The Role of Relationship Selling in Technology Start-up Firms: Two Case Studies in Europe and Asia

Christian Kowalkowski\textsuperscript{1}, Peter Svensson and Jakob Rehme
Linköping Institute of Technology

Abstract

This paper investigates the first business exchange of new start-up firms. The authors use the framework of relationship marketing combined with entrepreneurship theory to describe start-up firms selling activities. They conclude that the first business exchange passes through three important activity phases: (1) credibility; (2) closing activities and (3) operations.

INTRODUCTION

Much research has concentrated on the first steps of a newborn firm and the factors that are critical for the success of these early start-ups (Romanelli 1989). Our ambition with this working paper is to use a business relationship model (from the IMP perspective) when analysing how the critical first business exchange for these firms came about. The start-up firm is by definition without any formal relationships and has no track record (Hannan and Freeman 1984; Horibe 1999; Ostgaard and Birley 1996). Entrepreneurship research has shown that different forms of relationships prior to starting up the firm are essential to overcoming the great obstacle of getting the first deal, the first reference, and the first proof of concept (Ostgaard and Birley 1996). It is also shown that a start-up firm’s first activity pattern is of foremost importance to its survival (Romanelli 1989). If the start-up firm manages to get its first deal, it has to make sure that the customer will be satisfied so that the firm can use the deal as a reference customer. This is a great barrier for further expansion and survival of the firm. Moreover, a major problem for start-up firms is to take product ideas and technologies to a market (Ruokolainen and Igel 2004). In effect their ability, or inability, to sell to a new market or sales channel, is what distinguishes successful start-up firms from unsuccessful ones (Birley and Norburn 1985).

There are several factors that influence a firm’s choice of market, especially if the firm is based on new technology. External environment, internal resource base (Romanelli, 1989) but also social network (Ostgaard and Birley 1996) affects these decisions. Often the founders have several product applications in which to use the technology, but have problems in deciding which product application and thus which market to pursue. Usually a start-up firm does not have the resources to gather sufficient information and to conduct a proper analysis, i.e. lack of resources (Ostgaard and Birley 1996). The firm

\textsuperscript{1} Corresponding author. Department of Management and Economics, Linköping Institute of Technology, SE-581 83 Linköping, Sweden Phone: +46 70 8876655, Fac 46 13 281873 Email: chkow@eki.liu.se
needs proof of concept as well as proof of market acceptance. Furthermore, start-up firms are eager to sell to customers in order to acquire these "proofs" and, hence, be accepted as a viable alternative on the market (Ruokolainen and Igel 2004).

Our purpose with this paper is to describe and analyse the role and impact of business relationship on the first business exchange of a start-up firm.

**LITERATURE REVIEW**

Gummesson (1994) infers that relationship marketing is an approach where marketing is "seen as relationships, networks and interaction" (p. 5). In this view, firms interact with other actors in a business network, performing activities and employing different resources in these interactions (Anderson, Hakansson and Johanson 1994) and value is co-created in these interactions (Grönroos 1996; Normann 2001). Compared to the resource base of the business network, the firm's internal resources are often scarce; hence drawing on resources from network relationships is important (Gummesson 2004; Hammarkvist, Håkansson and Mattsson 1982; Johansson 1998; Ostgaard and Birley 1996). This is particularly true for start-up firms not yet having their first customer. Although the firm is in this very early stage, its stakeholders have relationships from the time before the starting up of the firm. Even relatively discrete transactions involve social and possibly legal activities (Vargo and Lusch 2004a), thus it can be viewed that latent relationships always exist and that one of the actors or both can choose to activate it or not (Grönroos 1997). Dyadic business relationships are of primary interest (Anderson et al. 1994) and the relationship between the buyer and the seller is considered the parent relationship of marketing (Gummesson 1994), making the dyadic relationship between the start-up firm and the nascent customer of paramount interest and the focal relationship studied.

The firm’s offering is an input to this value creating process and long-term relationships are emphasised before transactions (Normann and Ramírez 1993; Vargo and Lusch 2004a). A dialogue with customers is for that reason necessary for firms if they want to stay competitive and have offerings that allow them to succeed (Normann and Ramírez 1993). Accordingly, relationships with key customers are of strategic importance. The problem for start-up firms in this line of argument is that they initially do not have any customers. Consequently, previous relationships should be of interest for the start-up firm’s owner, manager and/or stakeholders. These relationships could have been developed before the start-up firm was founded and if considered important, the owner will presumably invest time in networking and in cultivating these relationships. If the owner previously worked for another firm, these relationships can involve former customers or they can involve other actors that are assumed to be potential customers for the start-up firm.

Firms involving key customers in their product development are more likely to succeed in the market (Matthyssens and Vandenbempt 1998; von Hippel 1988) and direct customer involvement in the firm’s development of offering is likely to increase revenues by a "guaranteed sale", making it necessary for the firm to have a strategic view on customer involvement (Lundkvist 2003). For start-up firms, early customer
involvement is one of the most critical success factors for future success according to a Swedish study (Mellgren 2005). Romanelli (1989) writes that characteristics and activities of organisations will affect their survival rate. The quicker the organisation achieves some external and formal legitimacy, the greater the chance of survival. This means that the ultimate litmus test for commercial start-up firms, i.e. customers and revenues, will be of essential importance for their future on the market.

The relationships can be viewed as constructed around the bonds that are and have been established between the actors through personal interactions in which the actors influence each other and build opinions of one another (Gummesson 2004; Rehme 2001): in this case between the start-up firm and the customer. Concurring with Rehme (2001, p. 47), activities are defined as “carried out by [individuals or] groups of people in the interaction between buyer and seller,” related to sustaining and developing “the overall relationship as well as for discrete transactions”. Coupled to the division of relationship bonds (see e.g. Hammankvist et al. 1982), Rehme (2001) categorise the activities in four groups:

Technical activities are activities needed to technically fulfil, or surpass, the customer requirements. This would mean supplying correct technical data as well as administering possible product adaptations. It also includes helping in the development of application knowledge (cf. technical and knowledge bonds, product development or configuration). Logistics activities are associated with fulfilment: managing information about distribution and adaptation in logistic processes (cf. planning bonds, distribution). Commercial activities are related to the coordination of negotiation, the management of contracts and payments etc. (cf. legal and economic bonds, knowledge, pricing). Social activities are activities associated with developing relationships on different levels and for different functions in the dyad (cf. social bonds, promotion) (Rehme 2001).

Combining Relationship Marketing and Entrepreneurship Theory

Uncritically applying this model on a start-up firm context would be misleading, as it does not take into account the entrepreneur’s specific situation and problems. The IMP model is general for industrial markets and involves major manufacturing companies handling few, very large customers (Hammankvist et al. 1982; Rehme 2001). This is in sharp contrast to the reality of a start-up firm, for which credibility is fundamental and whose greatest strength initially lies within the entrepreneur/owner himself (Birley and Norburn 1985). Thus, there is a need to combine network and relationship marketing with entrepreneurship and social network theory in order to capture the start-up firm’s context by looking through the relationship, network, and interaction lenses.

The entrepreneur/owner must come up with a business plan that is both feasible and credible. Having a unique offering is not enough for carrying a business exchange with a new customer through: credibility is also needed (Gummesson 2004). Establishing personal credibility is decisive for the entrepreneur/owner, whereas large, established firms already have a track record of successful business exchanges with customers by definition, thereby having corporate credibility. The lack of credibility results in what Birley and Norburn (1985, p. 84) call the credibility merry-go-round: the start-up firm needs financing to operate. “[b]ut the bank will not without an order, the customer will
not place an order without evidence that the product can be supplied, the supplier will not give credit...and the skilled worker is reluctant to leave guaranteed employment.” If this vicious circle is to be broken, personal credibility has to be ascertained to at least one of these groups. Thus financial aspects have to be taken into consideration when discussing activities performed. Attracting external funding is related to the owner’s ability to develop investor relationships (Leontiades 1982) and it is an important factor for successful growth (Ostgaard and Birley 1996). Besides the actors in Birley and Norburn’s (1985) figure, credibility towards e.g. legal and fiscal authorities, trade-associations, and accrediting authorities is needed (see Figure 1).

![Figure 1. The start-up firm’s credibility merry-go-round (modified from Birley and Norburn, 1985).](image)

Both credibility towards external actors and credibility internally can help bridge the credibility gap between the firm and the nascent customer. Interactions with not only potential customers but also with other actors can therefore lead to increased personal credibility and eventually a business exchange. For that reason, credibility activities are added to the four activities derived from network theory (see Figure 2).

![Figure 2. Activities performed in the dyadic customer relationship of a start-up firm.](image)
METHODOLOGY

Since the aim is to explore a contemporary process in a real-life setting, a multiple case study approach was chosen as the research strategy. This is considered appropriate when investigating a contemporary phenomenon within its real-life context where the boundaries between the phenomenon and context are not clearly evident (Yin 1994).

Interviews were conducted in a semi-structured manner during four months with one or two representatives at two start-up firms with their origin in Sweden and China. Also, internal and external written material and presentations supplemented the empirical data. Interviewing representatives at other levels within the organisations, as well as other stakeholders, would have been desirable from a validity point of view, but was considered not possible during this period of time. Due to the company representatives being the founders and that one of the authors has followed the firms from the start, high reliability is believed to have been achieved.

The selection of case firms was dependent on their age, expansion and where they are situated. The firms chosen are considered to well reflect various situations where start-up firms struggle to convince the market of their credibility as a supplier, and/or phases in manufacturing companies’ service offering development. Analysis of within-case data was made initially, which corresponds to Eisenhardt’s (1989) idea to firstly become familiar with each case as a separate entity in order to identify case specific patterns before making a cross-case comparison.

RELATIONSHIP SELLING IN START-UP FIRMS

Case 1: Ignition

Ignition, an engineering firm based on a patented technology, was founded in 2002 by a couple of researchers and management consultants. The researchers had not been given the possibility of trying to commercialize the technology by their former employer, a multinational engineering company. Through market research, Ignition estimated the market potential and interviewed some probable customers. The market research emancipated into a business plan and after hard work they raised a significant amount of first-round money. One investor had been working with the machines that Ignition wanted to make environmentally safer, so he understood the benefits of the technology and the business application. He also owned some companies in the metal processing industry. Therefore Ignition could install its first prototype right after it was being developed. A complete workshop with many installations became their first test customer. Furthermore, it was positive that it was a grinding workshop because grinding is considered to be the most difficult application area for these types of products.

This first test customer was involved in giving Ignition feedback on how the product worked and on what could be improved. The customer also called if there were any problems, and helped checking the machine. Later on when Ignition sold to other customers, they realized that even if the product now was tested and they had references
it was hard to sell more than one product initially to each customer. Every major buyer wanted to test it before purchasing for the whole plant. This test period is often one year. Without the connection through the investor to the first test customer it would have been hard to get a whole factory to test an entire system. The test customer became their first customer and it used to be their fiercest competitor’s prestige customer. This was also a statement to the market that a new actor had entered.

Ignition used this first installation to show potential customers. The investor has also a good reputation throughout the region, and using his factories as references opened up for more installations at other companies. Ignition soon realized that they should market themselves as a part of the investor’s industrial group. That indicated that they were not just a start-up firm, they had a long-term commitment to the market.

The firm outsourced their purchasing, production and distribution function to a third party. This secured their ambition of being a development firm based on their patented technology. This relationship increased the credibility of delivery of products towards Ignition’s customers, because of the third party’s well-known brand name.

Case 2: Flame

Flame, a software firm based in Beijing China, started up in spring 2003. They focus on selling marketing solutions to companies using the Internet as the main channel. The founder, who is non-Chinese, realized that it was hard to compete with the mainland Chinese software firms because of their low prices. He also found out that the foreign owned companies based in China needed help with many services from someone who they could communicate with in their own language and people who understood their needs. The expatriates from the foreign-owned firms met regularly at different social events, and were a community within the Chinese community. Flame’s first customer came about by coincidence when a European friend started talking business with the founder at a dinner. The friend, who is a manager in a foreign owned firm, needed help with a home page. The founder told him about his new firm and asked if he could be of any assistance. Flame got the contract and several others from the same firm for about one and half years.

The founder thinks that the firm would not have survived if this business exchange had not come through. He also thinks that it was through his social bond to the manager he got the offer, because the manager did not know anything about the founder’s track record as a software developer. To start up a firm in China as a foreigner you need to know the legal system (e.g. to start up a firm in China you must have RMB 500,000 in cash or technology). It is important to have a good relationship with the authorities in China, and it can be somewhat complex.

Flame has no marketing organisation and has no sales force. They work only with relationships and references to reach new customers. Because of the special needs in a market like China, a small firm such as Flame can support Fortune 500 firms. This is because of the easy access to the decision-makers within the community of foreigners in Beijing and of the special needs for these firms that can not be managed outside of China. Dealing with western multi national companies has the benefit of agreements
being fulfilled. Flame has noticed that the Chinese labour market is different from Western countries. People are more prone to change jobs and try to get better jobs all the time. This makes it difficult to keep the employees for a longer period. To have a high turnover of employees make it difficult to establish firm routines and more importantly it is a great credibility risk for Flame facing the customers.

**ANALYSIS**

The two cases are in different cultural environments. This implies differences in which activities are more important. Flame, relied heavily on social relationships within an “expat”-society. Furthermore, Ignition handled products and had more need for investments and seed money, than Flame had.

**Social activities**
Both cases show that social bonds and activities have been of utmost importance for the first business exchange. If not directly, as in the Flame case, so indirectly through a web of relationships that step by step made it possible to reach the first business exchange for Ignition.

**Technical activities**
Both cases needed to establish technical bonds as soon as they were in contact with the customers. Especially in the case of the first customer, there is a need to convince the users that even if there is no product right now (Ignition only had sketches) and no reference the technology will work. Once again it comes down to that through relationships; it is credible that the technology will work because the two firms say so.

**Logistic activities**
Ignition got to install several products directly at their first customer because the investor owned the company. This made it possible to outsource the logistics to a third party that was well-known in the industry. Flame delivered in time and was expected to do so because the customer knew the owner from beforehand and the customer knew that the owner always kept his word.

**Commercial activities**
Both companies bring into the company several years of experience in doing business. To have this business acumen is not reflected upon here, but probably is of great importance because it resulted in greater acceptance as a professional actor.

**Credibility activities**
The one critical factor that enabled the cases to reach their first customer was the relationships of the stakeholders who facilitated a mutually beneficial offering between the customer and supplier. Both customer and supplier are involved in the creation of the offering, but before a start-up firm has sold its first product, it cannot have an offering. Time is an important factor for start-ups, because of the costs of running the business and the opportunity costs of the stakeholders.
Time Aspect

The two cases illustrate the initial importance of having an active personal network (cf. Johannisson 1987; Johannisson 1998; Ostgaard and Birlev 1996). In the Ignition case, the investor and customer-to-be was a friend of a friend whereas a personal friend became the first customer in the Flame case. Social and credibility-building activities with the first customer were conducted rather parallel and at a very early stage, which is considered to imply that these two activities are conditions of any further activities with the nascent customer. The activities along the time axis in Figure 3 should be viewed as when the activities have to be initiated in relation to the other activities and must not be interpreted as having the same magnitude and extent in terms of time and resources.

Furthermore, activities must not be seen as expiring only because another activity is in focus: relationships are being developed over time and credibility is being built up continuously. When a certain degree of activity is achieved, the parties can move on and focus on the activity next in turn. As the cases show, the technical activities preceding the first business exchange do not have to be offerings ready to support the customer's value-creating processes. It is rather a matter of proving to the customer that one has the ability to solve the customer's problem, which was the case when Ignition demonstrated a prototype and not a manufactured product ready to use. The technical activities are therefore also processes taking place on a continuous basis and in which the customer plays an important role for product improvement and innovation.

Well-functioning logistics activities are needed for providing the product to the customer but they are assumed not to be activities leading to, or having any direct impact on the actual business exchange. There could however be start-up firms operating in businesses where time and provision are of critical importance and where logistics activities could be a prerequisite for the business exchange, similarly to technical activities. Commercial activities are by definition needed to carry the business exchange through (e.g. contracts and payments), but they are not supposed to be needed before the actual business exchange is in question. Hence, the start-up firm needs to

Figure 3. The importance of activities between the start-up firm and the first customer over time.
manage all five activities even though they are of different importance and occur in different phases of time.

**Importance of the Activities**

When analyzing the importance of the different activities, we can see that they fall into two categories in the case of start-up firms. Two activities, credibility and social, are critical for the first business exchange. Without these activities it will be hard to bridge the credibility gap and enter into business with the first customer (Birley and Norburn 1985). Technical, commercial and logistics are all important for two reasons. The first reason is that in order to get a good referral, of uttermost importance for the future expansion (Ruokolainen and Igel 2004), the company needs to take each activity into consideration and meet the technical expectations, show commercial professionalism and operate accurate logistics so that the first customer is satisfied. A satisfied first customer leads to greater credibility in terms of the original merry-go-round model, referrals to new customers (the strongest marketing tool at this stage) and an accurate assessment of the technology. In the case companies, we see that the better the credibility and social activities are, the more leeway there is for mistakes in other activities. Still both cases are in the hands of their first customer and because they fulfilled every activity in a correct way they got more orders and/or great referrals.

The second reason is that in order to expand the company they need to create structural capital and find routines for each of the activities (Gummesson 2002). These processes will be improved all the time but if the start-up company can find a way of getting these activities documented and their own corporate ways of how these will be managed, it will increase their speed, make it easier for new employees to understand what to do, increase their professionalism and so on. These are factors that can affect the start-up firm’s possibilities of survival and definitely lessen the friction that exists in new operations. Structural capital is never set and it makes it easier to change because you know what you change from. During the process of documenting the routines, the company will establish a formal business model (Normann 2001).

**CONCLUSIONS**

We find this model (see Figure 4) highly useful for start-up companies in order to analyse and describe which activities they have to engage in and when in time they have to do so. To be able to understand which activities they have take into consideration will prepare the company for the first business exchange and make it possible to plan beforehand the strategy of what is central to achieve this first goal. Also knowing what activities are essential for further expansion in order to create structural capital will help the start-up company to plan for retrieving the essential information, and structure the learning experiences for future use.

In a timeline perspective, the start-up company could be said to handle three activity phases for its first customer (see Figure 4).
Credibility activities
Activities that underlines the credibility of the start-up firm, including references, financial standing, technical competence, and social network.

Closing activities
Activities that support the closing of a deal, including negotiations, technical tests, and adaptations. Proving business acumen.

Operations activities
Activities for fulfilment of contracts including logistics, production, etc.

Figure 4. The importance of activities for attracting the first customer and further expansion.

First are the credibility activities, i.e. those activities that make the start-up firm a viable alternative for potential customers. Second are the activities that help the start-up firm to close the first deal. Third, are those activities that fulfil the promises made in the first and second phases, and that (hopefully) will prove the start-up firm’s ability. This will eventually lead to more business with this customer as well as providing a reference for other customer contacts.

References


Hannan, Michael T. and John Freeman (1984), "Structural Inertia and Organizational Change." American Sociological Review, 49 (2), 149-64.


Normann, Richard (2001), Reframing Business - When the Map Changes the Landscape (First ed.), Chichester: John Wiley & Sons Ltd.


Ruokolainen, Jari and Barbara Igel (2004), "The factors of making the first successful customer reference to leverage the business of start-up software company: multiple case study in Thai software industry," Technovation, 24 (9), 673-81.

