaS application. Many companies are “verifying” existing applications, according to the ASP method. SaaS is focuses on what customers want, not what provider can offer, as in the case of ASP products.

Although adopting SaaS solutions can sometimes mean that firms need to limit themselves to some customization made to the software, consulting company strategies have found that most companies have gained benefits that far out-weigh this limitation. The benefits include: quicker time to value, lower cost of ownership, higher return on investment and greater scalability and agility. It may more depend on the service provider, than the technology alone, if customization does not meet the customers’ need fully.

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3.4.4.4 Perception of SaaS

In 2008, a survey from Gartner in a variety of enterprises, in total 333 in the U.S. and the U.K., showed that an apparent acceptance of SaaS had not entirely translated into satisfied users of SaaS solutions. Of these enterprises, only around thirty percent planned to expand its use of SaaS solutions, while sixty percent planned to keep the current level. Ten percent would either discontinue or decrease their level of use.\(^{184}\)

The most prioritized factors when considering SaaS solutions were: meeting of technical requirements, security (and privacy and/or confidentiality), ease of integration and functionality needed for business unit owners. Those who had considered SaaS, but not adopted it, stated that the reasons were: high cost of service, difficulty with integration, and not meet technical requirements. These statements however contradict the general impression that SaaS solutions are less costly and do not require much integration and technical requirements. Overall the attitude towards SaaS solutions is generally good. Most important is of all for the service providers to be true to the fundamentals of the SaaS model, which is to represent lighter, simpler, more intuitive, more agile and more modest solutions.\(^ {185}\)

In a later survey by Gartner, in December 2009 and January 2010, in a variety of industries of North America, Europe and Asia/Pacific, it shows that 95 percent of organizations plan to either maintain or extend their use of SaaS. 53 percent plan to increase the investment in SaaS slightly, while 19 percent plan to increase it significantly. Overall, respondents found the integration and customization of SaaS as main concerns for their organisation. Among the dissatisfied, significant integration requirements and too high TCO was the issues. In the Asia/Pacific region, the high-speed high-availability networks were not yet totally satisfactory, and not advanced as in North America. Compared to Europe, there was a stronger interest and confidence that their organisation would invest in SaaS solutions through the year-end of 2010. In general, organizations are now more knowledgeable about SaaS solutions and starts to renegotiating their SaaS contracts. The varying levels of maturity, using SaaS solutions, suggest that there is a growing opportunity for service providers along the adoption curve.\(^ {186}\)

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\(^{184}\) Gartner (2009). Gartner Survey Shows Many Users are Underwhelmed by Their Experiences of SaaS. Available at: [http://www.gartner.com/it/page.jsp?id=1062512](http://www.gartner.com/it/page.jsp?id=1062512)

\(^{185}\) Ibid.

3.4.4.5 Required commitment from SaaS solution customer

SaaS solutions that are used by limited users, or focus on few applications, would allow customers to subscribe to the service in a flexible manner, for a period that suits them. But for applications designed for a broader deployment across a large enterprise, it is necessary to have a minimum subscription commitment, because a SaaS provider would need to make an up-front investment to prepare for that specific service. Many business decision-makers may also prefer to make a commitment over a longer period of time in order to simplify the contracting process and gain the price advantage of a multi-year agreement. Small commitments may, in other words, not be desired by all; flexibility however always is.

Customer’s evaluation and preferred payment methods

In April 2008, a SaaS survey was conducted by Burton Group and Ziff Davis’s Enterprise Research, with 252 CIOs (chief information officer) whose companies use some form of SaaS. It showed that when organizations evaluate potential SaaS applications, a broad search is usually done among publications, events, general web searches and reports from analysts or talking to consultant. The most common approach however, was to talk with users in other companies.

The survey suggests that morphing accounting systems into paying for SaaS on a pay-per-use model, used by electric companies, is not so popular. Half of the respondents said they would prefer to pay a flat fee for an enterprise license. Only 23 percent preferred per-user pricing, and 18 percent preferred a usage payment method. According to Andy Steggles, CIO of the Risk and Insurance Management Society (RIMS), it is always easier to obtain capital funding than operational funding, though you can control expenses far better with a fixed monthly cost.

3.4.5 Section summary

The emergence of E-business creates high efficiency which increases people’s willingness to use web-based service, e-service. Because of e-service’s real-time operations, one-to-one relationship between customer and service provider could be well supported. A very important encounter of measuring e-service is the customers’ perception of service quality. Therefore,
considering the quality of the e-service to be offered becomes essential for companies developing e-service. In addition, the e-ladder explains different types of relationships that are affected by IT. There is a need for more efficient and cost effective solutions. Online services that are distributed on the Internet can actually help companies avoid such time loss that is often caused by software. Describing the hype-curve, the importance of suppliers’ technology and customer’s expectations to match it has been pointed out. In particular, SaaS is regarded as the solution for both increased efficiency as well as lower costs. And so, it is significant to have further understanding of SaaS, such as concepts, key benefits, comparative studies with traditional solutions, customers’ evaluation, and the experience and results of currently used SaaS on the market.

3.5 B2B-Online

This section starts with a general statement about B2B in e-marketplace. Afterward, product/service strategies in B2B are given, including the importance of quality, positioning, and buying behaviour of organization.

Figure 14: Conceptual framework of B2B-online

3.5.1 General statement

Business-to-business (B2B) is “commercial transactions between an organisation and other organisations (interorganisational marketing)”\(^\text{190}\). Since the last decade, there are numerous large companies that rush themselves into B2B e-marketplaces as creators or participators.\(^\text{191}\) However, in B2B, spreadsheets and other text-based documents are still the mostly used for data exchange, according to a survey by B2B e-commerce solutions specialist of GXS (a global B2B e-commerce and integration services company). There is no need for significant investments in back-office systems to achieve B2B e-commerce automation, as there are powerful and easy-to-use web forms technologies available. The most common opinions


among the respondents in the survey are that automating B2B processes can reduce rising costs (82%), help exchange electronic documents with business partners (82%) and enable real-time visibility into business processes (81%).

3.5.2 Product/Service strategies in B2B

To be competitive in B2B, the area that is considered to be the most important is a superior quality of product/service, because price or promotion is easier to match by competitors. The second most important consideration is concern about positioning, which represents how product/service is perceived by customers.

3.5.2.1 Managing service quality

Service quality refers to the services features and characteristics correspond to customer’s needs. It is more difficult to define and manage than product quality because of its intangible, customized, and transportable nature (customers do not need to go to the seller’s place of business). In an earlier section, online-service or e-service quality was described and five dominant factors in customer’s evaluation were mentioned. In this section, service quality will be viewed from a B2B management perspective in general.

To measure service quality, the company should have formal service standards to meet, which includes human resources, equipment used to deliver the service, or other supporting tangible evidence. Gronroos suggests that services can be evaluated based on technical quality and functional quality. Technical quality concerns the company’s general know-how, abilities of employees, physical equipment, and effective solutions to problems. Functional quality refers to attitudes and behaviours of contact-staff within the organization, relationship among employees, accessibility of service, and maintenance of communication with customers.

Subjective evaluations are a difficulty in measuring service quality, because it always relies on the customer’s subjective judgments. Due to that fact that customers are always involved in the service delivery process, one could claim that it should not be a problem to use subjective

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194 Ibid. P. 293.

195 Ibid.

196 Ibid. 293-294.
perceptions of service quality from customers. However, customers may have limited knowledge on evaluating the service’s technical quality accurately, so more focus will be put on measuring service functional quality. Normally, the service evaluation done by the company’s customers is very detailed and the relationship is long term. 197

### 3.5.2.2 Positioning

Customers would not re-evaluate a product/service every time they make a buying decision. So product/service positioning already exists in the customer’s mind. 198 Kotler defined positioning as “arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers”. 199 Services are positioned regarding perceptions of its underlying benefits and perceptions of its competitive ability. Customers’ perceptions are influenced by employees over time, and employees may help a company to understand how customers perceive their services. Additionally, the company should find out how customers perceive its competitors’ service. There are many ways of positioning a product/service, such as positioning by attribute, competitor’s condition, price, product user. They are mostly involved with explicit segmentation and targeting strategy. 200

In planning product/service positioning strategies, a company would usually make a perceptual positioning map, which shows how customers perceived the company’s product/service compared with competitors’ product/service on critical buying dimensions. 201 As aforementioned, in section 3.2.2 differentiation strategy, it is a concern with company’s positioning within a market to see how a company competes, and the ways it offers product/service uniqueness to customers. There are usually three steps for a company to consider a differentiation and positioning task. Firstly, identify possible value differences which provide competitive advantages. Secondly, choose the right competitive advantages. Thirdly, select an overall positioning strategy. 202

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199 Ibid. P. 185.
202 Ibid. P. 204.
**Select an overall positioning strategy**

A comprehensive proposition matrix can be used to differentiate and position benefits and price of a product/service. It is called brand’s value proposition. By positioning the price and benefits of a product/service, value proposition actually concerns the competitors’ product/service within the market and provides different strategies.

![Proposition Matrix](image)

*Figure 15: Possible value propositions*

In the figure, the five green units represent differentiation and positioning which give a company a winning value proposition while the three red cells give a losing value proposition. The yellow section in the middle is a meaningless proposition. As winning value proposition, company would position within these five strategies: more-for-more, more for the same, the same for less, less-for-much-less, and more-for-less.

More-for-more positioning corresponds to a company that charges a high price to provide upscale product/service. However it is possible to attract imitators who claim they have a comparable quality but at a lower price. The same for less positioning could be a powerful value proposition, because customers would always like to reach good deal. Less-for-much-less positioning meets customers’ low requirements on product/service in exchange for a lower price. At last, more-for-less positioning is the most winning proposition for the

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204 Ibid.
customer, but not for the selling company in a long run because it is difficult to offer more at a lower cost. To sum up, it is important for companies to have own winning value proposition which fits their target customers’ needs and wants.  

### 3.5.2.3 Organization’s buying behaviour

When a service provider sells a professional service, the customer involvement level, when considering the purchase in relation to a new task decision, would be high. New task situations occur when a company is buying a service for the first time. This translates into specific marketing implications. The higher the purchasing cost, the more decision makers will participate and the more information will be collected. Technically complex services have a greater impact on buying behaviour. It can be difficult for a buyer to make appropriate trade-offs between for example quality and performance speed. Technical services can be buyer-specific, which means that, typically, technical personnel in the buying organization would have specific requirements on service specification. In new-task situations buyer needs to decide product specifications, suppliers, price limits, payments terms, order quantities, delivery times, and service terms. Many buyers prefer to buy a packaged solution to a problem from one single seller. This is system selling, which is a key business marketing strategy for winning and holding accounts.

<table>
<thead>
<tr>
<th>New task purchase by buying organization</th>
<th>Marketing suggestions for provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider a number of attributes when comparing vendors</td>
<td>Promotional messages should reach a number of people in the buying center (via direct mail advertising, trade journal advertising, etc.)</td>
</tr>
<tr>
<td>Likely to search for considerable information</td>
<td>Concentrate on personal sales presentations</td>
</tr>
<tr>
<td>Receptive to promotional messages</td>
<td>Focus on the quality of the argument presented in communications</td>
</tr>
<tr>
<td>Will expend considerable effort in evaluating information</td>
<td>Communications should be extremely informative (i.e., focus on copy)</td>
</tr>
<tr>
<td>Will carefully evaluate the merits and weaknesses of the service</td>
<td>Provide information on the services available as well as on the provider(s)</td>
</tr>
<tr>
<td>Likely to find new vendors acceptable</td>
<td>Need to identify and focus on opinion leaders</td>
</tr>
<tr>
<td>Loyal behaviour is likely after initial decision</td>
<td></td>
</tr>
<tr>
<td>Rely heavily on word-of-mouth communications</td>
<td></td>
</tr>
</tbody>
</table>

*Table 5: Buyer characteristics and Marketing Suggestions for new task-purchase*

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207 Ibid. P. 63.

208 Ibid. PP. 81-84.

209 Ibid. P. 81.
Highly involved customers are open to new providers of services, but do spend much effort on finding available services and evaluating them thoroughly. They trust word-of-mouth information from colleagues, and after the initial purchasing decision they are likely to be loyal.  

3.5.3 Section summary

Superior quality and more specifically, technical and functional quality, is considered the most important factor to be competitive in a B2B market. Because of customers having limited technological knowledge, they may focus more on functional quality of service.

Another important consideration is that of positioning, which is to occupy a desirable place in the customers’ mind. To position a service on a market is done by attributes, competitors, price, or product user. Three general steps in doing so are to firstly identify value differences that may provide competitive advantages. Secondly, the relevant competitive advantages are to be chosen. Thirdly, an overall positioning strategy needs to be selected. To win a value proposition the company must perform this task of occupying a place in the customer’s mind more effectively than its competitors.

When selling professional technical services, it is associated with high level of involvement from the buyer organization’s side in relation to the complexity and cost of the service. Highly involved customers are, as an outcome of their effort, very well informed. They also trust word-of-mouth information, and are often loyal after the initial decision to buy a service. Organizations generally prefer to buy packaged solutions.

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4. The Company A

In this chapter we summarize a formal interview held with the founder of the company A mentioned in the mission assignment. All information and opinions are those of the founder’s. The company A is here firstly introduced and later followed by the interviewee’s perspective on different business-critical issues.

4.1 Interview with the company A’s founder

Frequent contacts were held with the founder of the company A, through informal interviews and e-mail since the contact was first taken. A formal interview was carried out on the 30/4 2010 with the founder of the company, which is reviewed in this chapter. The purpose of the interview is to be able to distinguish differences and similarities between knowledge that the company already had, and the knowledge that could be communicated to company as a result of our theoretical research. The founder of the company A wished to remain anonymous, why no names of either founder or company will be stated. The founder will in the following be referred to as the founder or interviewee. The company will be referred to as the company A, or company where the meaning is very clear to which company is referred to.

4.2 General introduction of company A

The company A is a software development company. Its current business plan is to develop the relevant IT tools for the optimization of the economic results in manufacturing workshops according to the Lean Production concept. The company, which does not yet have any commercial activities, envisages a business model by which its computer applications would be distributed as a service over the Internet. Its primary target group consists of machining workshops in Sweden and China. The company has asked us to do research work concerning theoretical models and to examine alternative B2B marketing strategies and relate these to the company’s (preliminary) business model.

4.2.1 Information about company A’s service

From the company A’s perspective, it will offer a new web service to a market that is new to the company. It is underlined that the service is the result of an integrated product development made in cooperation with pilot customers and end users. The pilot customers are driven by their involvement in the development of the service. In this manner, user needs, requirements and interfaces have been considered in an interactive process with the end users. The company A’s service is intended to complement the Enterprise Resource Planning
Systems that are already used by the customers’ organisations.

The motivation for developing the new service is clearly stated by the founder of company A. In the past, as a production manager, he observed that the IT systems in use did not fulfil the requirements of production planning according to the Lean Production concept. However, as he already knew that only 1/3 of all software projects are successfully concluded and that, of the remaining 2/3, ½ cost twice as much as initially budgeted and take twice as much as the estimated to conclude, he decided to reduce the risk of failure and over-spending the budget by conducting the project as an integrated product development project with pilot customers. He considers that one common problem that explains part of the above-mentioned failures is that IT engineers and business management are specialists in their respective areas who do not “speak the same language” and it is this challenge that must be over-bridged. He considers that one solution to this problem is to work together during the whole project from problem definition to a finished computer application.

4.2.2 Brand image of company A

The image of the company A should be more about knowhow, method, development, problem solving, and less about the software, says the founder. It should be more about productivity methods that can contribute to the optimization of the customers’ own performance and especially, with regard to the reduction of their costs of manufacturing.

In response to our questions referring to the reliability and security of the service, the founder of company A explained that the service provider and the users are sending very small pieces of information between them at each time of transmission; information is treated in real-time by a server and sent back to customer. The advantage of such a communication system is – from a security point-of-view - that if someone would hack the system, those small pieces of information would not disclose any company sensitive information as it will be out of context. Another important aspect of security is that the customers do not have an installed system that could break down as he is connected to and uses an application that is run on network servers at the service supplier’s and with the appropriate back-up and security systems.

4.3 Company A’s perspective on customers

From the interview, one of the most notable statements from the interviewee is about the targeting of customers. As he believes, it is possible to target one kind of customers and use
their input in new product development, without risking that this interaction with a small group of customers interfere with the principle of the lean production; the development can still be according to this principle. Lean production is the method that more and more companies follow, and it is the future he believes. Rather than targeting and segmenting the market according to the size of customer’s company or other traditional criteria, he would like to target those companies that already have both a good idea of what software is available [in the field of planning methodologies] and already think in terms of Lean production.

The target group could today already be very big, he believes. He would, therefore, not have to convince people of the usefulness of Lean production. Pilots [for test running the service and giving their feedback], will be selected by such criteria as who are the most cost effective and still want to improve their competitiveness even more, a sort of leaders in this area. He thinks that it is a must to distribute to people who meet these requirements as stated above, i.e. those already very knowledgeable. He believes that it is crucial for his company that the right customers are using the service, not just anyone, because unqualified customers could, in the worst case, damage the reputation of the company and service.

Concerning the specific requirements of different customers, he says that the service is versatile and powerful in order to meet very different requirements, which is partly explained by its modular design structure. This modular concept makes it possible to adapt and optimize the application to each customer’s needs in different perspectives of products. However, the founder is very careful of not basing fundamental parts on specific customers, because he believes that this service should not deviate from the basic principles of Lean production.

He points out that customer nowadays are very careful of not being locked in, in the sense that it must not be too costly to switch systems in different areas of a company’s activities when and if there is a need for this. They also require that new software can communicate with the existing systems, i.e. the compatibility between systems is an important issue for them. They are in favour of Software as a Service that can provide additional information that is needed in production, but without having to replace the existing systems used. The important thing is that this new service is complementary to the other normally used software, and not a substitute.
4.4 Company A’s perspective on competitors

It is important that the company A’s service enters the market at the right time. The founder believes that there could be similar services which meet the same generic needs of his target customers. Nevertheless, he sees benefits of having competitors and appreciates it, because the dilemma of being a pioneer is to always be alone. Many companies are reluctant to use products or services that are not already well established in the market. With an increasing number of different suppliers and competitors, the customers get more used to the idea and concept of this kind of new service. Furthermore, the company A’s ambition is not to be unique [with the company’s new service], but to be a better choice; offering better performance and ease-of-use.

When asked about how he thinks of differentiating the company A’s service from the competitor’s service, his answer is that the central thing is that the company’s service must add value and other benefits to customers’ production, to increase customers’ profits in the production areas they need to improve. Lean production is about reducing all kinds of waste for a company which is the key of cost effectiveness.

During the interview, the founder addresses that the company A shall never copy others but always strive to be innovative. The more competitive the customers’ markets become, the more these companies will focus on its core business, he believes, and the more they will buy the IT tools as Software-as-a-Service. Also, these customer companies will avoid fixed costs for IT, and prefer to pay for the services they need and use, thus achieving a flexible cost structure.

4.5 Pros and cons of company A’s service

Customers companies that focus on their core business do not really want to spend time installing, updating and maintaining their systems. Production managers’ want to focus on manufacturing only; they want results. He believes that software will become a commodity, just like water and electricity, in a not very distant future. Software should be a natural tool, easy to use, that someone makes readily available all the time. From his point-of-view, there are many benefits. First of all, there is no need for the customers to employ staff to maintain the software. The customer just needs a PC (Personal Computer), a web browser and an Internet connection. The company itself has the advantage of a better protection of the immaterial rights when its software is not installed at very many different places. This
provides better protection against illegal copies, which would be a threat to the company’s business, as source code and methods can be protected on server. Protecting its property is essential for a company that wishes to stay ahead of competitors. Thirdly, distribution is much more convenient and flexible for a world market. The interactive development work can continue, in real time, as customers use the service.

4.6 Strategic market introduction

Global economy is one of the drivers of production development. Many, but not all traditional segmenting criteria (like geographical region, size of company etc), become less relevant and meaningful in a global economy. The potential customers of the service are spread all over the world and often work with the same requirements to fulfil international standards of quality. Companies are not as geographically dependent, because of the Internet and e-markets, which makes it easier for small companies to compete against bigger companies. Global economy increases the need for competitive production solutions. The founder’s first target market is Sweden and thereafter China, which illustrates that there is a domestic market which is important for the early stages of the company’s commercial development and a potential international market, where China as the workshop of the world is exemplified.

The founder emphasised that the service must be directed to knowledgeable customers. The service is not to be made available as a free trial download to anyone interested in using the service. For instance, the majority of people using ERP are dissatisfied, he says. They only use a small part of the software, because they do not have the required training and skills to exploit the software fully. And this is something that the company wants to avoid.

Concerning customers’ needs, the founder suggests that pilot runs are the best way for the company to capture customers’ needs. It can be small or big production units. Even the biggest companies have many independent factories around the world. So, one opportunity to reach international customers is to go directly to their subsidiary factories. Manufacturers are always looking at possible cost saving measures. They always seek ways to cut costs. If the function of his service is successful in a company that employs it, then a good reputation would be spread by the word-of-mouth. The best salesman is a happy customer and "The proof of the pudding is in eating it", customers have to try before they know, he concluded.
4.7 Chapter summary

Conducting a formal interview, the purpose was to distinguish differences and similarities between the knowledge that the company A has and what our theoretical research can offer.

The company A’s new service is, according to company’s own research, new also to the market; only similar services exist, that meet the same generic need, but not for Lean Production management. The idea is to provide a service that is complementary to the customers’ current systems, not a substitute. Lean production methodology however is used by companies at an increasing rate. From the founder’s own experience, IT engineers and manufacturers do not speak the same “language”. This would be the reason why software projects often are not successful, and why the company A now can achieve a competitive advantage through its integrated product development in cooperation with the end users (by pilot customers). By this interaction, needs, requirements and user interfaces can be captured and adjusted to. Because the service is Internet-based, this interaction can also continue in real-time when the customer is actually using the service in his production.

The decisive competitive advantage of the company A, besides being a pioneer in its field of activity, would be achieved by offering a more powerful and easy-to-use service that meets the most demanding Lean production industry requirements. Although technology is important, it is the knowhow, method, development and problem-solving that must be at the source of the company A’s competitive advantage, by innovativeness, in order to generate bigger benefits for customers, reducing their costs. The strategy is to directly target small companies and subsidiary factories of big companies. Furthermore, it is customers who are already thinking in terms of lean production that he sees as the target group. Because many companies already apply the Lean production method, he believes that there are already many potential customers fulfilling this criterion.
5. Analysis

In this chapter, a discussion of suggested strategies and influences within NSD is carried out firstly. The influences from web-based and B2B-market are analyzed afterward. The alternative marketing strategies are issued by considering all the key elements within the study. Last but not least, alternative marketing strategies are applied to the mission company A.

5.1 Analysis framework and logical thoughts

In this chapter, in the search of alternative marketing strategies, a collection of strategies derived from theory will be discussed at first. Then a series of essential factors which are involved in different phases of forming an appropriate market plan will be considered as essential aspects of developing a successful marketing strategy. Afterward, the potentially possible marketing strategies and influencers will be analyzed together with the author’s point of view and alternative marketing strategies will be suggested.

Figure 16: Analysis framework and logical thoughts

The logic of the analysis is in accordance with the field of research, which was discussed previously in the problem section. By regarding the field of research as a logical framework, a perspective is adopted to form the holistic logics of the analysis, which is the company A’s point-of-view of the company, customers and competitors. The relevant influences and possible strategies for a new service, involve innovation, online, and the B2B-market which
will be discussed hierarchically. In accordance with the field of the research, marketing strategies concerning the development of new services will be analyzed in the first stage of the hierarchical thoughts. Thereafter, web-based services and B2B-markets, respectively, will be considered as the next influencers of new service alternative marketing strategies in the hierarchical thoughts.

5.2 Alternative marketing strategies for new service
In the earlier discussion of G-D logic and S-D logics, it was stated that both logics are adopted in this paper as perspectives of viewing services. In accordance with the definition of a new product, which contains goods, service or idea the suggested strategies for NPD (New Product Development) will be considered for the NSD (New Service Development) process.

5.2.1 Discussion of suggested marketing strategies in NSD
As aforementioned in the theory section, a new service (product) is understood as being either new to the company or to the marketplace or to both. In this analysis, “both new to the company and market” -services are only considered.

5.2.1.1 Diversification strategies of Ansoff’s matrix
Ansoff’s directional policy matrix is regarded as one of the clearest descriptions of growth strategies for a company. Also it could be used to formulate both new product and new service strategies. As mentioned, Ansoff’s matrix is built up by two variables which are essential for a company’s growth strategies. By combining these variables, four growth strategies were produced, of which the diversification strategy has been selected for this discussion.

A diversification strategy is regarded as the most risky strategy of the four. The reason for it to be the mostly risky one is that the company is developing not only a new service (product) but also for a new and unknown market which accumulates uncertainty and increases the risk level. Consequently, it becomes essential for the company that there are very good market opportunities for the service.

Three types of potentially successful diversification strategies were stated in the theory section, companies could study these three types of strategies as a support in seeking the potentially right development orientation. The three strategies: concentric diversification strategy, horizontal diversification strategy and conglomerate diversification strategy, are pointing out the utilization of a company’s resources and competitive advantages in different
ways. Knowing the company’s conditions, such as business industry, capital situation, goals, vision, capabilities and growth plans, an appropriate choice could be made from these three types of strategies.

A concentric diversification strategy could be adopted when a company has absolute advantages by the fact of its current core technology to extend its usage to a new advanced service, which targets a different market; a horizontal diversification strategy could be considered by a company that realizes that it is easier to develop the current customer groups further or, alternatively, improve the existing service to attract new and different customers; a conglomerate diversification strategy suits companies with good capital conditions and well developed technology. However, it does not mean that this kind of company could choose arbitrarily to develop any kind of new service into any of the new markets and unrelated to its current markets. If a company develops a new service for a new and unknown market, while both of which are highly unrelated to the company’s present activities and status, it is possible that its image would suffer from this and, especially, if the new service contrasts with the company’s current service. Thus, a more complex and comprehensive market research is required if a company intends to adopt the conglomerate diversification strategy.

If the company is a new venture in the business area, a conglomerate diversification strategy would be the consequence of a new venture entering into a new market, as they often do not have any experience of neither the market nor the target customer group. Recognizing the risk of having no previous experience, the company may decide to accept a high risk which it is reasonable to try to minimize. Although not covered in this paper’s theoretical research, this results in a question about whether a collaboration of some kind with an experienced partner should be considered to mitigate risk.

Arguably, the strategies of Ansoff’s matrix are only significant when a company is planning for growth, which they may not always do. Macro economy can affect a company so that it strives towards retrenchment, to secure its profits when the economy shrinks times, however, innovation can sometimes still enable a successful growth strategy.

5.2.1.2 Differentiation strategy and positioning strategy

A diversification strategy is more about examining a company’s capabilities to develop new services while a differentiation strategy is more about a company’s competitive advantages in
terms of differentiating its offer from that of its competitors, e.g. by careful positioning in the market.

Uniqueness is an important aspect of a company’s innovation activities because it identifies its competitive advantage. According to Trott’s definition of innovation, a holistic process involves all the activities from idea generation to market launch, so uniqueness could be seen as being of critical importance during the whole process and all of its different phases. Proficiency in the marketplace and marketing activities are also essential capabilities. Price advantage is one of the significant components of a differentiation strategy. A value proposition matrix illustrates how a company differentiates and positions its offer by benefits and by price in relation to its competitors.

In accordance with the value proposition matrix, customers prefer a more-for-less positioning, i.e. to achieve more benefits at a lower price but this is not necessarily also the best possible positioning strategy for the company. Theory suggests that a more-for-more positioning strategy attracts imitators which might offer equal benefits at a lower price in the same market. A well accepted new service is of course more likely to attract imitators and, especially, if the technological level is low. In view of this, the significance of uniqueness becomes apparent. Deep knowledge of the marketplace and accurate positioning of the new service, with regard to competitors, are essential for a company’s NSD.

As stated earlier, cost leadership may be very hard to achieve considering the growing international competition. However, if the company provides a less price sensitive service or if price competition is weak due to other circumstances, price obviously is not a strategic issue. Such as in B2B market, provider’s new service could be an important part of buyer’s own service.

A series of common differentiation strategies were discussed in the theory section. One suggests that the company should consider being the first to enter into the market. Taking a pioneering strategy concerns the rate of diffusion which, as explained in the theory, is how something new is perceived by people. New entrants into a market already occupied by pioneers may need to make bigger efforts than the latter to take market share. The strengths of being a pioneer, on establishing new service, are that the company could have the recognition from customers and also their loyalty. Thus a new and innovative service at a higher price
could give a quicker pay-back of investment and at a lower price it could better penetrate the market and make it less easy for competitors to enter the market.

The second recommended differentiation strategy is to own a product attribute or quality in the consumer’s mind. That means to build up a strong image among the customers’ mind for the company or new service by choosing a successful positioning strategy. For instance, VOLVO is famous for safety, even though VOLVO may not actually be the safest car in the world. The third strategy is to demonstrate product leadership. This strategy could be understood as company being the leader of innovation in a specific business area. To occupy the leading position, being a pioneer, was addressed in the theory section. However, pioneers also must accept more risks in a new business area, which was already discussed. One important advantage of not being a pioneer is that many customers hesitate to adopt new products. And this is a disadvantage for pioneers. A well planned pioneering venture is suggested as a successful strategy of NSD, which means that the service is innovative and new to the market but also matches target customers’ needs.

An impressive company history or heritage is another differentiation strategy which can improve the company’s market share. Demonstrating and communicating the differentiating ideas are the last two suggested differentiation strategies in the theory section. Basically this means that the company has to inform its customers well about its differences from other service providers and also how its services differ from theirs.

5.2.1.3 Relationship marketing strategy and CRM system

Arguably, people rather build up a relationship with people than with goods and services. Therefore, the discussion of relationship marketing has a different focus from the strategies discussed earlier; it revolves around customers and employees.

The first essential step of relationship marketing is to identify profitable customers. As mentioned in the theory, customer loyalty may lead to a higher retention rate, and is more cost-effective than trying to attract entirely new customers. Additionally, the task of identifying the target customers is critical for all service companies. The interactions between service companies and customers are always different. With customers, who do not really understand the significance or usage of the company’s service, there would not be fruitful experiences for either companies or customers. That would damage the company’s image and
affect current customers’ loyalty negatively. A CRM system which can be used to collect all different kinds of information about each customer could facilitate the segmentation of the market into customers groups. The segmentation should be prioritized in the marketing analysis work, e.g. to identify the most profitable customers or for other equivalent purposes.

Relationship marketing is not only about the relationship between the company and its customers, but also refers to the internal relationship marketing work, which happens between company and employees. Service company employees refer to two categories: development staff and customer-contact staff. The importance of involvement of employees in services already has been emphasized in the earlier discussion. It was mentioned that the most vivid impression of service occurs at the “moment of truth”. It refers to the first encounter of a customer and company interaction. Its significance is that the first encounter builds up an overall impression of the services from the customers. Therefore, internal marketing is important for service organizations. Moreover, the contact-staff could increase the likelihood of positive implementation and be beneficial to market the new service internally. Inexperienced or less skilled development staff could be a barrier to successful NSD. Also several contributions of encouraging employees’ involvement in NSD were suggested by Schneider and Bowen in the theory. Therefore, to achieve a certain satisfaction of working for company among employees is beneficial for the company’s NSD and for the customers, as well.

Successful relationship marketing would contribute to the service improvements that are necessary to keep the customers. It has been proved that it is more costly to win new customers instead of keeping current customers. To keep the current customers, the company has to put more efforts on improving customers’ loyalty. One of the distinctive ways of improving customers’ loyalty is building trust. An open two-way communication is a way to build trust. Also, guaranteeing of service performance can enable trust to grow. Build a CRM system by collecting the relevant information about customers and working with customer patterns could also contribute to improving customers’ loyalty.

However, for service companies, keeping the current customers has the possible result of locked-in customers. According to what has been mentioned before, lock-in actually means there is a switching cost for a customer to change the current service provider for another. It is possible that a customer lock-in strategy could benefit service providers, nevertheless, once
the customer realizes there would be an expensive switching cost to use a different company’s services, although customers might show their negative attitudes towards the service provider.

Considering the disadvantages for customers of the locked-in effect, the company should consider opting for an openness strategy instead to give more assurance to potential customers, by its openness of collaborating with competitors and/or other organizations. For web service companies, as an example, it could mean that customers would not have a high switch cost if they can choose between service providers with compatible systems.

5.2.1.4 Discussion of suggested key issues of NSD

A collection of relevant thoughts of NSD was presented in the theory. Research from different perspectives identified several key elements of successful NSD for service companies. Generally speaking, the suggested key elements are from different perspectives on the type of new service, the suggested determinants of NSD which include e.g. the nature of new service.

Perspective on the suggested determinants of NSD

Services characteristics, market orientation, and actualizing innovation efforts are considered as three determinants of NSD. Service characteristics and the differences between a new service and a new tangible product are strongly recommended considerations of developing new services. The nature of a service can determine a company’s resource distribution and employee system, which includes the people, budget, time and innovation activities of NSD. Because of the intangibility of service, customers usually perceive a service by its people, price, location, equipment, environment, and communication. Due to the inseparability of a service, from the employees delivering the service, they are a part of the service. A service has variability because the way in which an individual employee implements the service decides the quality of the service to certain customer. A service also has perishability when demand is fluctuating and supply could be inadequate in relation to the demand and vice versa.

The intangibility of services can facilitate the development of service processes in a way that is not possible for tangible products. For instance, a real-time online development cooperation with customers is enabled, which makes it possible to quickly adapt services to the changes of customer’s needs or to respond to a competitor’s offering. However, a concept testing of new services is difficult. Therefore, customer testing could be regarded as one of the effective solutions, before new service market launch. As mentioned before, the customers’
role in the NSD process could be that of testing new services or even to be co-creators of new services. A critical aspect of the intangibility of NSD is that a service rarely can be patented and, therefore, it can easily be copied by competitors. In this way, the pioneer competitors could be considered as a new resource of business ideas for the competitors that copy the pioneer. Then a successful differentiation strategy is essential for both competitors.

Traditional services depend, principally, on human interaction. KIBS or technology-based services tend to enhance the standardisation of services which means that the variability of a service would depend more on a service provider’s technological level and organisation. Technology is regarded as the most significant element of innovative services. The perceived technical weaknesses of the systems on which different services depend could influence a customer’s decision-making. And so it is important to make sure the technology fulfils the service quality requirement. Customers’ needs and requirements are still essential for technology-based services, especially for a customer-oriented service company. Also, because a service is produced and consumed simultaneously, the involvement of employees and customers is also significant for its influence in NSD processes. The customers’/users’ feedback and suggestions provide an important source of new ideas for NSD. Managing relationship marketing, by using a CRM system, or identifying customer’s demands thoroughly is also important for technology-based NSD. When perishability refers to a technology-based NSD, security and accessibility of the systems are essential.

Market orientation is the second recommended determinant of NSD. It is suggested that the patterns of developing new services are depending on its structural specific natures within the specific industry of the new service. Customer orientation within market orientation in NSD is similar to that of the manufacturing industry but it can be argued that it requires an even better understanding of the buyer’s requirements and that a competitor orientation requires even more attention on understanding the strengths and weaknesses of the company. A diversification strategy and/or a differentiation strategy could be considered by service companies when developing new services but no matter which market orientation is chosen, the company should always listen to customers’ opinions and monitor competitors’ activities.

A substantial innovation effort was suggested as essential for the NSD performance. As mentioned in the theory, a service quality standard is fulfilled by the supportive technology resources of service providers. And so the function of the managers of NSD is important,
which is to acquire, develop, combine, deploy and optimize value-added resource to the service company. Thus, an innovation reward system could be a good investment for a customer-oriented company.

Furthermore, as explained in the theory, diffusion is about how a customer perceives the innovative qualities of the new service. Several characteristics of innovation contributing to the diffusion of new services were described: relative advantage, compatibility, complexity, trialability, and observability.

*Perspectives on the types of new service*

The category of new services by degree of newness and changes was illustrated in the theory. The extent of newness of a new service affects the risk that the company will take. In accordance with whether an innovation is discontinuous or incremental, totally new to market and well-known technology to the company or not, is linked with a degree of risk that may result in either success or failure. Therefore, depending on a company’s experience and resources, an adjustment to this in the focus and approach becomes necessary. If a possible failure of a discontinuous service is a great threat to the economy of a company, obviously it should be carefully considered if this is worth the risk.

Understanding the customers is the most essential factor for a successful NSD. This issue addressed the importance of the knowledge of the market through market research. In particular, commodity-type new services require that companies have a thorough understanding of the customers’ demands, operations and systems.

Using experts as front-line service delivery personnel can be of critical importance for the success of new services ventures for both truly innovative and incremental new services. Expertise plays an important role in NSD. As stated in the theory, at the beginning of truly innovative NSD, expertise could give a company an in-depth insight into customers’ requirements and opportunities; it is helpful in designing a truly customer-oriented new service. Also, expertise knowledge of customers’ systems and needs could contribute to the successful marketing of a new service. On the other hand, for a less innovative new service, expertise could benefit by well understanding the service itself, differentiate it from competitors’ similar services, and help customers to modify their requirements and decisions. Customer expertise service is regarded as the most potentially successful activity in the B2B
service sector, because industrial services are usually a long-term collaboration between buyers and providers. Customer companies would judge the service quality from their previous experience of the service providers. Consequently, personnel expertise is a particularly important choice criterion for customers/users.

A well-planned NSD process is a value-adding process for modification-type of new services in particular that is a low degree of innovation. It is likely that a low degree of innovation makes the service easier for the company to operate whereas a very high degree of innovation must be focused on customization and standardization. Several aspects of a new service launch were already discussed: prelaunch customer testing and a carefully planned service positioning, well trained front line employees and value adding communication with customers. An open new service culture is important within the company, especially in the case of highly innovative development as it will stimulate creativity. As mentioned earlier, an innovation reward system could also be envisaged for the organization.

No matter how great the new business idea is, it must be fitting both the resource situation and the marketing strategies. It is easy to have blind spots when developing a new service. Insufficient knowledge about the market and the competitors, or ineffective examination of the company’s capabilities, would result in a failed NSD. If a company evaluates the conditions wrongly, it probably will lose some of its competitive strength.

Other perspectives

Improved service experiences concerns mostly the front-end activities in NSD, such as, prelaunch testing, evaluating, and blueprint (the plan for the future). Research suggests that because of the high cost, service companies seldom plan, develop and launch new services in a formal process and that little effort would be made by some companies in identifying customer needs. Some companies fail with NSD because they do not consider new service as their core business and consequently neglect such development work including market research. In addition, several characteristics of poor performance at different stages of the NSD process from idea generation to market launch will be examined in the forthcoming discussion.
5.2.2 Discussion of essential influences in different phases of NSD

As aforementioned, the definition of NSD is the process of developing new service products from idea generation to market launch. Therefore, in searching marketing strategies for new services, it is essential to consider various influences and possible strategies from idea generation to market launch. The authors consider the process after market launch, such as adoption process, to be equally important and therefore it is included in the study.

5.2.2.1 Identify market demands

It has already been discussed extensively, but it is still important to know what customer group to target, and their precise demand already at the very first stage of developing a new service (idea generation). This requires the appropriate market research.

Objective and fact driven are two of the four characteristics of a successful NSD as suggested by Zeithaml et al. These two characteristics are particularly emphasized when a company develops a new service. But to understand a customer’s real demands before starting the development of the new service, a company should try to be as objective as possible in recognising the market demands as a company may be mislead by a manager or an employee’s subjective ideas\(^{211}\). The emergence of new business ideas should be fact-driven, not opinion-driven. It is an argument that employees and contact-staff in particular, are highly involved in the service and even sometimes, they actually are the service. Therefore, their opinions could be of critical importance for a company to develop a new business idea. However, because of the uniqueness of each customer and employee, the interactions would be multivariate when different customers encounter different employees. Thus, the feedback of employees from services could be of varying quality and validity. Consequently, it may be a one-sided consideration if the company over-trusted the employees’ subjective opinions in the process of identifying market demands.

Especially, there is a risk that experienced executives’ opinions out-weigh and replace objective market research. To understand its customers’ perceptions, a company should gather information on market demands and build a customer data base, in order to surely follow the reality of facts. A comprehensively market research is always necessary.

5.2.2.2 Target customer groups

After identifying the needs, requirements or the demand, it is important to think about target customer groups. See the figure as bellow:

![Figure 17: Targeting customer groups](image)

From our theoretical research work, different perspectives of identifying suitable customer groups were identified with regard to likelihood of loyalty and adoption, respectively. Firstly, it is necessary to identify profitable customer group; i.e. customers that are most likely to become and remain loyal. The reason is that the cost of maintaining current customers is lower than that of having to attract new customers on a regular basis as a consequence of having too many non-loyal customers. This situation would naturally also arise as the result of the company not meeting the expectations of the customers.

Secondly, theory on adoption of innovation emphasises the importance of trying to target the early adopters (i.e. opinion leaders). Early adopters may differ from service to service, why the identification of this group is important and will require an effort. The reason to target early adopters is that they are considered to be the most likely to adopt the new innovation at an early stage to become opinion leaders, they would as such contribute to the company’s efforts to reach a critical mass of adopters that eventually can make the adoption process self-sustained.

Early adopters are characterized as opinion leaders; they adopt new ideas early. To succeed in giving early adopters excellent service is important because of the fact that information is often spread word-of-mouth. A satisfied customer is generally said to be the best salesman. At an early stage, when potential customers do not yet have any previous experience of a
company’s service, they would like so-called reference customers to endorse the service provider and, especially, in B2B market of a so-called new task purchase. It is then important for a service provider to both highly satisfy the early adopters, but also make sure that these are the opinion leaders that will be useful in demonstrating their confidence in the service provider’s quality.

5.2.2.3 Designing and testing phases of NSD

The importance of customer involvement when a company develops new services has already been discussed. Another potentially successful issue of NSD is the possibility of making services tangible. In the case of an actual service rendered, the customer is both participant and co-creator. However, when there is an element of self-service technology, the encounter involves a degree of technology that requires more or less knowledge on the part of the user. This could, for example, be a matter of knowing how to navigate a website, something that we will discuss later in this analyse. And so it is critical that service companies use tangible evidence to promote the service, in particular for pioneering ventures. A well-defined service concept is of is a prerogative of successful NSD.

For a company that develops a new service, one approach that should be considered, is openness for collaboration with other organizations. Openness has the potential of attracting allies, which is especially important when the service needs to function with other companies’ services.

As said earlier, new services are not suitable in concept testing processes because of the intangibility nature of services. Therefore, customer involvement can be a better way of testing a new service, which was addressed and discussed before. However, services are difficult to evaluate for customers also and a launch can fail if inadequate efforts are made to establish a good image and to make the service tangible.

5.3 Web-based influence on alternative marketing strategy

Service delivered through the Internet is influenced by characteristics of the Internet, as well as the technology that is used as user-interface. Online-service through Internet widens the possibilities of distribution to a global market, and makes communication flexible as it allows increased mobility. It also has other consequences and possibilities that will be discussed in the following: customer perception of quality of online-service, enabling better interaction
with customers, customizing service, and influence on NSD.

5.3.1 Customer perception of quality of online-service

Quality of service may not alone be a successful way of differentiating a service; however, it is an important issue as it is concerned with customers’ perceived value of service. As discussed earlier, to keep customers satisfied is important in the long term for the service provider’s business.

Online-service is, to some degree, a self-service technology. This affects how it is produced, delivered and consumed. When customers encounter this technology, other aspects than those common for off-line services are evaluated by the customer. This is important for a company to consider, in order to be able to meet expectations and focus resources on the measures that add the most value to the customer.

As determinants of customers’ perceived quality of an online-service, the following issues are considered to be important for customers: how easily it can be accessed and navigated, the service provider’s fulfilment of commitments of delivery and item, the correct technical function, and the security of customers’ information. When encountering problems however, another three determinants are important: how companies handle the problems, the degree of compensation for problems, and the possibility to receive help from representatives via telephone or the Internet.

For business critical services, it may prove especially important to ensure the reliability of the service, as well as the technology functioning well. However, when problems do arise, it is how this is handled that would affect how customers perceives the quality. Not necessarily, does a temporary problem result in dissatisfied customers; if the way that a service provider solves a problem is highly satisfactory to customer, by fast reaction or compensation, it might even make customers more satisfied with their choice of service provider. For this reason, it is just as important to have proper preparations, in the case that something goes wrong, as it is to try preventing them from happening. Overall, it is considered that a service provider needs to be very concerned about its image. This may be especially important as a service involves an interaction between provider and customer, and therefore a customer cannot know the service in all aspects until it is tried out. Therefore, the endorsement by satisfied customers may be very important. A service that does not meet expectations could result in bad-will that is
difficult to change as the customers’ first impression often is determinant of the future attitude towards service provider, and the bad-will could spread for a long period of time on the Internet.

5.3.2 Enabling better interaction with customers

Online-service has the potential of better maintaining relationships with customers because of easy interactivity. This is essential, as it could prevent a mismatch of target customers’ demand and provider’s offer. Because of the flexibility of the Internet, and possibilities of new technological development, customers can more easily be integrated in the whole NSD process, as discussed earlier. What the service provider needs to do is to offer the solutions that the customers really want and then to study how this is functioning. For this reason, it is reasonable to take advantage of the online-service’s possibilities to involve the targeted customer group in all phases of development.

5.3.3 Customizing service

Technology is said to lead to the standardization of services. However, in the case of online-services, recent solutions such as SaaS, enable the customization of offer to individuals. Online-services are easily modifiable by the service provider, enabling a fast reaction to customers’ demands. This customer feedback may help enhance the service to customers and increase the loyalty to the service provider.

5.3.4 Influence on NSD

Online-service enables improved performance through new service development, as discussed earlier, becoming more efficient and cost effective. Customer involvement during new service development, for example by testing of on-line services, could be managed completely over the Internet. Communication and results of modifications of the service may be exchanged and visualized in real-time, enabling an easy exchange of useful information for developers. Pilot customers can easily give feedback.

5.4 B2B influence on alternative marketing strategy

In B2B, quality of a service is very important as price or promotion often can be matched by competitors. Quality improvements can be a part of the modified differentiation strategy that is required. Another reason may be companies’ buying behaviour, as discussed below.

5.4.1 Buying behaviour of customer company

When a customer company faces a new task purchase, the involvement would be high relative
to the complexity and cost. They would make sure to be very well informed, and are likely to know about most available services that are available on the market. Their information may come from their business colleagues, by word-of-mouth. Theory suggests that a service provider should help customers access such information even though it could be information about competitors. The reason must be that this is valid when a company feels secure about its competitive advantage towards competitors. Customer company evaluate carefully and in this process it is important for the service provider to be extremely informative and focused on quality.

5.4.2 Companies’ evaluation of service

Quality was previously said not to be a good differentiating attribute, but it is what customers highly value, as it is closely related to the benefits it gives. Customers’ evaluation of service may be subjective, due to their limited technological knowledge. Also, emphasis may then be put on the functional quality instead. However, because companies often carefully evaluate services during longer periods of time, it is more probable that they would manage to make a good enough evaluation. Especially in business-to-business, it is likely that there are higher expectations that must be met in a professional matter.

When a decision is finally made, it is not likely that a re-evaluation will happen; loyalty may set in after the initial buying decision, as the evaluation is time-consuming and also a customer can benefit from keeping the same provider for a long time, in terms of building trust and receive better offers. However, unless the customer after this time is kept satisfied, the customer might consider other alternative. Therefore, it is important for a service provider to be proactive, and at least meet expectations, and better still, perform even better.

5.4.3 Online-service in B2B market

Online-services seem to experience a steady increase demand from companies, seeking more cost-efficient solutions. Even though companies are concerned with having the control over their information, this might not mean that the information needs to be stored and maintained by themselves. Companies want to automate B2B processes to reduce costs, facilitate the exchange electronic documents with business partners and monitor business processes in real-time. This could be achieved with online-service by use of a service provider with a big customer base to exploit the economies of scale, while often it is outside most companies abilities as their core business often would be something else.
5.4.3.1 Company customers’ concern for online-service (SaaS)
As an extension of previously discussed customers’ concerns for online-service quality, in general, companies considering a SaaS solution seem mostly concerned with the integration and necessary customization. This may depend on the type of service, in the sense that it may be more or less required that the service can communicate with other software that the company already has. Also the technical requirements and security are important. However, the fundamentals of the SaaS business model are to represent lighter, simpler, more intuitive, more agile, and more focused solutions. Therefore, it may not be suitable for very comprehensive applications such as an enterprise resource planning system (ERP) for a business’ whole organization. Instead, small or modular applications are more likely to be successful. Firstly, this would require that the company can totally rely on the service provider, as it is likely that business critical activities may be involved. Secondly, if a service provider is to provide a solution for multiple needs in an organization, it would require bigger up-front investment by the service provider (to enlarge the capacity), which may lead to a larger start-fee for the customer. The SaaS business model includes the regular maintenance and updating of the service by the service providers, so that customers can focus on their own core businesses.

5.4.3.2 Benefits of online-service for businesses
Companies employing IT solutions can be divided into two groups: IT solutions in the organization with or without the integration of different business units. The integration of business units, systems, has traditionally and to this day been done often on-premise; which means that a solution is implemented within the company which normally is a very complex project. Many of these on-premise solutions have become very expensive, both in developing and in maintaining. Therefore, many companies would either not consider such systems, such as small companies without the resources necessary, or a company could be gaining less advantage of such a system than planned, or even risking that the project is not finalized or not functioning properly.

From newer technology, and probably as a result of companies’ increased willingness to become more efficient, so-called Cloud Computing or SaaS (Software-as-a-Service) has emerged as an alternative to on-premise solutions. SaaS is an online-service that does not require more investment on behalf of the customer than a PC and an Internet to the service providers’ server.
A growing number of companies have come to realize the advantages of Cloud Computing over traditional solutions; such as in-house (on-premise). Cloud Computing would be an especially attractive choice for small and start-up businesses as they usually have very limited resources. As on-premise solutions are costly, they are principally best implemented by companies having adequate resources. Cloud computing technology enables small businesses to take advantage of economy of scale and to concentrate its capital investment resources on their core business. With Cloud Computing, businesses can choose a less costly, always updated on-demand service with the required security of information and use it in a flexible manner and pay accordingly.

It is, as Gartner’s hype curve suggests, important with good timing. In the case of Cloud Computing discussed above, it is important, as a service provider online, to consider that many companies have not yet realized the attractiveness of services online although, it seem apparent from many examples of successful online services, such as Google, that this will be a reality for many more companies in the future.

Payment of SaaS is either pay-per-use- or subscription-based. However, some companies may enjoy the choice of, and potential price advantage, of a multi-year agreement. The flexibility of pay-per-use may be especially interesting for companies not completely certain about the service’s performance yet, and monthly subscription may also suit small companies with limited cash-flows for bigger expenses. It also lowers the risk on the customers’ part, both because investment is lower, and because the information security and reliability may be higher with a service provider who is an expert in the business field.

5.4.4 Online-service enables the customization

The customization may vary depending on how many users there are. A limited number of users would make it easier for a service provider to meet different demands. As earlier discussed, services are generally easily modifiable. But because online-service involves advanced technology, it may not be totally unproblematic to customize the service per individual company customer. However, with SaaS, it is easier to incorporate customer feedback and respond to it. Generally, companies may also prefer packaged solutions, something that suggests a horizontal diversification strategy of a service provider meeting these demands.
5.5 Suggested alternative marketing strategies

Innovation of new services is risky and complicated because it involves various resource investments and a high possibility of failure although a new service may be easier to develop than new tangible products. However, there are still difficulties in NSD, and service providers need to examine their capabilities and resources, together with a market research on both customers and competitors. When the new service is web-based, its intangibility character could be overcome to some extent by development of the appropriate user-interface. Furthermore, an online-service can be described as a self-service. It results in different marketing strategies than those applying to traditional service. Additionally, services in the B2B market have different implications than services in the consumers market, especially because it requires a long-run relationship between buyer and seller. Also the service provided could be an integral part of the buyer’s service, which should be reflected by the marketing strategies. Based on the previous discussion, several marketing strategies of new online-service in B2B are suggested hereafter.

Fact driven or opinion driven when identifying the market demands

A service provider should strive to be objective and fact driven in identifying new business ideas as its experienced employees could be biased. However, is it adequate to be objective and fact driven? It directly points to a well done market research but the subjective opinions of experienced employees or executives could be regarded as the origins of new business ideas because they may have visionary and innovative qualities. Above all, it is important to avoid one-sided considerations when identifying market demands and opportunities. The opinions of experienced people in combination with a fact-driven market research appears to be a judicious choice as it mitigates business risk without disregarding any potential market opportunities.

Strategy for targeting the right customers

It is suggested that target customer group of a new service launch should be both the potentially most profitable customers, e.g. because of their loyalty, and the early adopters and opinion leaders and will help accelerate the adoption rate. Additionally, it is essential to target those customers/users that best understand the significance of an on-line service and who therefore can the best benefits from it.
Choosing a pioneering venture or not

The advantages of being a pioneer in a new market have already been addressed as well as several arguments against. Comprehensive market research is always necessary and, in particular, if a company is considering a pioneering venture. However, it should be emphasized that market research is always relative and not absolute. A failed positioning strategy could be serious in that the service provider could lose the desired strengths of being either pioneer or follower. Therefore, it is very important for new service provider to understand whether to take a pioneer venture or not both with regard to market conditions and the implications of either with regard to the internal resource situation, as mentioned earlier. A well-planned strategy is a perquisite for a successful pioneering venture in NSD, undoubtedly.

Strategy for newness

Competitive advantage can be gained by uniqueness. This may be achieved by innovation. However, the newness of a service can be of varying types and the required resources will vary and success may be more or less easily predictable, in both the NSD and the market introduction. Generally speaking, the newer the service is, the more risk is associated with it. We suggest that two types of strategies are essential for companies to mitigate risk. It is emphasised in the theory that, the business idea should fit the resources of the company and the marketing strategy that it has decided on. This is important because, as mentioned above, different strategies are associated with more or less risk. If this risk results in the failure of a new service launch to the market, it may have a more or less serious impact on the company’s business depending on how big resources were allocated for the new service in relation to the resources available.

A diversification strategy (Ansoff’s matrix) can be of three distinctive types: concentric, horizontal or conglomerate; all of which are associated with high risk as these strategies represent a diversion from the known business of a company into the unknown. The diversification strategies concern a new service that differentiates it from either the company’s present service or its traditional target group, or both. A conglomerate diversification strategy, which is a likely choice for a new venture, is associated with the highest risk as there is no previous experience in the company. This, however, can be balanced by the experience that employees may bring from earlier occupations with other companies.
A strategic choice also has to be made between discontinuous and incremental developments. An incremental development strategy is represented by small improvements over time, not proposing anything totally new to the market and the technology is known by the company. This is therefore associated with a lower level of risk, but also reduces the potential economic outcome. A discontinuous development strategy, which can be described as the development of highly innovative and unique products and services that are completely new to the market, and based on technology that is new to company as well, increases the level of risk considerably but can generate substantial profit, if successful. A discontinuous strategy may be the only possible strategy for a pioneer that, by definition, must be well ahead of competitors. Generally, a company may not take greater risk than it can afford financially, or it would jeopardise its future. Incremental innovation is attractive because of the low risk, however, when a company face competition, it may need to strive towards discontinuous innovation to better differentiate itself from the competitor. Therefore, both strategies are thinkable depending on circumstances.

**Relationship marketing strategy**

We see this strategy as related to the importance of understanding and communicating with the customers, which is considered the most essential success factor for a NSD. Without a good knowledge of giving real benefits to customers, this would cause a NSD to fail. This knowledge can be acquired during the development and testing phases of NSD; which according to the characteristic of the online-services, and Cloud Computing in particular, can be enhanced by interactive exchanges between customers and service providers’ development team and other contact-staff. Relationship management may enable the identification of potentially profitable customers, those who are likely to be loyal, which we consider as a key to success, because keeping a customer base is a more economic solution than having to attract new customers on a continuous basis. CRM can in the long term enable one-to-one marketing, to better match the company’s offer and customer needs. To improve customers’ perception of the service during market introduction, numerous essential measures should be taken, such as prelaunch customer test, carefully planned service positioning, well trained front-line company representatives and value-adding communication with customers.

As earlier mentioned, interactiveness is important during the NSD stage and, if a company has employed an incremental development strategy, SaaS represents an excellent opportunity for
interaction with customers as it enables real-time modifications of services according to customer feedback. During the introduction phase of a new service, this approach may result in the best match of service and demand, and also help mitigate risk; provided that the target group is clearly identified. Relationship marketing can also facilitate the development of customized services. How important this is depends on the specific service.

**Openness or control and the lock-in effect**

We argue, that it is a better strategy to satisfy customers at all times than it would be to rely on high switch costs for them to remain loyal. The lock-in effect, as discussed earlier, is above all a serious threat to the customers’ business model and economic development and cannot be used as an implicit strategy by the selling company without causing permanent damage to its own business opportunities. Openness responds to customers’ awareness of compatibility requirements between systems and services for efficient business communications increases. Openness also enables the increase of each service provider’s knowledge-base. Control, as opposed to openness, prioritizes the protection of the supplier’s knowledge base and, in traditional software system environments; this can cause incompatibility between systems and possible lock-in effects, although industry communication protocol standards may apply.

**Pricing strategy**

Pricing is one of several decisions that need to be considered in order to correctly differentiate and position a product in any market. Considering that we have not explored this field of research beyond the limitations, as defined for the present study, we will not suggest any suitable pricing strategy for the Online B2B SaaS market. However, as discussed before, the characteristics of B2B markets are different from those that prevail in the B2C markets and in many respects. Moreover, traditional software distribution markets are clearly distinguishable from the emerging Online Software-as-a-Service markets, as discussed before.

**Online-service strategy**

Software-as-a-Service can be considered as a strategy for online-services, as the on-demand service, which purpose is to persuade company customers replace costly on-premise solution solutions by a cost-effective and flexible on-demand service. The responsibility taken by the service provider, for the delivery and security of the system and data allows customers to focus on their core business by out-sourcing what can be described as a support system.
5.6 Contributions to the mission company

Company A seems to have done extensive market research; also it has identified customer/uses as suitable target customers and which are perceived as early adopters. It is good that the new business idea of company A originates from an experienced executive’s previous professional career and, especially, that it is fact-driven by appropriate market research work. It is clear for company A that it will provide an additional and value-adding service to complete the customers’ current systems and not a substitute for these. However, we have found no evidence that target customers also perceive the product as such. We now realize that we should have made interviews with target customers to verify this, as this must be regarded as an essential part of our research mission.

Company A relies on extensive customer involvement in the NSD by use of pilot customers. This involvement is enhanced by the possibility of real-time interaction while customers are actually using the service. In addition, company A recognizes the need to target specific customer groups and claims that it is focusing on those manufacturing companies that seem the most knowledgeable about its core methodology, Lean production. How the company identified and approached such potential customers in the past has not been verified in this study. However, for the future we believe that company A should commission an independent professional organization to conduct a proper market survey for the purpose of identifying potential customers. Otherwise, a number of market opportunities would most likely be ignored by the company at the same time as it would not receive some of the customer feedback it will need to know the market requirements and the competitive situation in an objectively manner.

The company A seems to have adopted a planned pioneer venture strategy and seems aware of the risks and disadvantages of being a pioneer, as discussed before. We consider that risk can be mitigated provided that several followers appear soon in the market and that the company’s services are not perceived as being unique. In order to achieve this and maintain its leadership, company A should remain innovative, promote Openness to incite competitors to enter its market segment but also try to build a distinctive brand image of the new service in the target customers’ minds.
The competitive advantage that company A aspires to achieve is said to be focused on the methodology, the know-how and problem solving. Innovativeness is considered as essential by company A as a means of creating necessary differential or competitive advantages by increased production economic benefits for its customers. The initial development of company A’s SaaS product incorporates a discontinuous development strategy to create the necessary technological leadership for the achievement of the before-mentioned competitive advantages and, as discussed before, this has a high-risk strategy. However, an incremental development strategy, as discussed earlier, appears to be company A’s future strategy. We would advise company A to try and achieve a balance between discontinuous and incremental development strategies, respectively, and above all to be flexible and adaptive in response to how the competitive situation and market requirements evolve. We believe that, at some point in time, the full potential of an incremental development strategy will have been fully exploited by the company and, therefore, must be replaced by a discontinuous development for competitive reasons. In our opinion, this is a more probable scenario for IT than for other technologies and markets as information technological paradigm shifts already occurred during its short existence. Therefore, we suggest that the company should develop a contingency plan to be prepared for quick changes that may occur for reasons discussed in this paper.

The company could consider implementing a customer relationship marketing strategy because enhancing the connection with customers could be a way of making company A’s service more tangible and develop a loyal customer group in the long-term. This would also help the company to monitor the above-mentioned market developments.

Thus, a CRM system should be considered since company A targets specific customer groups. A well-established customer data base should contain important information for online customer service and development.
6. Conclusions

In accordance with the mission assignment that was given by company A, we herewith present and comment on alternate strategies, which relate to the key issues that we have been able to identify in the course of our research work and which we have also analyzed. These can be seen as a set of sub-strategies, which will be integrated in the synthesis and recommendations to company A, which conclude this chapter.

Although our assignment has not been to develop neither a complete strategic plan nor an (market) action plan but to provide strategic guidance with regard to a set of characteristics of the company’s product-market grid (new, service, online, B2B), we believe that our work can help the company in re-evaluating its preliminary business model and marketing strategy.

The alternate (sub-) strategies:

- **Fact-driven or opinion-driven strategy to identify market needs and demands.**
  
  Two principal strategic options were identified; either to rely on the (subjective) opinions or the innovative ideas of collaborators and others with considerable experience and knowledge or conduct a fact-driven market research. With reference to our analysis (above) of this strategic issue, we consider that both approaches are essential and should be used in parallel to identify market demands. We believe that new product ideas and what the market will demand in the future rarely can be identified through market research alone. To become an innovative and leading service provider, which is the objective of company A, it also should exploit the original ideas of its collaborators. However, its strong opinions should be accompanied by relevant market research in order to test its validity.

- **Strategy for targeting customers.**

  We have found that choice of customer target groups is critical as it affects the adoption rate of an innovative product and customer retention. Being a new and innovate service, the company should target customer groups that fulfil the requirements of being early adopters (opinion leaders concerning a specific service), especially, but also ensure that
these early adopters are potentially profitable customers. This can be achieved by the company’s ability in winning their loyalty through the development of excellent customer relations and by satisfying their requirements.

- **Choosing a pioneering venture or not.**

We have found that, even if a pioneer in a new market must take a considerable business risk, company A does not really have a choice if it goes ahead with the launch of its new commercial project. However, through well-conducted market research, careful positioning strategies and the appropriate timing of its entry into the market, it can considerably mitigate this risk. This is a very complex task for any company and we believe that new business ventures, especially, may have inadequate experience and resources to manage this successfully. We suggest that company A need to appoint the best qualified board members available to help the company in these matters and also to attract investors for the necessary funding of essential activities, as described above.

- **Strategy for newness.**

The initial development of company A’s SaaS product incorporates a discontinuous development strategy, with high risk, to achieve increased production economic benefits for its customers. However, an incremental development strategy appears to be company A’s future strategy, which is associated with less risk. We suggest for company A to try and achieve a balance between discontinuous and incremental development strategies, respectively, and above all to be flexible and adaptive in response to how the competitive situation and market requirements evolve. We believe that, at some point in time, the full potential of an incremental development strategy will have been fully exploited by the company and, therefore, must be replaced by a discontinuous development for competitive reasons. A paradigm shifts have already occurred in information technological during its short existence, therefore we suggest that the company should develop a contingency plan to be prepared for quick changes that may occur.

- **Relationship marketing strategy.**

We have discussed customer relationship management extensively in the analysis section.
as we regard this to be an area where company A would have to develop both management skills and the necessary tools, such as a CRM system. We also consider that the interaction with customers at all levels of the respective organizations must be sustainable during the whole development process of the new service and also after the market launch to continuously follow customers’ (modified) requirements and demand. Cloud computing enables efficient exchanges of this kind and here we consider that company A does have a potential competitive edge by the fact of its Software-as-a-Service-concept.

- **Openness or control and possible lock-in.**

  Company A may consider whether to strive towards openness, which enables the collaboration with other organisations and potential competitors in order to enlarge its knowledge base or to strive towards control. We suggest that company A must think more in terms of control than openness for a long period-of-time in order to be able to amortize its investments in innovative technology, which normally excludes generous sharing schemes with competitors. However, company A should be open for strategic alliances with other companies within the relevant areas and, especially, where the company’s resources and knowledge may be inadequately ensured.

- **Online-service strategy.**

  Software-as-a-Service is, according to our analysis, a very strong business model which timing appears to be good, considering globalization of the economy, the IT industry’s general development trend towards Cloud Computing and company A’s target group of very cost-oriented production companies, constantly pre-occupied by the improvement of their economic efficiency and competitiveness, which obliges them to focus on their core business and to collaborate with service providers for auxiliary functions.

  Therefore, we encourage company A to pursue the business model that has been described as being preliminary and subject to revision. Its general direction appears to us as both realistic and potentially successful. However, the company should contemplate and examine the implications of the critical strategic choices that we have identified and discussed in this work to further develop its marketing strategy. Our suggestion will hopefully provide guidance in this challenging task.
7. Reflections and further research

We believe that the research method that we have chosen was appropriate. The works of acknowledged theorists has offered a most valuable source of theory and other information. Considering the rate of development in both the new technology area and the new market which we have studied, it was an appropriate choice to research recent scientific papers and publications in the relevant media.

We believe that we should have identified and interviewed an already successful company, present and active on the Internet, to corroborate our mission company’s views and perceptions of the market, especially. We also have not considered whether the target customers indeed consider that an online service will provide added value and complete the customers’ current systems and does not substitute these, as suggested by the mission company.

We believe that our findings and suggestions can contribute to a re-evaluation the company’s business. It could also prove helpful for other companies with a similar business model. Further, this study could encourage students to make further research about the consequences of the alternate strategies presented in this thesis. Rather than providing something totally new to the existing knowledge, we believe this study mostly contributes in combining theory that is relevant to a specific approach that a business can make in reaching customers.

Further research could concern a quantitative study of the correlation between commonly employed marketing strategies by the industry and certain success criteria, such as market share and return on investment.
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Journals


Appendix 1: Questionnaire

1. A general introduction about company please.

2. What kind of new service is that the company provide? Does the product utilize technologies from previous products in the company?

3. Why the company is interested in this kind of service?

4. What could be the pros and cons of your company/service?

5. Is the target market that the company has not targeted before? Is the target customer new to the company for this service?

6. Do you think there is a similar service to your services meeting the same generic needs? Is your offering a substitution or complementary to the existing?

7. Can you describe your target customer's companies in terms of size, and current use of resource planning and what they need to pay for this?

8. Do you think there is a similar service to your services meeting the same generic needs? Is there any other company use the same means to meet the need of your target customers?

9. If there are service/products serving the same generic need, how does your service differ? Is it offering a substitution or a complementary service to the ones existing in target companies today?

10. How does the company plan to keep competitors obey? Would it be relatively easy for established companies to copy the business idea or service?

11. How do you now (plan to) prepare the service for its market introduction, to meet customer's demands? For example by testing with a pilot run. To what extent are customers involved in product development?

12. Does the service apply to practical use? If so, when is that and how is the result?

13. With your knowledge so far about markets and product, what is your current marketing strategy?

14. How to let customers trust your service? What shows your reliability?

15. What is, or will be, the company's brand image that you strive towards?

16. How do you think of pricing of your current service?

17. Why you are interested in market in Sweden and China?