Industrial Marketing Management 42 (2013) 1025–1032

Contents lists available at ScienceDirect

Industrial Marketing Management

Initial relationship development in new business ventures

Antonella La Rocca [a,*], David Ford [b], Ivan Snehota [a]

[a] University of Lugano-USI, Institute of Marketing and Communication Management, Via G. Buffi 13, 6904 Lugano, Switzerland
[b] Euromed-Management, Domaine de Luminy BP 921, 13 288 Marseille, France

ARTICLE INFO

Article history:
Received 18 December 2012
Received in revised form 26 June 2013
Accepted 27 June 2013
Available online 30 July 2013

Keywords:
New business ventures
Customer relationships
Business-to-business
Interaction
Marketing function

ABSTRACT

This paper seeks to investigate some of the issues faced by an existing company when developing the initial customer relationships for a new venture. All companies face the challenge of new-relationship development in order to achieve growth and to replace relationships which have been lost or are in decline. But the challenge of developing the first customer relationships of a new venture is likely to be particularly acute because the new venture's marketing function and its offering to customers are likely to be undefined and undeveloped. This paper is based on a case study of initial customer relationship development in a new venture of an established business. The paper analyses the issues that the company faced in developing these initial relationships and the approaches to relationship development that it took. The case analysis leads to the conclusion that the development of initial relationships can be facilitated by an 'open marketing function' involving a number of functional areas both in the supplier and in the initial customers. The paper draws managerial implications from the case analysis for the task of marketing in this situation.

1. Introduction

This paper examines some of the issues faced by companies when developing the initial customer relationships of a new business-to-business venture. All companies are involved in a range of customer (and supplier) relationships of varying complexity and longevity. But it is common for a small subset of these relationships to be central to the financial and technological success and to the future direction of the company (Bowman & Narayandas, 2004; Ford, Gadde, Håkansson, & Snehota, 2011; Håkansson & Snehota, 1995). Interaction between the supplier and the customer in these core relationships leads to the adaptation and development of the activities and resources of both of the companies and affects the ways in which the companies relate to each other and to the surrounding network (Håkansson, Ford, Gadde, Snehota, & Waluszewski, 2009).

The importance to companies of a subset of their existing relationships means that each company faces the critical task of managing the developments within these relationships. But all companies also need to develop new relationships to replace existing ones that are in decline and also to develop their business. In their continuing business, established companies are able to approach new relationship development on the basis of their previous experience, existing resources and relationship assets. Continuing business contrasts with the situation in a new venture, whether that venture is undertaken by a previously established or a new business. A company in the early stages of a new venture will not have existing customers. It is unlikely to have a fully pre-formed offering to present to customers, especially if the new venture is in an area of application that is new to the company. The new venture's management may not have a clear idea of the requirements of particular customers or of the direction it can or should attempt to take the new venture. The company's management may also lack the skills, resources and experience to interact effectively in the specific area of the new venture and is unlikely to have a developed portfolio of existing supplier relationships that will be needed to support the new venture. This paper is concerned with the situation faced by the new ventures of already established companies. New ventures by newly established companies are likely to share similar problems, but in an even more extreme form.

Research on relationship development in the initial stages of a new venture has been limited (Aaboen, Dubois, & Lind, 2011; Berghman, Matthyssens, & Vandenbempt, 2006; Gadde, Hjelmgren, & Skarp, 2012; Slotte-Koch & Coviello, 2010). This paper seeks to identify the specific requirements for the development of initial customer relationships in the context of new ventures. The paper is organized as follows: we start by discussing two of the main issues that companies face when developing new ventures, the undefined offering and the pre-organizational structure. We then report a case study of the development of three new customer relationships by a new venture of an existing business company, focusing particularly on the process of defining the offering. Subsequently we draw a number of conclusions about the content and organizational setting of new venture relationship development and discuss the role of marketing in these circumstances.

* Corresponding author. Tel.: +41 586664631; fax: +41 586664647.
E-mail addresses: antonella.la.rocca@usi.ch (A. La Rocca), David.Ford@euromed-management.com (D. Ford), ivan.snehota@usi.ch (I. Snehota).

0019-8501/$ – see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.indmarman.2013.07.001

2. Initial relationship development in new ventures

The development of the initial business relationships of a new venture is characterized by two issues. Firstly, a new venture's offering is unlikely to be well-defined and it will probably still be in development when customers are first sought. The concept of the offering may be clear in the minds of the developers, but the product and service specifications are seldom complete, the most appropriate application is unclear and the final development and delivery mechanisms will not be in place. An offering able to address one or more of the problems of a particular business customer is likely to be complex and consists of varying elements of service, product, logistics, guarantees, after-sales service and advice (Ford et al., 2011; Tuli, Kohli, & Bharadwaj, 2007). Adaptations are likely to be required in the supplier's offering and operations as well as in those of the customer in order to meet each customer's requirements and to make the business worthwhile to the supplier. These adaptations are likely to be time-consuming and involve costs that are only likely to be recouped in the long-term (Berghäll, 2003). Making the adaptations requires long-term commitment from both counterparts at the technological interface between their companies (Baraldi, 2008; Mason & Spring, 2011). In other words, the development of an offering by a new venture is likely to take place *between* the supplier and specific customers and requires complex interaction and commitment to particular business relationships.

Secondly, companies face difficult choices when making investment decisions before the potential of a new venture has been established or sales have been achieved. New ventures typically approach their initial relationship development with a pre-organizational structure (Gartner, 1985) in the sense that the organizational form is still in development and loosely defined. Many new ventures are ill-equipped to effectively develop and exploit relationships with potential customers. A new venture may be an attempt to exploit technological resources or areas of application which are new to the company (Ford & Saren, 2001). This novelty means that the company's existing marketing organization is unable to contribute effectively to the new venture. Hence, an appropriately skilled and structured marketing function is often absent in new ventures and the customer interface is not formally structured. Relationships with potential customers and suppliers are commonly undeveloped, unstructured and uncoordinated. This situation is further complicated because the personnel in a new venture organization may be technically qualified but less well experienced in managing business relationships.

A new venture has to “break-in” to develop a position within a pre-existing network of established relationships between potential customers and their suppliers (Håkansson & Snehota, 1995; Johanson & Vahlne, 2011). Acquiring the first customer is a critical task for a new venture. This task involves much more than ‘making the first sale’ and acquiring the first customer is unlikely to be limited to making a single sales episode. The task is more likely to consist of a complex process of relationship, offering, sales and organizational development. Håkansson and Ford (2002) have suggested that the complexities of relationship development and the range of resources that may be required place limits on the freedom of even established companies to develop new relationships. These limits mean that established business companies are more likely to choose to develop new relationships with similar characteristics to their existing ones and with customers with similar requirements to those that they currently supply.

Despite the importance of new-venture relationship development for business and the wider economy, the issue has not been directly addressed in empirical research and there are few related studies (Aaboen et al., 2011; Berghman et al., 2006; Gadde et al., 2012; Slotte-Koch & Coviello, 2010). The problems of established companies in developing new ventures lead to the research questions addressed in this study:

How do established companies seek to develop the initial relationships for their new ventures?

What are the critical issues that companies face when developing the initial customer relationships of a new venture?

What are the implications of these issues for marketing management?

3. Method

The exploratory nature of our research and the need to develop a theory-in-use commend the application of inductive qualitative research, particularly useful when seeking to understand questions of process (Kholi & Jaworski, 1990; Kirk & Miller, 1986). In depth case studies have been advocated for understanding the interaction between a phenomenon and its context (Dubois & Gadde, 2002). To illustrate the process of relationship development in new ventures, we present a case of new business venturing in a pharmaceutical company, based on both primary and secondary material collected between 2011 and 2012. The primary material derives from recurrent meetings with the company's management throughout this period from personal interviews with the company's marketing manager, operation manager and purchasing manager, and from participant observation of four management meetings per year on the development of the industrial business. Apart from the observed meetings, fourteen face-to-face interviews lasting between 1 and 2 h were carried out. Eleven of the interviews were recorded and transcribed, while for the remaining three, notes were taken and subsequently edited. These interviews were analysed without the use of software because the data was topically complex and the conceptual approach was incomplete. The multiple data sources enabled cross-checking through triangulation, and the prolonged engagement of the authors with the company management allowed for a thorough appreciation of the context (Lincoln & Guba, 1985). In developing the case, we have combined and shifted between analysis and interpretation on the one hand and the evolving framework of the study on the other hand. The observations and the framework became mutually interdependent through corroboration (Denzin, 1978) and systematic combining (Dubois & Gadde, 2002). Our approach is consistent with established guidelines for exploratory research (McCracken, 1988). The identities of the companies are disguised for confidentiality.

4. Case: Healsana SA

Healsana is a midsized Swiss pharmaceutical company that has recently been developing what it referred to as ‘Industrial Business’ with the aim of acquiring new industrial customers. The case describes the development of the venture's first customer relationships.

4.1. Initial development of Healsana: From anesthetic drugs to natural medicines

Healsana was founded in 1943 by a surgeon who developed a vasoconstrictor for local anesthesia. The product became a sales success; it was patented in 1947 and over the following decade the molecule became the main component in a local anesthetic and antiarrhythmic drug marketed through a dozen distributors in Switzerland and internationally. The company prospered and became a small but viable player in the Swiss pharmaceutical industry. In the 1960s there was an important change in the company's business model. At the behest of one of the company's owners who traveled extensively, research was carried out on medicinal plants used in various countries. One of these plants was ginseng root, the properties of which were known to few outside China at that time. Healsana developed a method of extracting effective substances from the plant which enabled the company to produce a standardized ginseng extract. The company was among the first to propose a medicine based on the natural extract and it became one of the major players in creating a new market for ‘serious natural medicine’ that would flourish in the following decades.