TAMPERE UNIVERSITY OF TECHNOLOGY
International Master's Programme in Business and Technology

JORGE LEAL DE LA GARZA

IDENTIFYING AND EVALUATING END-USERS AND DISTRIBUTION CHANNELS IN THE BALTIC COUNTRIES AND POLAND

Master of Science Thesis

Prof. Olavi Uusitalo has been appointed as the examiner at the Council Meeting of the Faculty of Business and Technology Management on December 8, 2010.

ABSTRACT

TAMPERE UNIVERSITY OF TECHNOLOGY
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Gaining market share and increasing revenue stream are important aspects to every company. In order to reach these goals, sometimes companies have a need to explore foreign markets that can provide new business opportunities for their product solutions. However, there might be many barriers to achieving these goals, for example lack of access and information from the targeted end-users and differences in languages and culture too.

The objective of this thesis is to develop a framework for identifying potential end-users and how to target them, that is, how to find suitable distribution channel partners that have access to the targeted market segments that can resell the products to them. To answer these research objectives, the theoretical framework proposes a model for identifying and segmenting the market and for evaluating and selecting an appropriate distribution channel partner.

The main results of the research indicate that there is potential for both products studied. In the case of the Standard Price Pylon, it was observed that there are approximately 6.716 fuel stations in Poland and around 47 per cent of them are owned by independent gas station owners, who can be considered as potential end-users for this product solution. The potential distribution channel partners selected are two companies that are distributors of gas station equipment such as gas pumps, hoses and guns. They, too, can provide additional value added services such as the construction and restoration of fuel stations. These companies operate in Poland and they are PetroNova and Fortis.

In the case of the LED-line, it was more challenging to identify potential end-users because this solution depends more on the value added perceived by its potential end-user which is relative to their own perception. However, there are several interesting potential distribution channels that operate in the Baltic countries and Poland. The company to be considered the best channel alternative is Onninen.

PREFACE

Studying a Master's degree program and writing a thesis have been difficult challenges. Nevertheless it has also been very fulfilling and I have gained valuable knowledge: the ability to understand better global business and management. Finalizing the degree and the thesis has been a great achievement in my life and I am thankful to many people who somehow have influenced my life at certain key moments that now have led me into the path of finalizing this degree at the Tampere University of Technology.

I would like to thank the following people at Tammerneon Oy: CEO Harri Salminen, Business Unit Director Niko Suomela, Sales Director Arto Kovasin and Marketing Communications Manager Jenni Eikrem for giving me the opportunity to do the thesis and for giving me the support and orientation needed to complete it. I would also like to thank the examiner of this thesis, Professor Olavi Uusitalo for his continuous contribution with constructive discussions and for finding the time to participate in the meetings with the Tammerneon team.

I would like to express my gratitude to my wife Johanna for supporting me through this process. Finally, I also want to thank my friends and especially my parents, my sister and my brother for giving me the best education, good examples and ambitions: all these have been important drivers for me to become a Master of Science.

Tampere, 24.11.2010

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Jorge Leal de la Garza

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ABBREVIATIONS AND NOTATION

B2B	Business to business
B2C	Business to consumers
LED	Light-emitting diode
SC	Supply chain
BC	Baltic countries
LPG	Liquefied petroleum gas

1. INTRODUCTION

This Chapter will introduce the background of this research investigation. Section 1.2. will define its objectives and Section 1.3. will specify the limitations of the research. Finally, the last Section 1.4. will illustrate the thesis layout and structure.

1.1. Background and Motivation of the Research Study

Tammerneon is a company that has been in business since 1967. The company's core-competence is to offer external image solutions for retail outlets. The extended product portfolio consists of signage solutions with a high degree of customization in the design, in production, in installation and service. The main products that Tammerneon offers are illuminated signs and price display solutions. For example, Tammerneon is a contract manufacturer of the price display pylons that Statoil uses in their service fuel stations. See Figure 1.

Figure 1. Statoil Service Gas Station.

Despite the good customer relationships that Tammerneon has developed with several key accounts such as Statoil, the production and income of the company is following an S-curve pattern, leaving a gap at the beginning and at the end of the year as seen in Figure 2. These gaps in production and revenue are worth considering and it is recommended finding opportunities for achieving a more constant production and revenue through the year. Due to Tammerneon's solutions which involve a high degree of customization, the production strategy follows a build-to-order cycle through direct selling to its main customers, having as a result a curve in production through the year as illustrated in Figure 2.

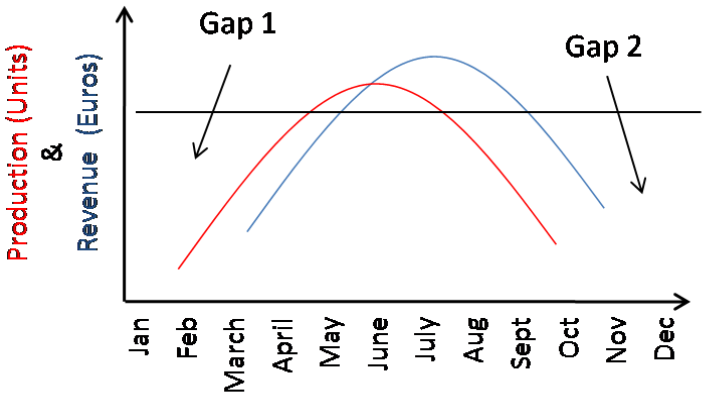

Figure 2. Production and Revenue Curves.

To distribute the production more evenly and to be able to serve smaller customer segments that do not require a high level of customization, Tammerneon developed the Standard Price Pylon, which is aimed to be manufactured under a push-pull strategy whereas the traditional customized solutions are build-to-order or pulled through the supply chain (SC). The objective of the Standard Pylon is to satisfy the requirements of smaller and independent fuel stations that are looking for an affordable solution which can be tailored according to their needs and specifications without compromising quality and reliability.

The Tammer light-emitting diode line (LED-line) is a patented innovation which is the result of product development based on over five years of usage experience. This product offers some benefits over the traditional neon illumination products that are becoming important to the end-user. For example, the LED-line is considered to be a very safe product because it operates with low voltage and it does not uses any hazardous materials as well. Moreover, its efficiency and power saving advantages makes it a more ecological and attractive solution than traditional neon illumination signs.

This product is highly efficient and reliable and it can be tailored into different colors and even to a particular color if the customer requests this. Tammerneon aims to sell these two standard products, which can be manufactured in high volumes and tailored according to customer specifications, through new distribution channels and they aim to fill the gaps shown in Figure 2 by making the production more efficient and the revenue more constant throughout the year.

1.2. The Research Problem and Objectives

The main idea for the two products, the Standard Price Pylon and the LED-line, is to market them and find new customers. Moreover, it is necessary to find a suitable distribution channel partners to gain access to new customers and markets in different geographical areas. Therefore, the research problem of this thesis consists of the following sub-questions:

1. Who are the potential end-users in the targeted markets?
2. Which is the most suitable distribution channel partner for each product and potential end-user?

The objective of the research is to find new customers in new markets for the Standard Price Pylons and LED-line products as well as the different possibilities and opportunities for distributing them through an adequate distribution channel in the Baltic countries (BC) and Poland. In the case of the Standard Price Pylon, the market research will focus in the Polish territory. The LED-line research will focus on the BC and in the Polish markets too.

Firstly, the research will focus on finding end-users for the Standard Price Pylons and the LED-line. It is necessary for the success of the research that a profile and description of the different customers can be defined; only then will we know how they can be targeted. It is also important to analyze and describe how these products will create value for the customers. After understanding and getting the appropriate information and knowledge of the potential end-users, the research will focus on identifying the best alternative to reach them. That is, finding an adequate distribution channel partner that would be able to purchase the Standard Price Pylons and the LED-line in high volumes and to resell them to end-users.

1.3. Limitations of the Research Report

When a company decides to expand its business abroad, it has to make an analysis of the potential end-users and of the distribution channel alternatives to target them. The essence of this thesis is to provide an evaluation of potential distribution channel partners and their company names and contacts of these potential candidates to become Tammerneon's resellers in the geographical areas selected. However, the main limitation of this research thesis has been making contact with the potential distributors proposed. Making an initial contact requires a business plan and a strategy which was not the aim of this research. Moreover, it requires a further analysis of the costs of selling and distribution needed to be able to calculate a profit margin for these potential distributors and naturally for Tammerneon.

1.4. The Structure of the Research Report

The structure of the report is divided into six Chapters. The 1st Chapter introduces to the approached literature, the background of the study and research objectives. The structure of the report is illustrated by the following Figure 3. Chapter 2 introduces the theoretical framework which will introduce the adequate concepts for analyzing customer value, push and pull strategies and a framework for identifying potential end-users and for evaluating and selecting distribution channel partners.

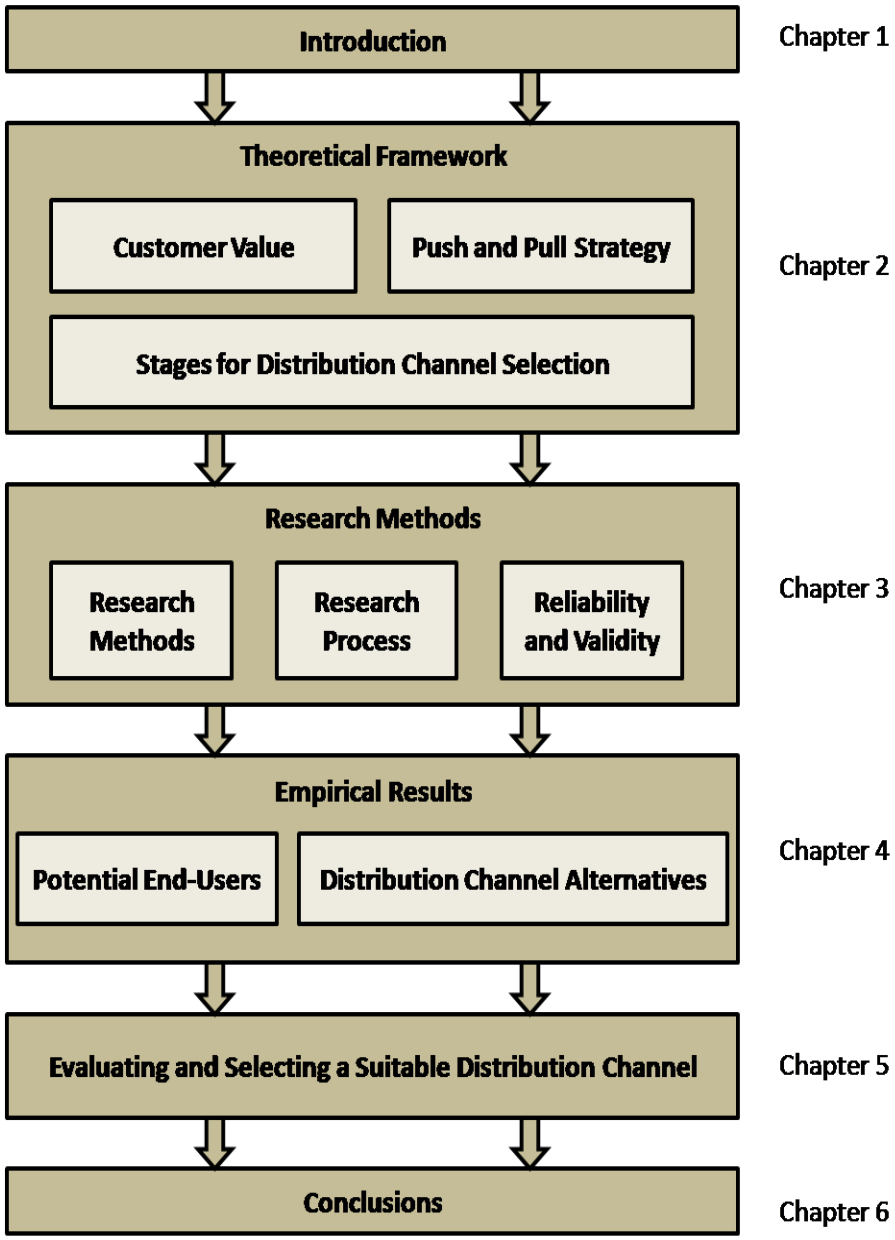

Figure 3. The Structure of the Report.

Chapter 3 focuses on the research methods used to collect the empirical data required and on the research process together with the reliability and validity of the research. In Chapter 4, the empirical results of the study are presented in the form of Tables for both Standard Price Pylon and LED-line. Chapter 5 will evaluate which end-user should be targeted in accordance with the best distribution channel alternative. This evaluation and selection model is proposed in the theoretical framework. Finally, Chapter 6 will present the major results of the study, the managerial and theoretical implications as well as the future research ideas suggested to the company for introducing and selling the Standard Price Pylon and LED-line into foreign markets.

2. IDENTIFYING, EVALUATING AND SELECTING END-USERS AND DISTRIBUTION CHANNELS

The objective of Chapter 2 is to understand and define several important marketing concepts that are crucial to understand and to apply them to the products that a company wants to market. The concepts of these sections and the theoretical framework were inspired from the discussions and meetings at the beginning of the project with Tammerneon's Management. The descriptions of the topics of these discussions are further explained in the Appendix 1. Sections 2.1. and 2.2. objectives are to create a general strategy that a company can consider before targeting new end-users and selecting distribution channel partners. Moreover, Sections 2.3. and 2.4. will develop a framework to identify potential end-users and distribution channel partners.

2.1. Customer Value

2.1.1. Defining Customer Value

The role of sales is changing. Pushing products, presenting product features and competing with only price are sales elements of the past (Kaario et al. 2003). To achieve success, companies have to think what are the elements that are valuable for the end customer. Companies have to produce products that customers consider valuable and worth paying for (Lyly-Yrjänäinen et al. 2008). According to Kaario et al. (2003), when selling value, there are two dimensions that should be taken into account. The first is to bring value to the customer both during sales process and after it. The second dimension is that selling needs to bring value to the provider by generating strong and steady cash flows.

Value can be measured in currency, effort, exchange, or on a comparative scale which reflects the desire to obtain or retain an item, service or ideal (Kelly and Male 1993). When customers are considering purchasing a product, they are expecting to receive in return economic, functional and psychological benefits from the product. The monetary value of all the benefits provided by a product is therefore understood as the total customer value (Lyly-Yrjänäinen et al., 2008). Kotler and Keller (2006) state that the customer is expected to pay the costs for gaining the product or service value: these costs are typically described as purchasing costs, acquisition costs, usage costs, maintenance costs and in some cases disposal costs. Hence the customer perceived

value, which is the value delivered to the customer, is the difference between the total customer value and the total customer costs (Lyly-Yrjänäinen et al. 2008).

Value reflects the owners' and buyers' desire to retain or obtain a product, and this introduces subjective aspects to the value of a product (Shevket Neap and Celik 1999). An example of a subjective aspect are the psychological benefits which affect more the buying decision of the end customer in consumer markets, thus it is more challenging to quantify the total customer value perceived by an individual in B2C (Business to Consumer) markets (Lyly-Yrjänäinen et al. 2008). For example, a product that is saving time might be more important to an individual than another because this is relative to our own perception.

In B2B (Business to Business) markets the total customer value benefits are significantly easier to quantify because it is possible to calculate cost savings by taking into account the effects that a product has on material or energy use (Lyly-Yrjänäinen et al. 2008). In both B2B and B2C markets, it is important to understand what customer value is for customers. For example, there are customers who are very price sensitive and do not care much about the quality and added services of the products. It is important to understand and identify if customers are looking for high value as in a whole package of solutions or just for the lowest price.

2.1.2. Customer Perception of Value

As mentioned in previous Section, the customer perception of value is different to every customer. Even though there are similar forces that are shaping the customer's perception of value, still the definition of customer value can be different. Webster Jr. (1991) proposes a model of forces shaping the customer's perception of value as seen in Figure 4.

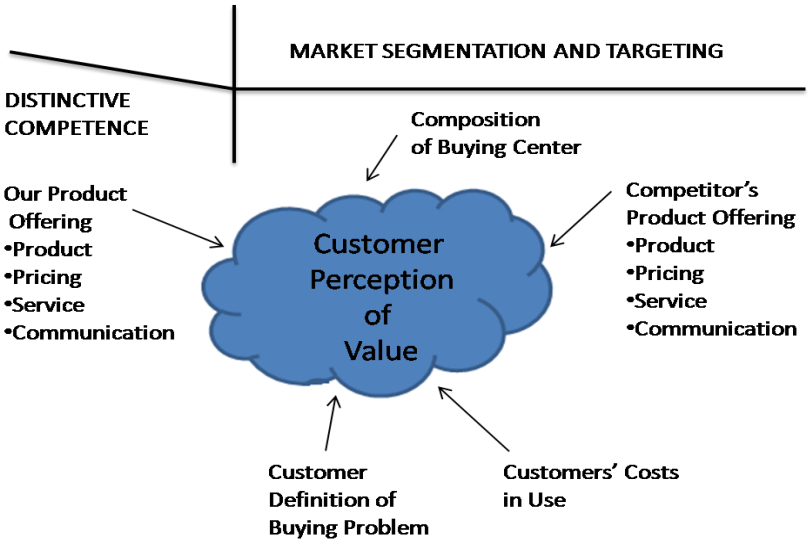

Figure 4. Forces Shaping the Customer's Perception of Value (Webster Jr. 1991, p. 207).

Like a cloud, the customer's definition of value changes continually as it is shaped by both internal and external forces (Webster Jr. 1991). The customer perception of value is directly affected by the company and competitor's product offering and marketing-mix. Eggert et al. (2006) states that the relationship value of between supplier and customer is also related to three sources of value: (1) Core Offering which refers to the product quality and delivery performance, (2) Sourcing Process which refers to the service support and personal interaction and (3) Customer Operations, the supplier know-how and time-to-market.

Furthermore, the customer definition of buying problem can be a determinant force that can influence the most in the perception of value. In B2B industry, purchasing is far more complex than in B2C markets. In B2B, buying strategies are determined by the company's purchasing management which is in accordance to the company's corporate objectives and strategies. The different kind of selling strategies in accordance to the customer needs are explained in further detail on the next Section.

2.1.3. Selling Strategies

Identifying the right customers for value sales is very important because then the proper strategy can be correctly implemented. Sales investment need to be directed towards customers where the expected return is the biggest (Kaario et al. 2003). According to Kaario et al. (2003) there are three different sales strategies that should be considering accordingly with the right kind of customers. As seen in Figure 5, the three strategies are value sales, solution sales and product sales.

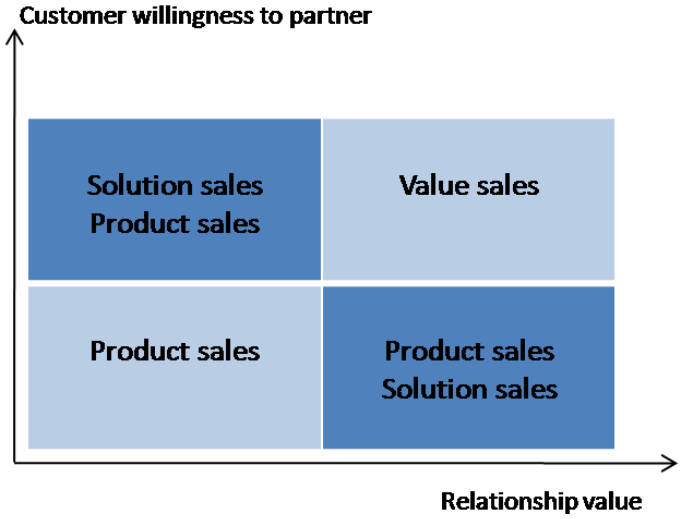

Figure 5. Identifying Right Customers for Value Sales (Kaario et al. 2003, p. 37).

Kaario et al. (2003) suggests that when a customer does not have any willingness to create a partnership and the relationship value is low too, the most suitable option is to

develop a product sales strategy. For example, this strategy is appropriate for selling "bulk products" which continues to form a big part of many companies' business. This approach has been based on customers seen as target groups for a companies' "product fire" and the success of the strategy is more dependent on operational efficiency and price/performance of the product than the excellence of the sales organization. Hence, the focus of the purchasing negotiations is very price-oriented and elements such as value-added services are not an important factor on the decision making process of the customer. The core of the customer relationship is to supply excellent products, or supply products at the lowest price, or both and the supplier should make sure to that promises as far as delivery times, etc, are kept.

Kaario et al. (2003) states that the product sale strategy is more commonly observed on young industries in which companies are focused on delivering just "products". In order to succeed in product sales, companies have to be able to produce superior, clearly differentiated product, or a competitively priced product. One major problem with this strategy of selling is that as industries grow more mature, the unit prices for pure goods start to decrease, when this happens, companies should begin to look for ways to keep their profit levels up. For example, companies can consider taking a step forward in the value chain and develop solution sales to find new revenue streams and sources of profit.

Selling solutions or solution sales is based on understanding the customer's business needs. The solution is designed to be an answer to a given need and therefore the sales argumentation is based on how well the solution fits the needs. Also, the sales person needs to understand the customer's concerns, and present the solution as an answer to those. Solution sales is used when the customer needs expertise in a given application area and the supplier has superior knowledge about the product and the application are in which the solution is used. In this type of selling strategy, the discussion is focused on the total cost, and not just the purchasing price and the customer is typically willing to discuss cooperation in both the installation and maintenance of the total solution (Kaario et al. 2003).

Finally, value sales, the third selling strategy, occur when the importance of a single product is lower and the focus is on creating value for the customer. The sales argumentation is no longer based on products or the understanding of the customer's need. The sales person needs to be able to deliver positive impacts on the customer's business results and to be able to innovate and define what is needed to create value for the customer. Selling value requires mutual trust. The customer trusts that the supplier is able to become a partner for several functions and that the relationship is closer to partnering for mutual success. (Kaario et al. 2003)

As Moore (1998) suggests, every company must be aware that business strategies have to change and in some cases even dramatically as marketplaces evolve into mature

markets. Therefore, besides identifying customer needs, it is important to analyze market trends and to observe change in patterns and to promptly change business strategies if needed.

According to Kaario et al. (2003), sales organizations must understand that the above mentioned strategies: product, solution and value sales are to be used under different situations. However, previous Figure 5 implies that all three sales strategies can also coexist in a company. It is more a question of understanding what kind of customers a company has and which sales strategy to apply to which customer. Companies also should try to take a step forward into adopting value sales; this is mainly because in mature industries unit prices are decreasing constantly and companies are forced to look for new ways of providing value for their customers and to increment profits. See Figure 6.

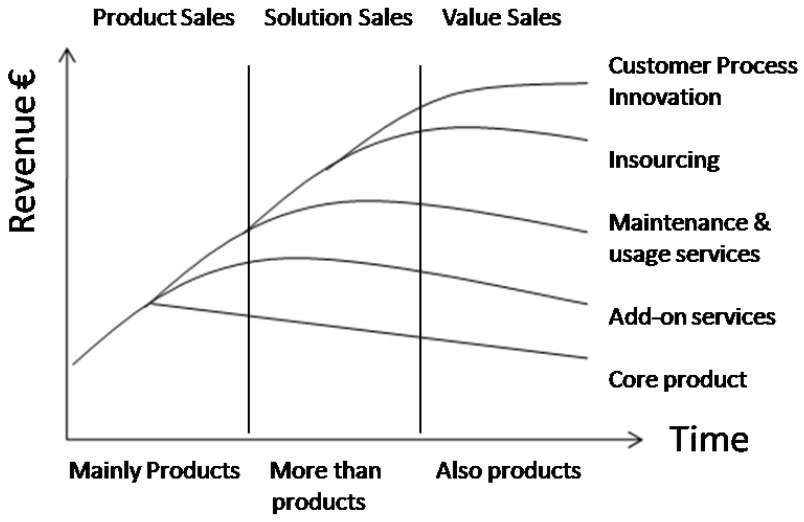

Figure 6. Sales Strategies during the Industry Life Cycle (Kaario et al. 2003, p. 26).

As mentioned before, when the markets mature it is expected that the core product unit prices declines, and so the revenue of a company. This is why is important to take a step forward in the value chain and become more customer oriented and sell more than products or to adopt the solutions sales strategy. In the above Figure 6, the third quadrant of the graph represents the value sales strategies in which suppliers develop a customer process innovation that offers a total solution to the customer and helps the customer maximize its profits.

2.2. Push and Pull Strategies

2.2.1. The Push Strategy

A push strategy is a promotional strategy in which the producer uses advertising, personal selling, sales promotion, and all other promotional tools to convince wholesalers and retailers to stock and sell merchandise (Nickels et al. 1999). Therefore, all the advertisement elements and sales efforts are directed to the upstream distribution channel partners which can be any type of distributor that can entitle inventory to further distribute it to end customers or other resellers. Hence, the channel partner has a very active role in creating demand (Webster Jr. 1991).

Figure 7 illustrates how the promotional activities are being pushed down the distribution channel until reaching the end-user. In this example, the manufacturer is pushing down the channel its products by focusing its promotion and sales efforts through the channel partner. Webster Jr. (1991) argues that in the push strategy, personal selling is used to stimulate demand at all levels of the marketing channel, from manufacturer to reseller and from reseller to end-user, with perhaps several layers of resellers in between.

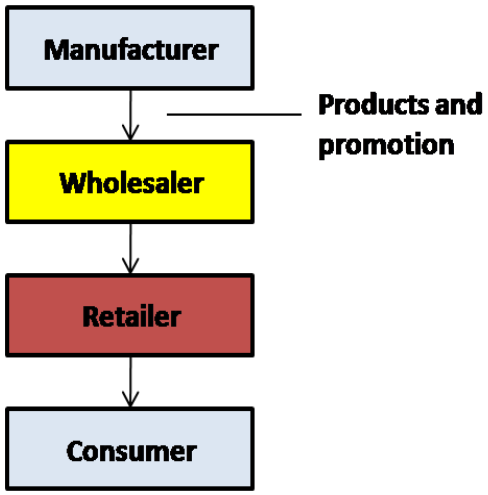

Figure 7. Push Strategy (Nickels et al. pg. 509).

Simchi-Levi et al. (2004) argues that typically, the manufacturer bases its production on demand forecasts with cooperation of the distributor or reseller. This approach should be utilized in cases where the importance of economies of scale, for example in manufacturing and transportation, impacts significantly on cost saving and when the demand uncertainty is low.

2.2.2. The Pull Strategy

Nickels et al. (1999) defines a pull strategy when the promotional activities and sales efforts are directed towards the end-user so that they will request the products from distributors or other channel partners. Therefore, in the pull strategy the role of the distribution channel partners tend to be passive in the sense that it does not need to create demand anymore and should focus more on making the products available to the end-user (Webster Jr. 1991).

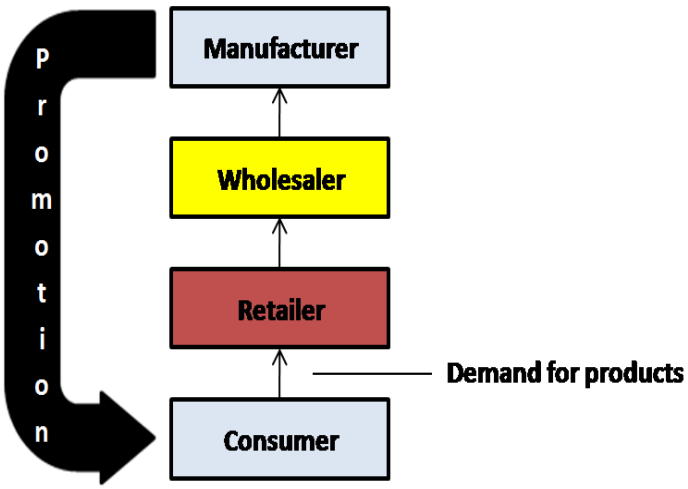

Figure 8. Pull Strategy (Nickels et al. pg. 509).

As Figure 8 indicates, the manufacturer is promoting its products and services straight to the end-user, which by reaction is pulling the demand from the distribution channel partners who then pull the products down from the manufacturer. Webster Jr. (1991) argues that the manufacturer takes major responsibility for creating end-user demand through advertising and personal selling activities aimed directly at end-users and that the channel partners are primarily responsible for servicing the demand.

Simchi et al. (2004) states that in a pure pull system, the firm does not hold any inventory and only responds to specific orders, therefore pull systems are intuitively attractive because they lead to lower levels on inventory and thus in inventory savings. However, one major problem is that in pull-based systems, it is frequently more difficult to take advantage of economies of scale in manufacturing and transportation because systems are not planned far ahead in time. The following Table 1 summarizes the characteristics of the push and pull strategies.

Table 1. Characteristics of the Push and Pull Strategies (Simchi-Levi et al. 2004, p. 50).

	Push	**Pull**
Objective	Minimize cost	Maximize service level
Complexity	High	Low
Focus	Resource allocation	Responsiveness
Lead time	Long	Short
Processes	SC planning	Order fulfillment

According to Simchi-Levi et al. (2004), when the demand uncertainty of the products manufactured is high, it is better to use a pull system, whereas in products that demand uncertainty is low, is suitable to use a push approach and if the economies of scale are significantly important to a company, a push strategy is appropriate too. Figure 9 illustrates how to match the push or pull strategy according to the demand uncertainty and economies of scale according to some everyday products.

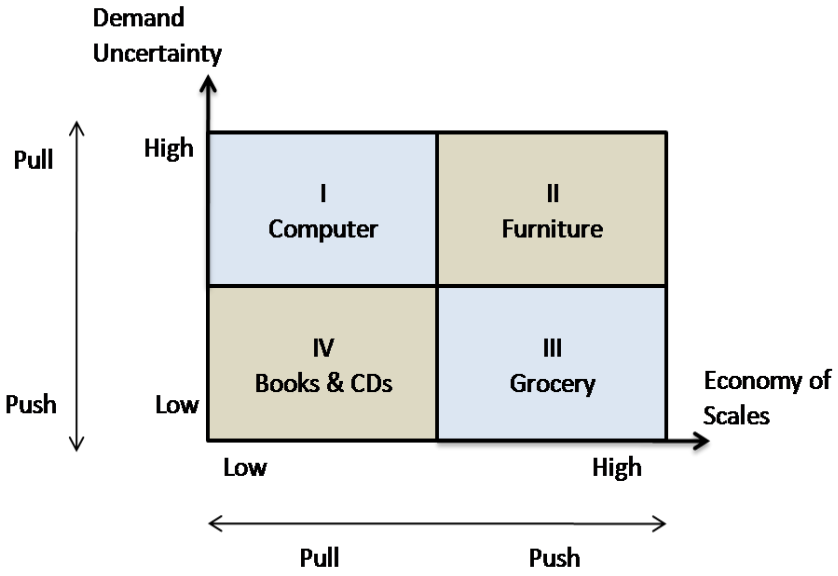

Figure 9. Push and Pull Strategies (Simchi-Levi et al. 2004, p. 47).

As Table 1 shows, there are both benefits and drawbacks from both strategies. Therefore, several companies have looked for new strategies that can take the advantages of the best of both. Frequently, this approach is known as the push-pull strategy (Simchi-Levi et al. 2004). Moreover, as seen in Figure 9, there are two quadrants that are employing a push-pull approach. For example, the demand uncertainty of books and CD's in quadrant IV can be considered as low and the economies of scales have a low impact on the SC. On the other hand, furniture in quadrant II is considered to have a high demand uncertainty and a high impact in the economies of scale, therefore a push-pull approach is suitable. IKEA is a good example of a furniture company that uses this approach.

2.2.3. The Push-Pull Approach

According to Simchi-Levi et al. (2004), in a push-pull strategy, some initial stages in the distribution channel (for example the manufacturer) are operated in a push-based manner, whereas the remaining stages or the other distribution channel partners employ a pull-based strategy. The interface between the push-based stages and the pull-based stages is known as the push-pull boundary and it is indicated in Figure 10.

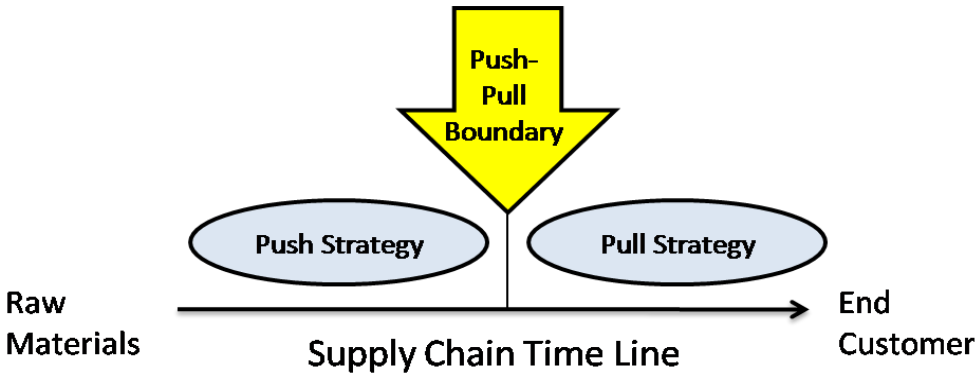

Figure 10. Push-Pull Supply Chains (Simchi-Levi et al. 2004, p. 45).

The idea behind this theory is that the manufacturer can start the production processes and plans by using forecast when demand uncertainty is low. When the manufacture department receives then orders from a distribution channel partner of a specific product, the production processes switches to a pull strategy and thus the manufacturer is able to enjoy the benefits of both strategies while satisfying the end-user as best as possible.

For example, Dell is an excellent example of the impact of the push-pull strategy. They are able to perform a push-pull strategy because their component inventory and production plans are based on forecasts that are low on uncertainty, but the final assembly is in response to a specific customer request. Hence, they are building to order and the push-pull boundary is at the beginning of the assembly (Simchi-Levi et al. 2004).

Furthermore, other concepts that are associated to push-pull strategies are delayed differentiation and mass customization. Stevenson (2007) defines delayed differentiation as a postponement tactic which is the process of producing, but not quite completing, a product or service until customer preferences are known. Mass customization is a strategy of producing basically standardized products, but incorporating some degree of customization.

2.2.4. The Long-Tail Theory

Traditional product businesses focus on standard products and economies of scale. Companies usually try to indentify right market segments and offer standard products for these market segments. The idea behind the long tail theory is that companies manufacture large volume items that can be purchased in large scales. Companies identify customers that are big enough and target them with their products. However, there are other customers or niche customers that because they are small, they cannot afford to purchase large quantities of products. These niche products are often referred to as long-tail products (Anderson, 2006).

However, the combination of their demand of products resembles an area of opportunities as big as volume items as seen in Figure 11. The problem is that is difficult to adjust to the differences in the products that they demand. Hence, the long-tail products are not considered attractive since the manufacturing costs of these small-volume items are considered too high.

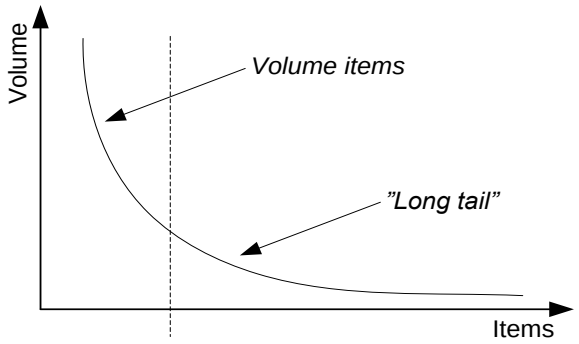

Figure 11. The Long-Tail (Anderson 2006 p. 54).

Mass customization is a solution for targeting niche end-customers in the long-tail. For example, it is possible to apply the concepts of the push-pull approach described in previous Section. Concepts like delayed differentiation and mass customization techniques are crucial to manufacture products in mass production but tailored so they can satisfy many niche segments that would add up an important volume to make it profitable to manufacture.

2.3. Stages for Distribution Channel Selection

This Section will propose five stages for selecting a distribution channel alternative. As shown in Figure 12, the first step is to define the end-user. The next step is to consider different types of distribution channel partners. The third step will develop a framework

that will define the channel requirements. In the fourth step, with the framework developed the channel partners can be evaluated and finally selected.

Figure 12. Stages for Channel Selection (Adapted from Gorchels et al. 2004, p. 24).

It is important to mention that each step will be composed of several sub steps too. For example, the first step of defining the end-user has three sub steps which are defining segmentation, segmentations variables for industrial markets and the segmentation process.

2.3.1. Defining the End-User

Defining Segmentation

Defining the end-user consists in finding the customer segments in new markets for certain products. Segmentation is a crucial activity for marketing in B2C and B2B, but the way it is viewed has changed over time. Some authors view segmentation as being closely related to another of the marketing's major thoughts, the marketing concept (Kotler 1994). Naturally, the essence of the marketing concept is to satisfy as best as possible customer needs and wants (Freytag and Clarke 2001).

Dibb (1998) states that customer needs are becoming increasingly diverse. These needs can no longer be satisfied as mass marketing approach. Businesses can cope with this diversity by grouping customers with similar requirements and buying behaviors into segments. Choices about which segments are the most appropriate to serve can then be made, thus making the best of finite resources.

Kotler (1994) defines a segment as something that has to be identified, chosen, and thereafter targeted by an adjusted marketing-mix. Nickels et al. (1999) defines market segmentation as the process of dividing the total market into several groups whose partners have similar characteristics. Moreover, according to Freytag and Clarke (2001), segments can be considered as none-dynamic, which occurs when dealing with segmentation in markets where customers are developing their needs and wants in interaction with their suppliers. On the other hand, Freytag and Clarke (2001) also suggest a Dynamic Interaction Segmentation Model (the DIS model). See Figure 13.

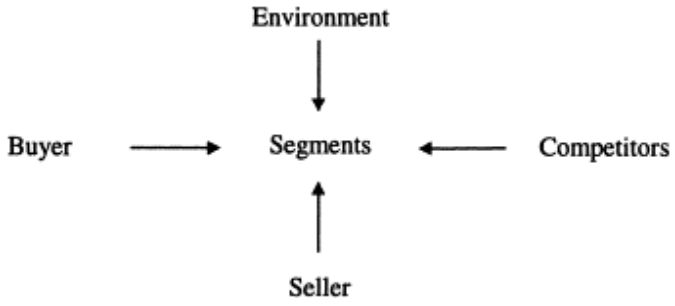

Figure 13. The Dynamic Interaction Segmentation Model (Freytag and Clarke 2001, p. 477).

The idea of this model is that contrary to the none-dynamic segments, competitors, buyers and sellers will try to influence the buyer's perception of his wants and need and the solution needed to fulfill them (Hill and Hillier 1978). According to the model, changes in the environment also will affect the needs and wants of the buyer, for example new technologies offering new possibilities or new regulations from the formal authorities (Freytag and Clarke 2001).

Segmentation Variables for Industrial Markets

Businesses from all industry sectors use market segmentation in their marketing and strategic planning. Advocates of segmentation suggest that business adopting a segmentation approach can enjoy a variety of benefits (Dibb 1998). According to Verhallen et al. (1998), segmentation of industrial markets is typically based on observable characteristics of firms such as their location and size. Kotler and Keller (2006) argues that B2B markets can be segmented with some of the same variables used in B2C segmentation, such as geography, benefits sought, and usage rate, but business marketers also use other variables.

Moreover, in industrial markets, the products and services bought by firms are also related to their objectives and strategies (Chisnall 1989). Therefore, if industrial buying behavior is primarily driven by the strategy pursued by the buying organization, then knowledge of these strategies could provide a valid basis for segmenting the market into relatively homogeneous groups (Verhallen et al. 1998). According to Freytag and Clarke (2001), some variables that should be taken into account when identifying segments are:

- The expected demands on the company.
- Sales volumes.
- The potential profit compared with the related risk.
- The competition, number of competitors, and their strengths, preferences, etc.
- Governmental and public moves.
- The ability to reach buyers and gain competitive advantage.
- Technology.
- The connections between present networks (such as strategic alliances) and the identified segments and the possibility of any conflicts.

Kotler and Keller (2006) utilizes the framework of Bonoma and Shapiro to summarize in the following Table 2 the major questions that business marketers should ask for determining which segments and customers to serve. It is important to remark that the variables that marketers propose can be similar in some situations. Moreover in some cases some variables can be more important than in other cases according to the targeted end-users and products.

Table 2. Major Segmentation Variables for Business Markets (Combined from Bonoma and Shapiro 1983, see Kotler and Keller 2006 p. 259).

Demographic ***1. Industry:*** Which industries should we serve? ***2. Company Size:*** What size companies should we serve? ***3. Location:*** What geographical areas should we serve?
Operating Variables ***4. Technology:*** What customer technologies should we focus on? ***5. User or nonuser status:*** Should we serve heavy users, medium users, light users, or nonusers? ***6. Customer Capabilities:*** Should we serve customers needing many or few services?
Purchasing Approaches ***7. Purchasing-function organization:*** Should we serve companies with highly centralized or decentralized purchasing organizations? ***8. Power structure:*** Should we serve companies that are engineering dominated, financially dominated, and so on? ***9. Nature of existing relationships:*** Should we serve companies with which we have strong relationships or simply go after the most desirable companies? ***10. General purchase policies:*** Should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding? ***11. Purchasing Criteria:*** Should we serve companies that are seeking quality? Service? Price?
Situational Factors ***12. Urgency:*** Should we serve companies that need quick and sudden delivery or service? ***13. Specific application:*** Should we focus on certain applications of our product rather than all applications? ***14. Size of order:*** Should we focus on large or small orders? ***15. Buyer-seller similarity:*** Should we serve companies whose people and values are similar to ours? ***16. Attitudes toward risk:*** Should we serve risk-taking or risk-avoiding customers? ***17. Loyalty:*** Should we serve companies that show high loyalty to their suppliers?

Freytag and Clarke (2001) argue that segments need to be identified and selected accordingly to the appropriate variables that a company chooses and to create competitive advantages in order to gain the position in the segment that they want.

Segments that may seem attractive, big, growing and with little competition, may not suit the company if the segment cannot be handled well enough internally to gain the desired position in the market. Therefore marketers should find the segments that matches the best the company's capabilities, unique situation and core competences.

The Segmentation Process

According to Freytag and Clarke (2001), the segmentation process can be divided into a five step processes. In Figure 14 the authors propose a diagram in which they divide the most important processes that a company needs to consider in order to choose segments. By following this process, the company can find and select the segments that best match its capabilities and goals.

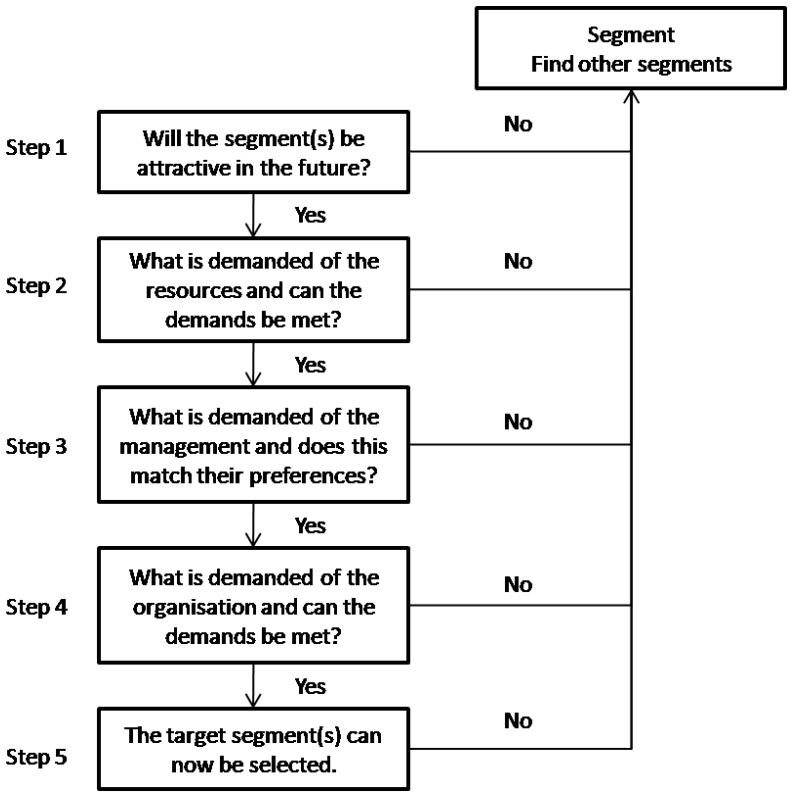

Figure 14. The Segmentation Selection Process (Freytag and Clarke 2001, p. 482).

Step 1 (The Development in the Segments)

Freytag and Clarke (2001) argue that in step 1 of Figure 14 is where the development of the segments should be done. It is important to focus on the external factors that will influence the success of each segment. In this step, segmentation variables defined on previous Section should be considered. Moreover, the following areas should also be considered:

- The size of the segment and its expected growth and profitability.
- Environment trends: political, economical, social, technological and environmental.
- Market characteristics: uncertainty, market demand and supply, market access and competition intensity.
- The segments can be effectively reached and served.
- Existence of relationships with the customers in the segments and assessment for the difficulty expected in developing relationships.
- Assessment of the influence selecting a segment has on present relationships.

By estimating the development in the segments with the above points, and the segmentation variables defined previously it is possible to evaluate whether the identified segments are likely to be beneficial and profitable in the long run. For those that are considered to be attractive, the next step is to compare the segments with the companies' resources.

Step 2 (The Resources)

The second step that Freytag and Clarke (2001) propose describes whether the company can comply with the segment's demands. Both the present and future demands required of the resources from the following areas need to be considered to do so: customer needs, technology, demands, competition, political moves, handling of relationships, etc. Moreover, the company should identify the present and future resource base that would be required to target the segment in the following areas: assets, financial areas, human resources, relationships and image. Finally, to get a more realistic picture, it is important to get an overview of different areas of the company, for example purchasing, sales, service, marketing, production, and development.

It is important to evaluate the resources related to the segments and not as a general evaluation of the company's strengths and weaknesses. Next, the company should hold the present resource base up against that which would be required in the future and identify if there are critical gaps. If they cannot be minimized, then it is recommended to evaluate other segments. If the critical gaps can actually be minimized, for example by doing changes in within the company or influencing the segment to change, it is time to look at the demands that the segment will make on the management.

Step 3 (The Demands on the Management)

At this step, Freytag and Clarke (2001) argue that it is important to understand which will be the demands of the segment compare to the preferences and expectations of the management. If the company and career directions preferred by the management do not cope with the demand of the segment chosen, the gap or potential gap should be identified and the company will need to look at what organizational actions are necessary to close or reduce the gaps. If they cannot be closed or reduced, then the

company should probably select another segment and start the process again. If the gaps can be reduced, then is possible to take the next step and evaluate the demand over the organization in the next step.

Step 4 (The Demands on the Organization)

Freytag and Clarke (2001) remark that the company has to be able to identify the organizational capabilities demanded by the segment, as well as those required to minimize any gaps at the resource and management levels, the company can compare the demanded capabilities with the capabilities it has today. Thus, the gaps in the organizational capabilities can be found.

The company should evaluate what changes in the culture, systems, structure, management, policies, etc are necessary to eliminate the gaps. It may be possible that the changes needed to cope with the demands of the segment over the organization are not worth doing or impossible to change within the given time frame or because the risk related is too high. If this is the case, it is recommended to consider another segment to choose. However if a segment has reached this far in the analysis, it is probably satisfactory and more beneficial to consider further changes within the organization and to consider the next step in the process which are the strategic and implementation phase.

Step 5 (Strategy and Implementations)

Little attention has been given to the strategy and implementation phase (Plank 1985). However, the proposed model can help in both strategic development and implementation because in the selection process of segments, a part of the strategy creation already will have been performed (Freytag and Clarke 2001). Kotler and Keller (2006) suggest that companies should develop an effective and appropriate marketing-mix strategy for targeting the chosen segments. That is, to expand segment positioning by taking into account the product, price, promotion and place.

By taking into account the marketing-mix, it is a must to consider not only the end-user, but the most suitable distribution channel (place) to target the chosen segments. For example, it can be considered to choose intermediaries such as wholesalers and retailers to sell to end consumers. Ultimately, effective programs or strategies should be formulated for attracting and serving the segments. Depending on the characteristics of the segments chose, it might be required to build a proper global network for distribution (place from the marketing-mix), and according to Kotler and Keller (2006), some companies have realized the importance of forming strategic alliances by finding distribution channel partners that can complement their strengths and offset their weaknesses.

2.3.2. Theory of Distribution Channels

Marketing-Mix

When marketing a product or a service it is assumed that the firm combines advertising, sales promotion, personal selling, technical service, delivery, quality and price (Ford 2002). Nickels et al. (1999) argue that the main focus of marketing process involves four factors: (1) designing a want-satisfying product, (2) setting a price for the product, (3) distributing the product to a place where people will buy it, and (4) promoting the product. These four factors (product, price, place and promotion) have become known as the four Ps of marketing and all together as the marketing-mix. The particular marketing variables under each P are shown in Figure 15.

Figure 15. The Four P's of the Marketing-Mix (Kotler and Keller et al. 2006, p. 19).

Product

As the above Figure 15 illustrates, the product dimensions that end-users appreciate are: product variety, quality, design, features, brand name, packaging, sizes, services, warranties and returns (Kotler and Keller 2006). Also, performance, reliability, conformance, durability and esthetics are important to the end-user too (Woodruff 2004). Moreover, Logman (1997) argues that when discussing product as a part of the marketing-mix, there are three levels that can be distinguished: (1) basic or core; (2) enhanced; and (3) augmented. An enhanced product is a core product that has been differentiated by adding extra product dimensions or properties mentioned above. The augmented product combines the core or enhanced product with the product dimensions and benefits customers reap from purchasing it, such as training, service and support.

Price

Logman (1997) states that criteria for discounting can often include a customer's sales volume, sales history (such as being loyal or not), and time of purchase. High-volume customers may get special discounts, users of old product versions may get discounts on mew product versions, and so on. Purchase price may be difficult to customize in B2B markets because of a dependence on customers' bargaining power and also to some extent customers may control purchase price over time by choosing the right moment to buy a new product or waiting until its prices has dropped. Moreover, Woodruff (2004) suggests that companies should consider adopting a proper pricing strategy by considering the following steps presented in Table 3.

Table 3. Steps for Developing a Pricing Strategy (Woodruff 2004, p. 252).

1. Determine the objectives and strategy. 2. Estimate demand and revenue. 3. Determine the cost, volume, and profit relationship. 4. Select a pricing strategy. 5. Consider the availability and price of possible substitutes. 6. Consider the positioning element to final price.

Promotion

In deciding how to promote products and services, a business person must decide what promotional tools to use and to whom the business wishes to communicate its message. To make these decisions we need to consider our marketing objectives and the costs and merits of the available promotional tools (Woodruff 2004). Logman (2007) points out that, especially in a rapidly changing business environment, customers may have different information needs. Some may want to be informed about new product versions, whereas others are interested in information about possible upgraded of old product versions. Price-sensitive customers may be interested to some extent in promotional information, whereas quality-sensitive customers may be interested in product information.

Mallen (1996) argues that promotion and channel selection are determinants of each other. For example, one company may feel that it would be more advantageous to sell directly too many retailers, or even consumers, using a large sales force because of the lack of selling effort on the part of wholesalers, even if this method is more costly. And another company my try to pull its products through a longer channel and so build up a consumer franchise through much advertising and sales promotion with a smaller field force.

Place

This P of the marketing-mix answers to the questions: Where? When? and How? Logman (1997) argues that customers determine usually where, when and how they want goods to be delivered. In B2B markets, goods are usually made available through a distribution channel which can be composed by sales subsidiaries, wholesalers, distribution centers or warehouses, agents, buyers and partners. In B2C markets, typical places where consumers have access to goods are retailers and wholesalers.

Logman (1997) mentions that in industrial markets, where many firms are working in a just-in-time (JIT) environment, suppliers have to become more flexible in terms of distribution and logistics. This is why, to attain distribution flexibility, companies may use multiple channels. However, depending on the customer's product knowledge, service needs, and price sensitivity, one channel may be more appropriate than another.

Marketing-Mix Strategy

Companies that take into account the marketing-mix should consider preparing an offering mix of products, services, and prices, and utilize an adequate communication mix of advertising, sales promotion, events, and experiences, public relations, direct marketing, and personal selling to reach the trade channels and the target customers (Kotler and Keller 2007). See Figure 16.

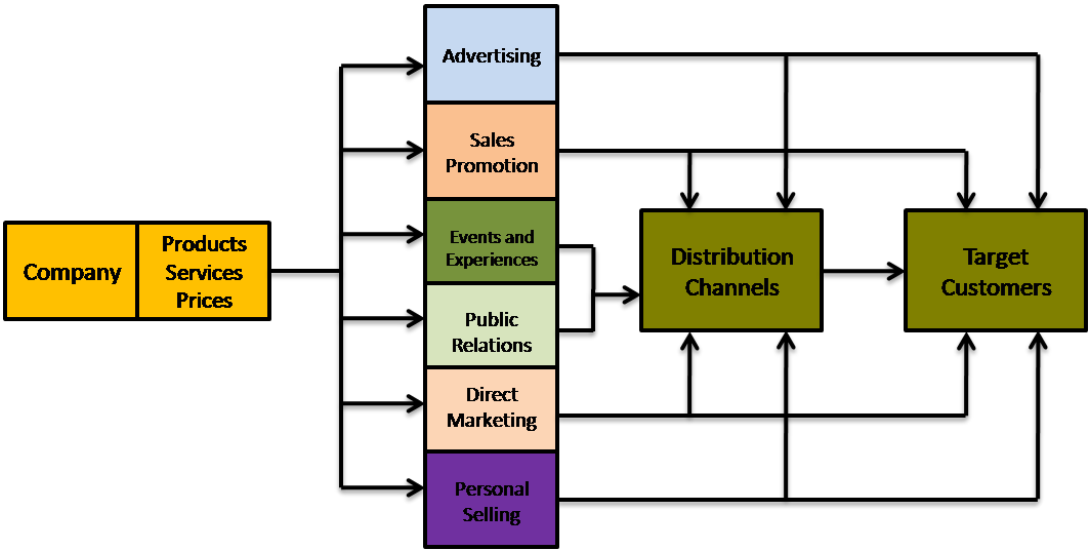

Figure 16. Marketing-Mix Strategy (Kotler and Keller 2007, p. 19).

It is really important that a company takes into account the 4 Ps of the marketing-mix to develop the best strategy for targeting customers. However, depending on the situation of the company and product offering, it might be more important to emphasize in the distribution channels and logistics (place) to make available the products to the target

customers. Nevertheless, when a company is not able to understand deeply the value perceived by their customers from their products and services, it is more likely to become more difficult to satisfy as best as possible customer needs and expectations.

Types of Distribution Channels

All the various elements of the marketing-mix that are employed in facilitating the exchange of goods and services, the most unique to the study of marketing are the organization and design of effective and efficient channels of distribution (Stern and El-Ansary 1977). Hua et al. (2010) states that manufacturers in many industries depend on intermediate parties to sell their products to customers. For example, frequently purchased consumer products, home appliances, personal computers, and automobiles are usually sold to different market segments through distribution channel partners.

Nickels et al. (1999) defines intermediaries as organizations that assist in moving goods and services from producers to industrial and consumer users. They are called intermediaries because they are organizations in the middle of a whole series of organizations that join together to help distribute goods from producers to end-users. Therefore, a set of these organizations as a group is known as a channel of distribution or a distribution channel.

Stern et al. (1996) defines a channel as a set of interdependent organizations involved in the process of making a product or service available for consumption or use. Gorchels et al. (2004) argues that this process can include the physical movement, warehousing, and/or ownership of the product; presale, transaction, and post-sale activities; order processing, credit, and collections; and various support services. According to Mallen (1996), the four major objectives to consider when establishing a distribution channel are:

1. To maximize sales.
2. To minimize costs.
3. To maximize channel good will.
4. To maximize channel control.

The first two objectives are naturally a combination for obtaining profit maximization. However, it is useful to divide the profit maximizing objective into these two components to understand that it is important to focus on sales and saving costs as to different things (Mallen 1996). Channel goodwill is an important factor that determines whether middlemen will co-operate, work along with, and push the manufacturer's products in relation to other products the intermediary is carrying (Mallen 1996). Channel control refers to the ability of the manufacturer to see that the various marketing policies and practices that he recommends are carried out at all levels of the distribution channels.

Corey et al. (1989) argues that industrial distribution patterns are shaped fundamentally by four factors: (1) nature of the product, (2) market segmentation demographics, (3) buyer behavior and (4) distribution costs. These factors tend to influence distribution strategies of all market segment competitors. The following Figure 17 illustrates twelve different possibilities of channels for industrial goods. Depending on the nature of the products and on the degree of internationalization, the manufacturer may choose a combination of different channels of distribution to reach the desired end-users as best as possible.

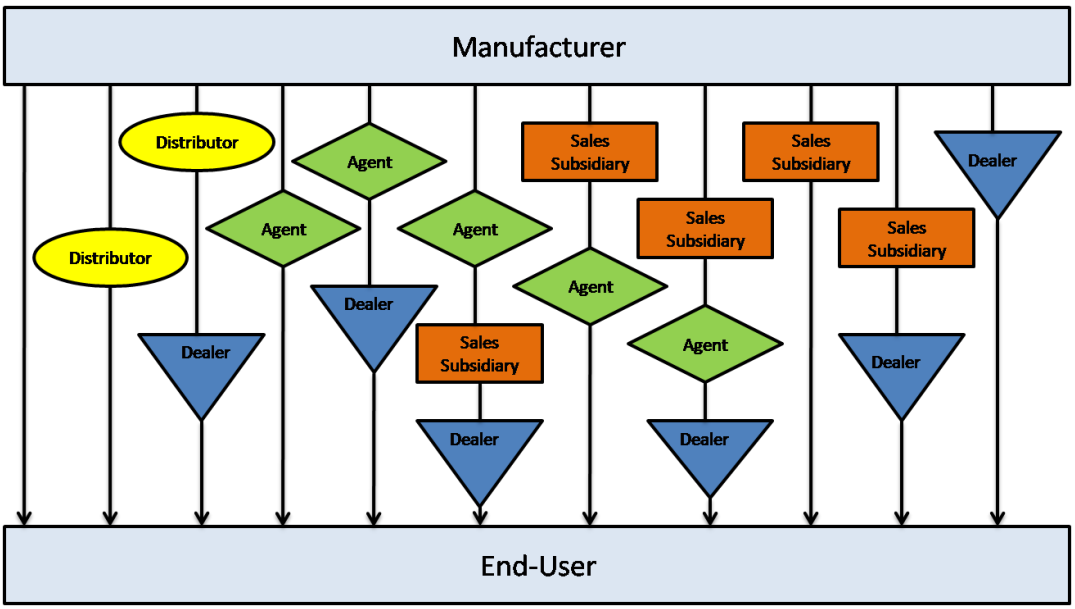

Figure 17. Distribution Channels.

Direct Sales

Manufacturers of certain industrial products such as glass, tires and paint for automobiles are using the simplest channel which is known as direct sales. In certain industries, in which manufacturers are doing highly customized products for the end-users, selling directly to customers may be suitable. On the other hand it is also possible for companies to manufacture standard products and to sell them directly to an end-user in a B2B context. For example, a company that manufactures capacitors can sell them directly to customers that assembly car stereos or mobile phones.

According to Terpstra (1987), direct channels are almost always more effective than indirect channels, this is why firms like to go as direct as they can. However, the major determinant for making this possible is the volume of sales attainable. Therefore, where the volume is large, the firm can afford to go directly to the market. However, where markets are small, many firms accept indirect distribution as the only feasible alternative. Depending on the nature of the industry, intermediaries usually perform certain marketing tasks that add value such as transporting, storing, selling, and

advertising more effectively and efficiently than most manufacturers could (Nickels et al. 1999).

Distributors

Webster Jr. (1991) defines the industrial distributor as a specific type of reseller who sells primarily to other businesses. They usually stock the products that they sell, has at least one outside sales representative as well as inside telephone and/or counter sales personnel, and perform a broad variety of marketing channel functions, including customer contact, credit, stocking, delivery, and providing a full product assortment. Distributors might become a good option because usually they have good territorial coverage and local knowledge of customers.

According to Kotler and Keller (2006), industrial distributors, also called wholesalers, resellers, or simply distributors pay less attention to promotion, atmosphere, and location than retailers because they are dealing with business customers rather than final consumers. Also, industrial distributors' transactions are usually larger than retail transactions and usually they cover a larger trade area than retailers too. Finally, the government deals with wholesalers and retailers differently in terms of legal regulations and taxes. Manufacturers should use distributors when they can be more efficient in performing one or more of the following functions:

- ***Selling and promoting.*** Distributors' sales forces help manufacturers reach many small business customers at a relatively low cost. They also have more contacts, and often buyers trust distributors more than they trust a distant manufacturer.
- ***Buying and assortment building.*** Distributors are able to select items and build the assortments their customers need, saving the customers considerable work.
- ***Bulk breaking.*** Distributors achieve savings for their customers through buying in large carload lots and breaking the bulk into smaller units.
- ***Warehousing.*** Distributors hold inventories, thereby reducing inventory costs and risks to suppliers and customers.
- ***Transportation.*** Distributors can often provide quicker delivery to buyers because they are closer to the buyers.
- ***Financing.*** Distributors finance customers by granting credit, and finance suppliers by ordering early and paying bills on time.
- ***Risk bearing.*** Distributors absorb some risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- ***Market information.*** Distributors supply information to suppliers and customers regarding competitors' activities, new products, price developments, and so on.
- ***Management services and counseling.*** Distributors often help retailers improve their operations by training sales clerks, helping with store layouts and displays, and setting up accounting and inventory-control systems. They may help industrial customers by offering training and technical services.

Kotler and Keller (2006) argue that manufacturers can always bypass the distributors or replace the inefficient ones with better ones. Nevertheless, it is important to evaluate and select correctly distributors because it also requires time, effort and resources make partnerships with industrial distributors. In some cases is possible that the objectives are misunderstood and they can be corrected and realign with the cooperation of both manufacturer and distributor. Some major complains against industrial distributors include:

- Distributors do not promote aggressively enough the product line, and act more like order takers.
- They do not carry enough inventories and therefore fail to fill customers' orders fast enough.
- Distributors do not supply the manufacturer with up-to-date market, customer, and competitive information.
- Distributors do not attract high-caliber managers and bring down their own costs; and they charge too much for their services.

Dealers

Gorchels et al. (2004) defines a dealer is an independent reseller, generally authorized by one or a limited number of vendors to provide support to end-users. Examples include heavy equipment dealers and auto dealers. Anderson et al. (1997) suggests that a small customer should buy through the dealer channel because of the small lot size of its purchases. Even though the end customer might prefer to get technical information directly from the manufacturer, it would have to get product information as part of the local dealer's distribution support because it would be rather costly for the manufacturer to contact and provide this information directly. This way even if the end customer will not be fully served by the manufacturer, overall it is still better to get from the dealer than not at all.

Agents

An agent, in common terminology, is defined as an intermediary who acts on behalf of a principal and is authorized to make agreements between customers and those principals it serves (Zeithalm and Bitner 1996). Typically, agents do not take title to the goods but instead deliver the goods to the end customer or other distributors or dealers. Gorchels et al. (2004) define an agent as a company that provides sales expertise to give the manufacturer or principal local market coverage, generally without taking title to or carrying inventory of a product. Agents may also be known as manufacturer's rep, broker or agency. Agents in B2C frequently represent competing products, whereas agents in B2B are more apt to handle complementary products (Gorchels et al. 2004). Some benefits and challenges of using agents are presented in Table 4.

Table 4. Benefits and Challenges of Agents (Combined from Zeithalm and Bitner 1996, p. 349 and from Kotler and Keller 2006, p. 483)

Benefits
➢ Reduced selling and distribution costs. ➢ Intermediary's possession of special skills and knowledge. ➢ Wide representation and knowledge of local markets and customer choice. ➢ Because agents are paid by commission, is more adequate to use them in small territories or markets or where volume is low.
Challenges
➢ Loss of control over pricing and other aspects of marketing ➢ Representation of multiple service principals ➢ If the selling volume becomes too high, the costs of sale tend to rise significantly

Webster, Jr. (1991) argues that an important aspect to consider about agents is that they are paid on a straight commission basis, which means that the manufacturers' selling costs are variable with volume. Also, it is important to consider that the successful agent can do several million dollars worth of business a year. Typically agents are the less risky way to sell in foreign markets because they work under commissions, however, as they sell more, the selling costs increase too as the commissions are proportional to the sales.

Sales Subsidiary

According to the Handbook of International Financial Terms, a subsidiary is a company which is controlled by another. Technically, it is a company that is owned 51 per cent by another; in practice effective control dictates what might be a sales subsidiary. Due to these reasons, a sales subsidiary candidate should be very carefully analyzed and selected (Terpstra 1987). Some of the greatest advantages of exporting through a subsidiary is that they will typically carry out most of the marketing in its own country, within the guidelines of corporate headquarters. Sales subsidiaries help to select and administer distribution channels with local dealers and distributors (Terpstra 1987). However, the biggest risk is involved in the selecting process of a sales subsidiary due to the investment of acquiring the company.

Nickels et al. (1999) explains that a foreign subsidiary is a company that is owned by another parent company in a foreign country. Therefore, such a subsidiary would operate much like a domestic firm, applying the marketing-mix concept and other business functions under the control of the foreign subsidiary's management. The primary advantage of a subsidiary is that the company maintains complete control over any technology or expertise it may possess, however, a major drawback is that the

company is committing a large amount of funds and technology within foreign boundaries. Terpstra (1987) suggests that a sales subsidiary should be considered if both the markets and the firm are large enough. However, in smaller markets, it is more common to select local representatives to distribute the firm's products.

2.3.3. Defining Channel Requirements

According to Gorchels et al. (2004), it is important to define what will the customers expect or demand from the potential channels to be able to make a purchase decision. It is also important to evaluate this in the long-term too because at some point the demanded requirements of the products and services cannot be fulfilled by the channel. Some of these considerations of the channel requirements are the following:

- ***Technical advice.*** If the company has a technical product, customers may expect advice on how to use it, how to make it work with existing products, how to install it, etc.
- ***Product availability.*** This could include sufficient inventory, ability to drop-ship, capability of fulfilling just-in-time requirements, etc.
- ***Total solution.*** For some customers, the product may be relatively unusable without the addition of complementary products from the distributor.
- ***Support services.*** Customers might expect installation, repair, and other services from the distributor.
- ***Product customization.*** Customers who require customization will prefer to deal with a reseller who can provide the requisite engineering or assembly skills.

Gorchels et al. (2004) argues that besides evaluating the customer expectative on the possible distribution channels, it is also important to consider the needs of the product launched. For example, more complex products are "high-touch", meaning they require more human contact and service. Off-the-shelf, standard products are "low-touch", and require less human interaction. Gorchels et al. (2004) suggests choosing a channel according to the type of the product along with a categorization of direct and indirect distribution. See Figure 18.

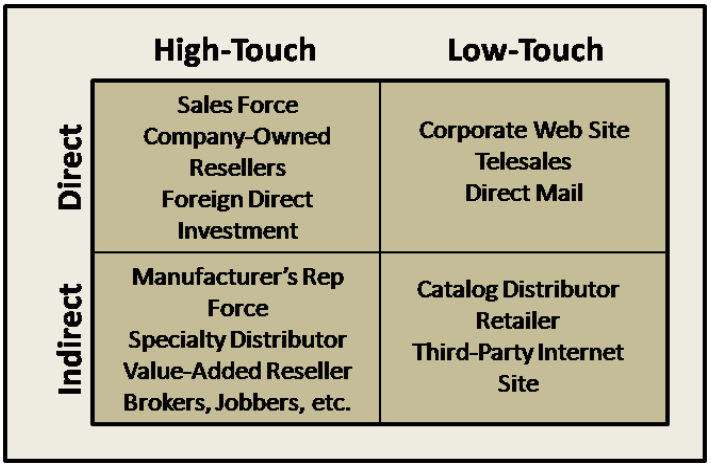

Figure 18. Channel Types by Service Requirement (Gorchels et al. 2004, p. 77).

According to Friedman and Furey (1999), there are nine attributes that are related into the selection of "high-touch" and "low-touch" products. With these attributes and depending if the company wants channel directly or indirectly, the distribution channel can be chosen.

1. ***Definition:*** the extent to which a product is easily known and recognized. Most mature, packaged, consumer products fit here. The clearer the definition, the easier is to use low-touch and indirect channels.
2. ***Customization*****:** the more customization required the better fit with high-touch channels.
3. ***Aggregation:*** if the product depends on other sub-products to become a total solution to customers, then indirect channels will probably be required.
4. ***Exclusivity:*** products that are perceived as unique and with limited availability will generally do better with direct channels, or selective high-touch indirect channels.
5. ***Customer education:*** the need for knowledge during and after sale. The more education required by customers, the greater the need for high-touch channels.
6. ***Substitution:*** the more substitutable a product is, the more a company will need to control with a direct channel.
7. ***Maturity:*** new-to-the-world products may require more customer education, and high-touch channels are recommended. Commodity status products can be channeled through low-touch and/or indirect channels.
8. ***Customer risk:*** the greater the risk, the more likely a high-touch channel will be desired.
9. ***Negotiation:*** products sales that have a higher complexity of negotiation will lean toward high-touch channels.

Finally, it is important to consider the market that the products are being targeted too. For example, it is possible to divide the market into consumers, small businesses and large businesses and select accordingly the best type of channel needed. See Table 5. At this point, it has being pointed out the best channel types given the needs of target customers, company goals, the product nature and on the market characteristics, that is, if it is a consumer market and small or large business in the B2B context. The next stage is to develop the channel evaluation.

Table 5. Product-Market Channel Grid (Gorchels et al. 2004, p. 82).

<table>
<tr><th>Products
Markets</th><th>Off-the-shelf</th><th>Customized</th><th>Ancillary Products</th></tr>
<tr><td>Consumers</td><td rowspan="2">Low-Touch Channels</td><td>Low-Touch Direct or High-Touch Indirect</td><td rowspan="2">Indirect Channels</td></tr>
<tr><td>Small Business</td><td rowspan="2">High-Touch</td></tr>
<tr><td>Large Business</td><td colspan="3"></td></tr>
</table>

2.3.4. Evaluating Distribution Channel Partners

The idea on this stage is to evaluate the channel partner alternatives. To succeed in this process, it is important to consider several key areas of evaluation. According to target customers, company goals, and the product nature and on the market characteristics, the company should consider the following criteria shown in Table 6 for evaluation of channel partners.

Table 6. Criteria for Evaluating International Channel Partners (Gorchels et al. 2004, p. 113).

Key Areas of Evaluation
1. International coverage as to countries, race, cultures. 2. National coverage in targeted markets. 3. Knowledge of the marketplace. 4. Not afraid to invest in customers. 5. Complementary product lines. 6. Stable political climate. 7. Not afraid to make changes to operations. 8. Use information and communications technology. 9. Financially strong. 10. Professional stable management. 11. Low employee turnover. 12. Quality is part of business philosophy and culture.

Moreover, when thinking about a selecting a channel partner, it is important to consider if a generalist middlemen is more suitable than a specialist. The difference between them is shown by the continuum in Figure 19. It is important to mention that in some cases the channel partner may adopt a hybrid strategy in which they can combine

several qualities of being a specialist or a generalist. In such cases, the distribution channel partner may be in placed in the medium of the continuum or more to the right as a generalist or to opposite side as a specialist.

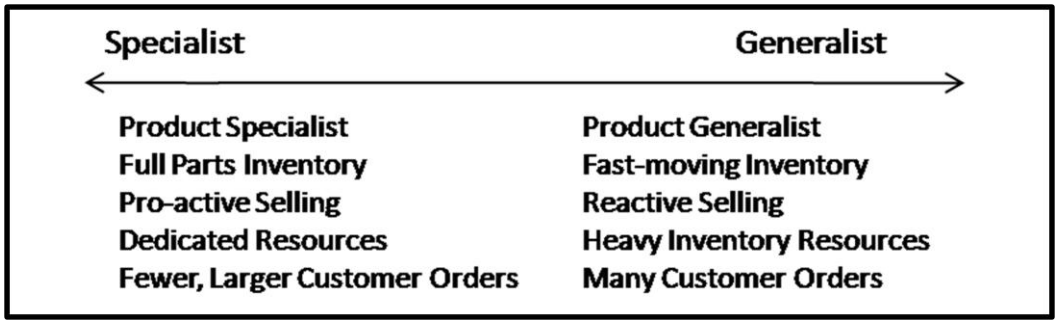

Figure 19. Channel Partners Continuum (Gorchels et al. 2004, p. 124).

With the combination of Table 6 and 7 and Figure 19 it will be possible to take into account several important evaluation variables to select the best distribution channel. After evaluating the distribution channel alternatives, then it can be possible to select the best alternatives and develop a framework which can be appropriate depending on the product nature and its channel requirements.

Table 7. Evaluation Variables (Gorchels et al. 2004, pp. 120-122).

Ideal Candidate Evaluation Variables
1. ***Market Served.*** The accounts and/or types of customers currently served should match the desired end-users. 2. ***Product Line Fit.*** The types of products carried should enhance the offering to the end-user. 3. ***Territorial Coverage.*** Compare the distributor's trading area with the coverage gap in the channel design. 4. ***Sales Capabilities.*** Define whether you desire channel partners with an emphasis on business development or account maintenance. 5. ***Business and Managerial Stability.*** Look at the performance and stability history of the company. 6. ***Marketing Capabilities.*** How important is it that the channel promotes and creates demand for your products? 7. ***Operational Capabilities.*** Depending on the needs of your product, you may require specific warehousing capacity, logistics facilities, repair and service competence, e-commerce experience, customer training or other services. 8. ***Local Services.*** Will the product require (or will the end-user demand) services such as installation, technical support, credit, immediate parts availability, etc.? 9. ***Ease of Doing Business.*** How well is the relationship between the owners, management team, and employees of the candidate firm? 10. ***Reputation.*** Determine the candidate's reputation among customers, other manufacturers, and peers.

2.3.5. Selecting Distribution Channel Partners

The last stage is the selection process of channel partners which is simply to choose the best alternatives evaluated by previous stage. It is important to remember that the channel partners are independent businesses with their own goals, plans, key customers, existing product lines, and capabilities (Gorchels et al. 2004). Therefore, selecting the channel partners should be in balance with the strategic objectives of the manufacturer and distribution channel alternatives too.

After the evaluation and selection process ends, it is expected to begin a process of negotiation which is not part of the scope of this paper; however it is important to consider a period for negotiations that will align the objectives and expectations of the manufacturer and the channel partner. If the negotiation is completed and the channel partner becomes a part of the sales force, it will be necessary as well to monitor and evaluate the performance of the channel partner and to realign and reformulate the strategic objectives if needed.

2.4. Framework for Identifying End-Users and Selecting Distribution Channels

This Section will introduce the theoretical framework that will summarize the literature review. This framework illustrated by Figure 20, is the basis for making the empirical research. The Figure consists of three different inner boxes that are connected between each other. The idea is that the part of customer value and push and pull strategies, Sections 2.1. and 2.2., respectively, create a general strategy that will help to align objectives when a company wishes to sell their products through distribution channels in their home country or abroad.

Furthermore, Section 2.3. is represented by the bigger inner box and those are the stages for evaluating and selecting potential end-users and distribution channel partners which is the core part of this thesis. With this part of the literature review it was possible to identify new segments and end-users and potential distribution channel partners. It also important to notice in Figure 20 that several boxes are marked with roman numbers I, II, III and IV. They are marked with these roman numbers because these themes were discussed in the meetings with Tammerneon staff and were the base to create the theoretical framework. See the Appendix 1 for further information about the meetings and the main themes of end-user, distribution channels, customer value and push and pull strategies

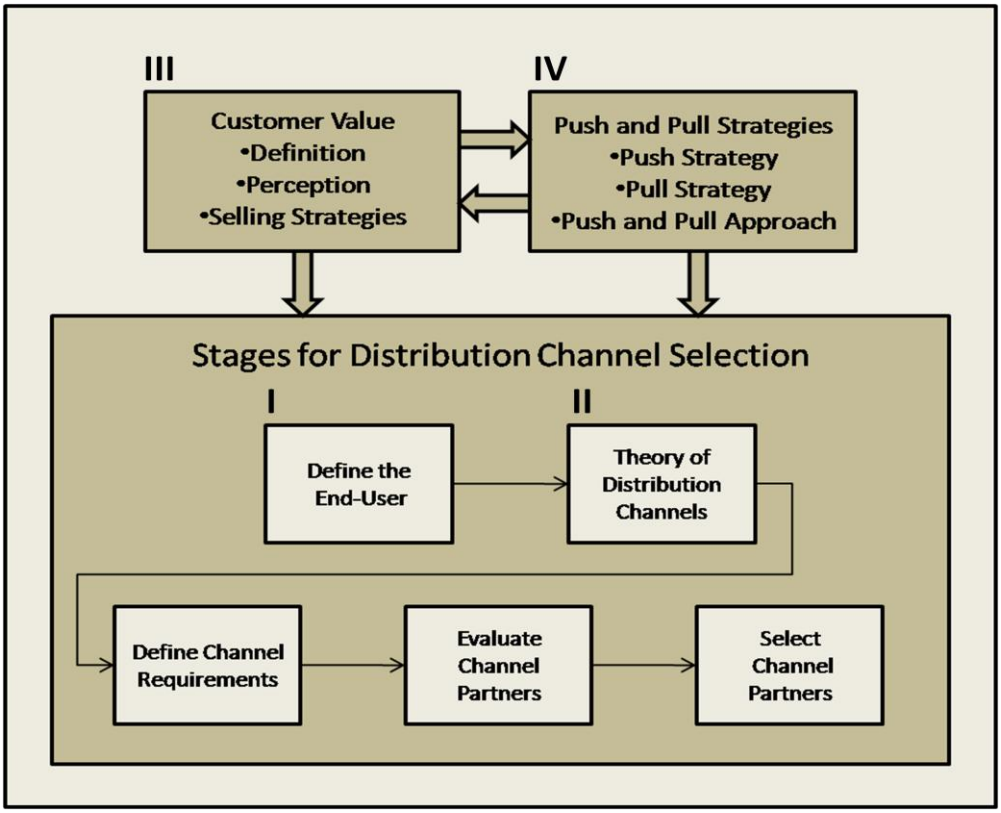

Figure 20. Framework for Identifying End-Users and Selecting Distribution Channels.

Customer value and push and pull strategies were included on the framework because it is important to understand the idea behind value. As stated before, value reflects the owners' and buyers' desire to retain or obtain a product, and this introduces subjective aspects to the value of a product (Shevket Neap and Celik 1999). Hence, the selling company must understand what is the value that the end-user will get, and moreover, what is the value that the reseller will get as well. Considering this, it is possible to understand which selling strategy can be utilized to proceed to sell the products.

Moreover, to complement the value and selling strategy, it is important to consider what kind of strategy will be required to use, if a push or pull strategy or to consider the combination of both as the push and pull approach. This will also depend on the product nature too as explained in Section 2.2. Finally, a company or a researcher can move forward into identifying new end-users or applications and to consider an evaluation and selection of distribution channel alternatives. As seen in Figure 20, the framework proposes five stages for distribution channels selection that are explained in detail in previous Section 2.3.

The most important step of the stages for distribution channel selection is the 3rd step, the evaluation of channel partners. With the framework developed by previous Figure 20, it is possible to create the following Table 8 which is a tool for evaluating distribution channel options. The evaluation variables seen on the left column of Table 8

were extracted from the frameworks of Gorchels et al. (2004) of Section 2.3.4. With these, it was possible to construct Table 8 which is a model for evaluating the potential distribution channel options identified by the empirical research.

Table 8. Tool for Evaluating Distribution Channel Options

Distributor Alternatives / **Evaluation Variables**	Distribution Channel 1	Distribution Channel 2	Distribution Channel 3	Distribution Channel 4
Coverage in Targeted Markets				
Knowledge of Marketplace				
Relevant Product Portfolio				
Additional Services (Installation, Construction, etc)				
Access to targeted end-users				
Financial Situation				
Trained Sales People				

This previous Table 8 model will be used to evaluate the distribution channel options identified for each product, the Standard Price Pylon and the LED-line. Since the nature of the products is different from each other, the Tables will vary too. However, the proposed Table can be considered as a general tool for evaluating different distribution channels for other products too because it covers the basic requirements that a distributor requires to accurately target end-users.

3. RESEARCH METHODOLOGY

The goal of this Chapter is to introduce the research methods utilized to generate the empirical data needed for the evaluation and selection of the end-users and distribution channels. Moreover, it will also illustrate the research process of this thesis and its reliability and validity.

3.1. Research Methods

According to Saunders et al. 2009, research can be defined as something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge. It is also important to consider the nature of the research project; a researcher needs to evaluate which would be the most efficient research method to use. There are different methods that can be used in different situations and contexts. It is extremely important to select the appropriate research methods and if needed to make a combination of them to obtain the information required for answering the research objectives.

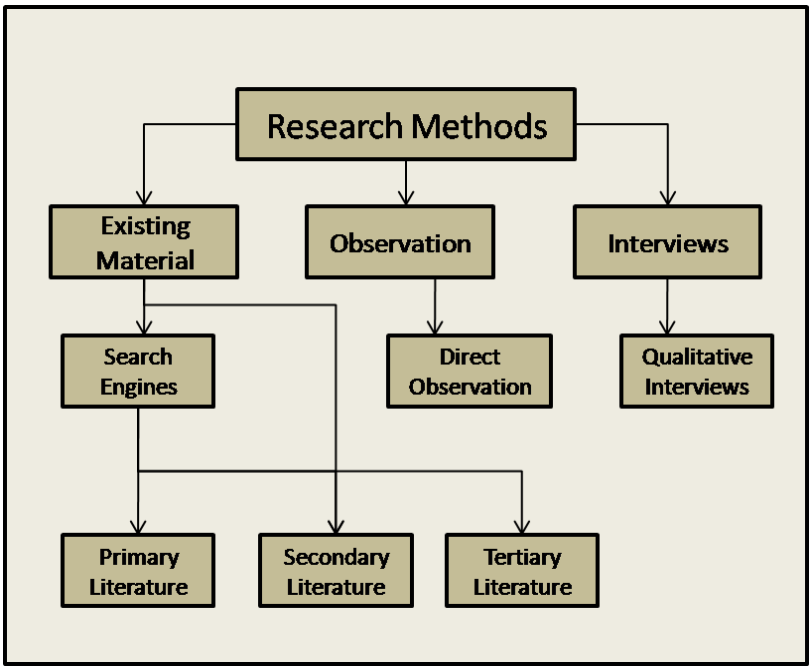

Figure 21. Research Methods.

The most common research for gathering qualitative data are existing material, questionnaire surveys, interviews, observation and action research (Gummesson 1993). As seen by previous Figure 21, the most relevant research methods used are (1) existing material, and (2) observation, and (3) interviews. The first research method considered for this paper is the use of existing material or literature sources that are available. According to Saunders et al. 2009, they can be divided into three categories: primary, secondary and tertiary. Primary literature sources are the first occurrence of a piece of work. They include published sources such as reports and some central and local government publications such as letters, memos, company reports and committee minutes that may be analyzed as data in their own right.

Secondary literature sources include books and journals that are a subsequent publication of primary literature. Finally, tertiary literature sources are also referred as search tools, because they help to locate primary and secondary literature or to introduce a topic. Therefore they include indexes and abstracts as well as encyclopedias and bibliographies (Saunders et al. 2009). Secondary literature sources are rather important specially to support the theoretical section of this thesis.

It is also important to mention the advantages of using search tools, or search engines, which according to Saunders et al. 2009, are probably the most important method of Internet searching for your literature review as they will enable you to locate most current and up-to-date items. By using this, it was possible to compile important primary literature, secondary and tertiary data from distribution channel alternatives, end-users, competitors, industry and so on. However, in some cases and as shown in Figure 21, sometimes the existing material was able to be founded without the use of search engines.

The second research method considered for this paper is observation. According to Gummesson (1993), observation can be done using the 5 senses: sight, hearing, touch, smell and taste. Gummesson (1993) also stated that intuition should be considered as a sixth sense. In observation, non-verbal language-body is important too, facial expressions, gesture and posture should also be considered when a researcher is using this method.

There are two main observation techniques, one is direct observation, and this happens when the researcher simply observes without participating or having any direct involvement. For example, researchers can video tape a customer in natural situation when he/she is doing some shopping at a local supermarket. This way, the researcher can study the case without participating or interacting in the situation. For the purpose of this thesis, direct observation was employed to collect and generate ideas for finding new applications and end-users for Tammerneon’s products as well as to find possible distribution channels.

The other observation technique is participant observation. In this second observation technique, the researcher gets personally involved and it requires the researcher's presence and personal involvement (Gummesson 1993). In this case, the researcher can disguise for example as a supermarket employee and try to interact with a customer and study their reactions. As a disguised employee, the researcher will gain access for discussing with a customer and to study their reactions face to face.

The third research method considered for this paper is interviewing. One common form of interviewing is individual interviews that are carried out by questionnaires. This makes the interview very formal due to its question-and-answer structure. There is another interviewing method that makes it possible to interview more informally and more similar to a casual conversation. This second type of interviewing is called qualitative interview.

Qualitative interviews are not put in any pre-established order and the answers are more open-ended. Thus, the interviewer is able to redirect and change the actual subject similar to a conversation. In qualitative interviews, it is also important to pay attention to the body language of the person being interviewed and the interviewer can record the interview and make notes to further analyze the non-verbal communication and create conclusions of the answers given. (Gummesson 1993) In this thesis, qualitative interviews were employed basically with some of Tammerneon's management and they were also some meeting to discuss the research objectives and to discuss other matters relevant to the products that the company wishes to market. The topics of the meetings, the dates and the persons that participated on them are specified in the Appendix 1 and 2.

3.2. Research Process

The purpose of this Section is to explain in further detail how the research process was conducted. As a general starting for the process, it was considered a general systematic approach of solving problems. That is, to define the problem and objectives, to collect information by using the research methods for gathering information explained in previous Section, to analyze the information and finally to present the empirical results in a systematical way so it can be further analyzed and present the final conclusions. Figure 22 illustrates the research process for collecting the empirical results.

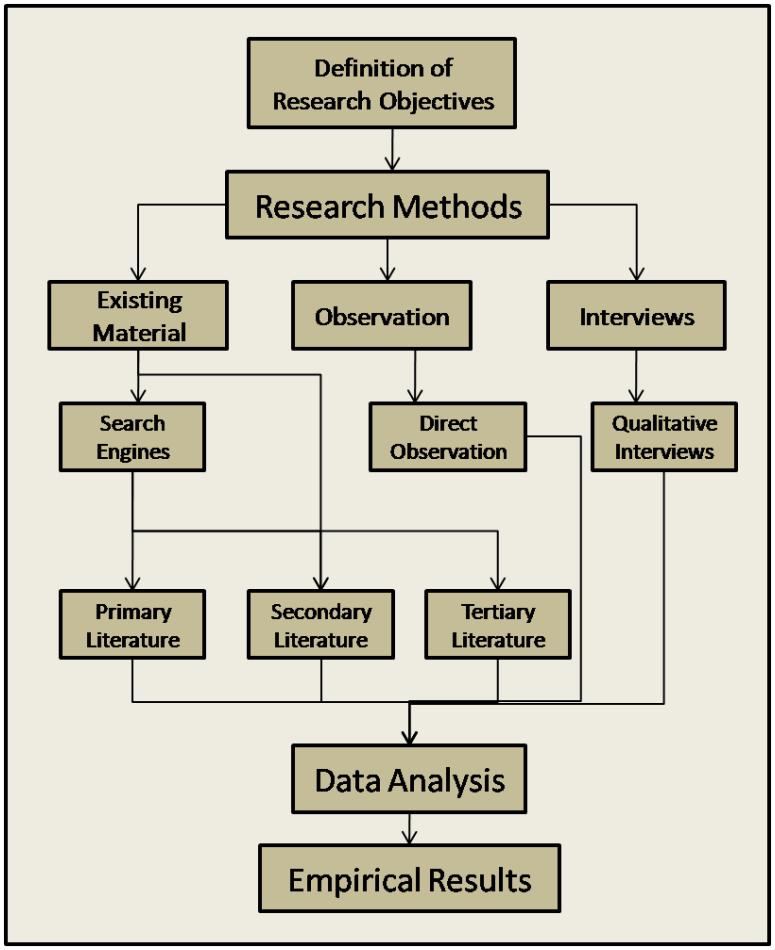

Figure 22. The Research Process.

The empirical results of the research process are presented in Chapter 4 and the final conclusions are presented in Chapter 5. Generating information with any research process is always a challenge to use it in a systematic way to make the final conclusions. Some challenges that can reduce the reliability and validity of the thesis are presented in the following Section.

3.3. Reliability and Validity of the Research

According to Yin (1994), the selection of the appropriate research methodology depends on the current state of knowledge and the nature of the research problem. In this thesis, the objective is to find new end-users and to find a suitable distribution channel partner to target the end-users. Saunders et al. (2009) suggests that reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings. On the other hand, validity is concerned with whether the findings are really about what they appear to be about. For example, is the relationship between two variables a casual relationship?

In this thesis, because the scope is to find out new customers and new applications, as well as to find out potential distribution channel alternatives, the reliability and validity of the empirical results should not be a threatened by these. An important aspect of succeeding into making business in a future with the potential distribution channel is the value that will be created to them and to Tammerneon. Also the success of the product in the BC and Poland will depend on the product nature and advantages that will offer against competitors.

However, the biggest risk about this research is that the proper contacts for distributing the products were not founded. Due to the language barriers, it was rather challenging in some countries to find the needed information, therefore there is a threat on the reliability and validity of the empirical results. Nevertheless, extra effort was given to this aspect to minimize these risks.

4. END-USERS AND DISTRIBUTION CHANNEL ALTERNATIVES

As mentioned before, the objective of the thesis is to develop a market research for two different products in the BC and Poland. The products are the Standard Price Pylon and the LED-line from Tammerneon. This Chapter will begin by introducing the company and industry background and the products to be marketed in Sections 4.1. The empirical results gathered from the research process for finding new end-users and distribution channel alternatives for the two products studied are presented in Sections 4.2. and 4.3.

4.1. Company and Industry Background

Tammerneon – The Image Builder – is an expert builder of the external look of retail outlets. It is a company that designs, plans and manufactures business signage with quality and on time deliveries for over 40 years. Their production focuses on the design and manufacture of products and complexes customized to meet the needs of their customers.

Some of the customers that Tammerneon has been proud to serve are Bauhaus, Toyota, Statoil and Volvo. Figure 23 illustrates several different products that Tammerneon has designed and manufactured according to customer needs. The products range from illuminated channel letters, identification products and price pylons for different type of retailers or dealers.

Figure 23. Tammerneon's Products for some Renown Customers.

4.1.1. Standard Price Pylon

As discussed in previous Chapter 1, Statoil is an important customer who requires highly customized price displays pylons. As Statoil has a leading position in the Scandinavian service gas station sector, with roughly 23 per cent of the market, differentiation and high customization on their price pylons is highly valued for them

(www.statoil.com). Thus, they are able to pay a premium price for the displays. Figure 24 shows a highly customized price display.

Figure 24. Statoil Customized Price Pylon.

There are several mayor gas retailers in Finland, Sweden and Norway that are using customized price pylons solutions to differentiate from each other. For example Shell, Neste Oil, ABC! and ST1. See Figure 25 to observe ST1 and Shell customized price pylons. As mentioned before, these customers are demanding solutions highly customized designs and usually they are able to buy many pylons which make it affordable to manufacture them.

Figure 25. Customized Price Pylons.

Tammerneon Oy has considered the niches fuel stations whose needs are not custom made price pylons. The Tammerneon's Standard Price Pylon was developed to offer a solution that is affordable to small gas retailers without compromising quality and usability. The main idea and goal of the Standard Price Pylon is that all possible technical aspects of the pylon are as standard as possible, but the end result can be tailored and configured according to customer requests. For example, height, the logo field at the top, color of the pylon case, the number of price displays rows or

information panels, between other features can be configured according to customer specifications. Figure 26 shows the end result of the Tammerneon Standard Price Pylon for a particular customer.

Figure 26. Tammerneon's Standard Price Pylon.

By offering a product that can be configurable and tailored according to customer specifications and using standardize processes and designs, Tammerneon is able to achieve a time and cost efficient solution and lower overall costs with quick delivery time without compromising quality and reliability. Therefore, this solution should be attractive to the targeted segments which could be smaller fuel stations that perhaps would need to buy occasionally two or three pylons.

4.1.2. LED-line

The LED-line has been manufactured since 2003 with the purpose of replacing the traditional neon line in illuminated advertisements. This product has a patented structure and it can be used in places where neon light is considered to be dangerous. Some examples of its applications can be facades, roofs, entrances and outer lines of advertising pylons. Figure 27 illustrates an end-user that uses the LED-line to illuminate its retail outlet.

Figure 27. LED-line Customer.

As mentioned before, the LED-line can be used in applications where neon light is not safe to use, this is because this product operates with low voltage and do not require protective distances from people or other structures. Besides being a safer product, this product has a significant power saving advantage and much longer life span in comparison of other illumination technologies like neon light. Some other important advantages of the LED-line are:

- Power savings (up to 95 per cent of power saving compared to neon lights).
- Easy to connect and easy to install.
- Water resistant couplings.
- They do not contain any environmental hazardous materials.
- Weather resistance (usage range is from -40°C to +80°C).
- Can be cut to desired length.
- Standard colors are red, yellow, orange, green, blue and white, but other colors can also be developed.
- Long life span (over 10 years).
- Very low maintenance costs.

Due to these outstanding advantages, the trend of using neon lights or other types of fluorescent tubes is changing into more environmental friendly and safer solutions as the LED-line product from Tammerneon Oy. End-users are eager to use such products because they are more efficient, safer and ecological too as this product does not uses any hazardous materials such as halogen tubes and neon lights. Nevertheless, as seen in the previous Figure 27, an end-user does not require a sufficient amount of kilometers of the LED-line to be manufacture at an affordable price; therefore it is required to find a suitable distribution channel partner that can resell small batches to these type of end-users.

4.2. Standard Price Pylon End-Users and Distribution Channel Alternatives

4.2.1. Customer Value and Selling Strategy

According to the customer segments identified from the market research, it is possible that the potential distribution channels will be willing to partner and thus develop the relationship and create more value in the entire value chain. For example, the distribution channels, which are presented in the following Section, will be able to offer to end-user a more complete offering. Hence, it is probable that the relationship between Tammerneon and the distribution channels might become more a solution sales oriented transaction as shown in Figure 28.

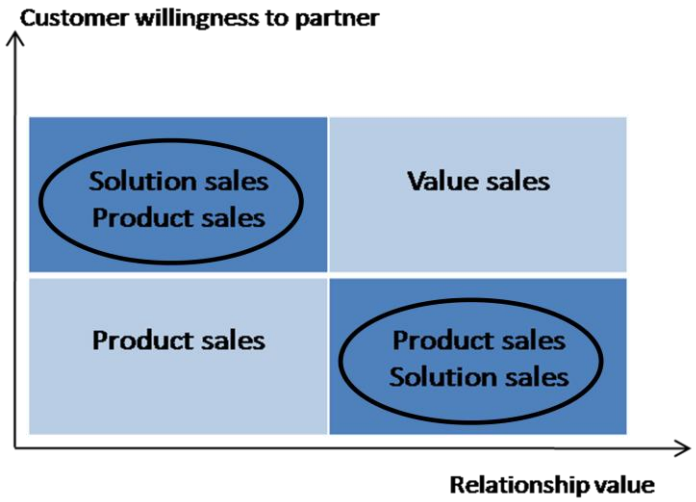

Figure 28. Standard Price Pylon Selling Strategy (Adapted from Kaario et al. 2003, p. 37)

As shown in previous Figure 28, it is possible that the relationship value can be developed, as well as customer willingness to partner and in a future to create value sales to the end-user. Moreover, the Standard Price Pylon is a product that is difficult to sell as a bulk product because it has to be tailored according to the end-user specifications. Hence, the best SC strategy to consider is a pull selling approach. For example, as seen in Figure 29, the Standard Price Pylon can be sold under a pull approach, mainly as build-to-order solution.

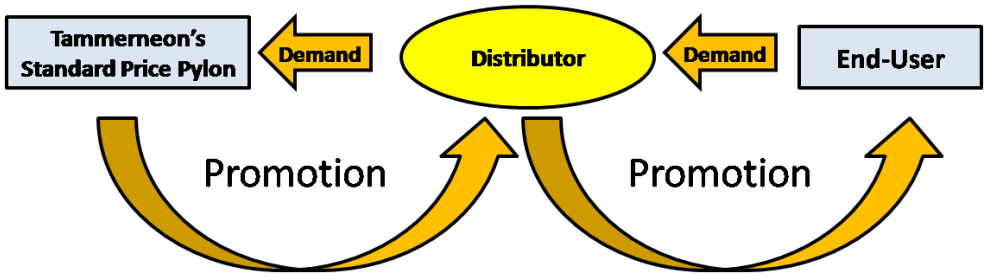

Figure 29. Standard Price Pylon Pull Strategy.

In a future it might be possible that the Standard Price Pylon can achieve a low demand uncertainty and as the economies of scales of manufacturing this product are rather significant to save costs, it might be possible to consider a push-pull approach SC strategy. However, it is less risky to sell the product under a pull strategy until it reaches a certain point that makes it possible to take the risk and benefits of using the push-pull approach.

4.2.2. Customer Segments and End-Users

It is important to mention that the Standard Price Pylon research objective is to find potential end-users and distribution channels only in Poland. This is because

Tammerneon already has information about the BC situation and hence it was more relevant to focus the research only in Poland for the Standard Price Pylon. The potential applications and end-users of the Standard Price Pylons are illustrated by the following Figure 30. In the picture, two main segments were considered as potential customer segments or end-users of this product. These two segments are fuel stations and general information pylons.

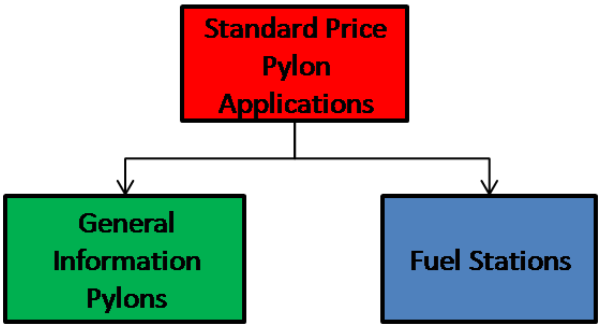

Figure 30. Standard Price Pylon Potential End-Users in Poland.

General Information Pylons

For the purpose of this thesis, an informative pylon is an object with the form of a pyramid or tower that can give information to end consumers. For example, when a consumer is walking through a shopping center, at some point there might be an informative pylon displaying which shops are in the shopping center, or other relevant information. Another example of these pylons can be outside offices complexes and in the parking lot the end-user can see from this particular pylon the information of which companies are within the offices and where are they particularly located. See Figure 31 to illustrate these examples.

Figure 31. General Information Pylons.

The Standard Price Pylon structure is similar to the examples shown in the above Figure 31. On the top of the pylon, there is a bigger space to put the main logo or name of the shopping center or office complex, then, as shown by the blue picture above, each store or company can be placed in individual panels as is shown by the blue pylon with panels of store A, store B, store C and D. The height of the pylon can also be modified if needed and depending on the amount of panels and the desired height of the customer.

Fuel Stations

This segment refers to fuel stations and liquefied petroleum gas (LPG) or auto gas. In Poland, LPG is becoming popular to use because is cheaper than gasoline. However, according to the Polish Organization of Oil and Trade, LPG represents about 15 per cent of the fuel sold to end consumers. However, there are relatively few stations that only sell LPG; instead it is more common that fuel stations are including LPG in their offering. Figure 32 will present some examples of what the Standard Price Pylon can look in a fuel station.

Figure 32. Standard Price Pylon Fuel Stations Examples.

According to the Polish Organization of Oil and Trade, the Polish fuel retail market is at constant movement. The total number of fuel station in Poland is about 6.716 and the biggest fuel retailer is PKN Orlen, followed by BP and Shell. However, it is important to mention that these fuel retailers are not considered as potential end-users for the Standard Price Pylon because they are demanding highly customized pylons. Instead, the real potential end-users for the Standard Price Pylon are smaller and independent fuel stations. As seen in Figure 33, In Poland, these type of retailers account for about 47 per cent of the total market share.

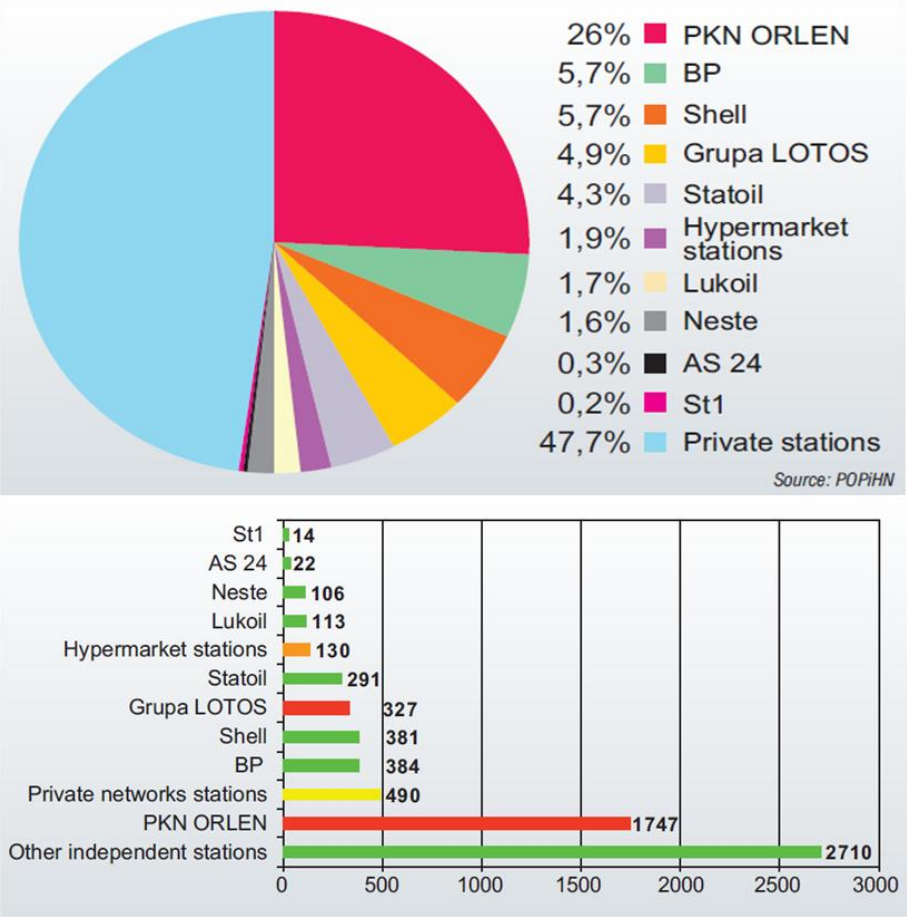

Figure 33. Polish Fuel Stations Market Share 2009 (Extracted from The Polish Organization of Oil Industry and Trade 2009).

As seen by previous pictures, the amount of independent stations is significantly big in Poland. Therefore, there is potential for the Standard Price Pylon as this solution can be tailored according to customer specifications. According to the Polish Organization of Oil Industry and Trade, some important hypermarkets stations operating more than 15 stations are Auchan, Carrefour, Intermache and Tesco. Moreover, some networks of domestic independent operators that include more than 15 stations are:

- Delfin
- Huzar
- Maja Stacja
- Pronar
- Witospol
- WW Energy

As seen in previous Figure 33, almost half of the market share of the retail of fuel in the Polish market is from independent stations. This particular segment together with private network stations is a potential end-user of the Standard Price Pylon. Hence, the sales potential in the Polish market is very high, however the big challenge or question

is who can resell this solution to these Polish retailers and who has access to the fuel stations and end-users.

Moreover, it is important to mention that due to the nature of the Standard Price Pylon, because it needs to be tailored according to customer specifications it not possible to sell it as a bulk product. Instead, Tammerneon should consider finding a partner who can resell in a build-to-order context. The type of resellers can be for example companies have access to the end-user such as companies that are reselling other products or services as restorations, upgrades, maintenance, etc. In the following Section, these potential distribution channel partners are presented.

4.2.3. Potential Distribution Channel Alternatives

The purpose of this Section is to present the results of the market research of the Standard Price Pylon solution in the Poland. The potential industrial distributors identified will be presented in the following Tables on this Section. As seen in previous Section, there are two main applications and potential customers for the Standard Price Pylon solution that Tammerneon manufactures:

- General Information Pylons
- Fuel Stations

Therefore, it is essential to find suitable distribution channel partners for the targeted segments and geographical area Poland. As mentioned in previous Section, the Standard Price Pylon solution form Tammerneon should be sold through industrial distributors who are selling other products or companies providing services because they will have access to the targeted segments. The idea of adding the Standard Price Pylon to the product portfolio of these potential distributors might be perceived as good because it will broaden the value added solutions that they can offer to the end-user.

The distribution channel alternatives that were found vary from companies that are reselling other products such as gas pumps and spare parts to companies that just provide the service of restoration and construction of fuel stations. The potential distributors or partners of Tammerneon to distribute and resell the Standard Price Pylon solution are presented by the following Tables 9 to 13.

Table 9. POLpetro S.A. (Extracted from POLpetro S.A., 2009).

Company	POLpetro S.A. Kompleksowe zaopatrzenie stacji paliw
Geographical Presence	Poland
General Information	POLpetro SA include a range of activities aimed at increasing the competitiveness of the service station. POLpetro SA is a supporting owners of fuel stations in their quest for stability and strengthen its position in the market.
Activities	Fuel Sales, Sales vignettes, Distribution System - Procurement stations in non-fuel products, Sale terminals and telephone cards.
Customers	Fuel Stations
Webpage	http://www.polpetro.pl/

These Tables provide information taken out directly from the companies' webpage. There is general information about the companies and the activities and solutions that they offer to their customers. Moreover the official webpage of each company is posted so they can be contacted and reviewed with more detail. Some of this companies do not have their webpage in English so it is advised to review them through these Tables.

Table 10. Serwis Poznan (Extracted from Serwis Poznan, 2009).

Company	serwis Poznań GRUPA POSZA
Geographical Presence	Poland
General Information	The company was founded in 1999 by separating the technical department of the Polish Oil Concern-heirs of the CPN (multi-fuel distributor on the Polish market).
Activities	➢ Construction of new facilities ➢ Modernization of the objects ➢ Construction of fuel stations
Customers	Currently SERVICE FAIR Sp. z oo GROUP Respect supports approximately 120 service stations of group PKN Orlen and about 40 service stations of other companies
Webpage	http://www.cpnserwis.poznan.pl/

The companies that appear in Tables 9, 10, 11 and 12 are bigger companies with different offerings. For example, some of them are reselling other products like pumps and hoses plus value added services such as maintenance and restoration and

construction of fuel stations. Therefore, these companies have significant access to the potential end-users of the Standard Price Pylon and are considered in this research to be potential industrial distributors.

Table 11. PetroNova (Extracted from PetroNova, 2010).

Company	PETRONOVA OSTRÓW WIELKOPOLSKI
Geographical Presence	Poland
General Information	Company Petronova Sp. z o. o. established in Ostrow Wielkopolski works since 2005 operating in the fuel market. They specialize in supplying equipment for fuel stations. They are a partners of the company Petrotec - Portugal (www.petrotec.pt).
Activities	➢ Wide range of fuel dispensers and LPG ➢ Fuel and LPG tanks ➢ Modernization and construction of service stations and LPG ➢ Sales of spare parts for various types of distributors
Customers	Fuel Stations
Webpage	http://www.petronova.pl/

Table 12. Fortis (Extracted from Fortis Technology, 2009).

Company	FORTIS TECHNOLOGY
Geographical Presence	Poland
General Information	The company started its activities in 2003. The company carries out professional advice and service on the facilities offered.
Activities	➢ Pumps for Internal Use ➢ Accessories (guns, hose meters) ➢ Projects ➢ Services
Customers	Fuel Stations
Webpage	www.fortistechnology.pl

On Table 13, there are other smaller potential industrial distributors. These companies do not have official website. However, there is a contact column which provides the telephones and in some cases emails to make it possible to contact. They might be smaller than the other companies in the above Tables; however, they also are in business and have access to the targeted segments. Because they are significantly

smaller, there are also advantages and disadvantages to consider these companies as potential industrial distributors too. The core competence of the companies in Table 13 is to give service and maintenance to fuel stations. Therefore, they also have the access to the target segment of the Standard Price Pylon and they can become important distributors in a future.

Table 13. Other Smaller Potential Industrial Distributors.

Company Name	Contact
Lech-Pol. PPHU.	Tel: 62 740 17 52 Mob: 504 18 48 76
Fast Serv. Urbaniak S.	Tel / Fax: 62 738 30 23 stefan_urbaniak@op.pl
Metchem-Kościan Sp. z o. o.	Tel: 65 511 77 91 Fax 65 513 21 23 biuro@metchem-koscian.com.pl
Opal-Trans. Gas Stations	Mob: 502 16 54 83
Rol-Pal-Baz. Construction of petrol stations and gas bottling plant	Tel: 62 740 73 78 Tel: 62 747 22 33 rolbaz@poczta.onet.pl
Service Poznań Sp. z o. o.	Tel: 61 650 46 30 Fax 61 650 46 29

On the following Sections, a similar analysis of the second product, the LED-line will be presented. That is, the selling strategy recommended potential end-users and industrial distributors. Afterwards, in Chapter 5, an evaluation of these two products, end-users and industrial distributors will be elaborated in order to find the best alternatives for each product.

4.3. LED-line End-Users and Distribution Channel Alternatives

4.3.1. Customer Value and Selling Strategy

The value that potential distribution channels will get is mainly to broaden the range of lighting solutions offered to their customers. As Tammerneon will only supply one product line from many that other important manufacturers offer, the relationship value would be of low value as well as the customer willingness to partner. Hence, the selling strategy that Tammerneon should consider is product sales as shown in the below Figure 34.

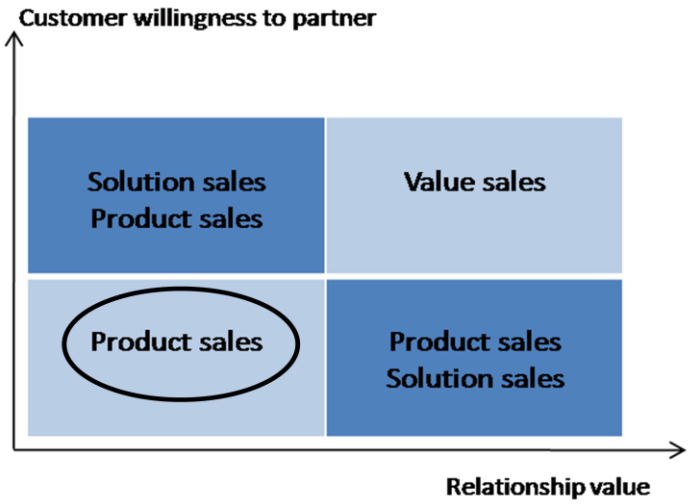

Figure 34. LED-line Selling Strategy (Adapted from Kaario et al. 2003, p. 37).

Moreover, because of the product nature and technical knowledge required to sell or buy the LED-line from Tammerneon, the product is considered to be a "high touch" product. And as Figure 18 implies, if a manufacturer wishes to sell "high touch" products through an indirect channel the best options are a manufacturer's agent, resellers, distributors and dealers. Furthermore, as the LED-line can be sold as bulk products, the best alternative of a distribution channel are industrial distributors which are also called wholesalers or resellers. Hence, when thinking which push or pull approach would be best, the answer would be a push system like shown in Figure 35.

Figure 35. LED-line Push Strategy.

Tammerneon should consider the effort that will be needed to push the LED-line down the SC to the industrial distributor. These efforts, for example, can be easily translated into selling costs and time. Also, as the demand from the end-user might become uncertain at the beginning, Tammerneon and the industrial distributor selected can come to an agreement in which in case of big projects, the supply chain can change to a pull approach and build-to-order the LED-line for the end-user.

The main advantages that an industrial distributor will be able to offer are several. For example, the distributor's sales for will cover the desired geographical areas more efficiently plus they will be able to reach many small business customers. They would also be able to buy large lots and break the bulk to sell in smaller quantities. Also, they

have better market information and understanding and can provide credit to customers if needed and therefore assume financial risks. As mentioned before, it is important to consider the potential end-user and applications in order to select the appropriate distribution channel. Section 4.3.2. will discuss some potential applications and end-users and in Section 4.3.3. some suitable wholesalers will be presented.

4.3.2. Customer Segments and End-Users

The potential applications and end-users of the Led-line are described by the following Figure 36. In the picture, four main segments were considered and those are facades, architectural works, indoors and neon light substitute. As the LED-line is a product substitute of traditional neon light, this was considered as a variable because it will generate ideas and to help identify markets in which neon light is still used. Another important aspect of selecting these four variables is that they are very general. Therefore, they generate more ideas and help identify more potential end-users and from there it can narrow down into more specific end-users.

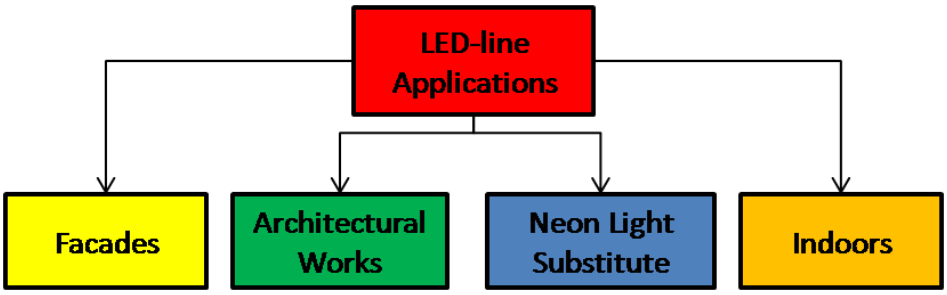

Figure 36. LED-line Potential End-Users.

Facades

According to www.oxfordreference.com, a facade is defined as the exterior surface or face of a building, but particularly that perceived to be the principal or most architecturally ambitious one. Therefore, the facade is the main part of a building that is appreciated by consumers. For this reason having a nice facade creates value to the business owners. Buildings are a good variable to generate segmentation of potential end-users. The following list represents the segmentation of these potential end-users for the facade variable.

- Hotel Chains, Restaurants and Bars
- Night Clubs and Casinos
- Banks
- Shopping Centers and Retailers
- Sports Arenas
- Gas Stations

The following Figure 37 will present some examples of different buildings that are illuminated by other LED manufacturers and from different sources of technology, for example neon light and incandescent tubes. As seen in some of the below pictures, there are some end-users that might require a small amount of LED-line, therefore the solution is to purchase this small quantities through a distribution channel such as an industrial distributor or wholesaler.

Figure 37. Facade Lightning End-Users.

Architectural Work

The segments of architectural work can be referred as different monuments, bridges, structures and towers that sometimes during night are illuminated to draw attention and to be better noticed by consumers. The following Figure 38 illustrates some examples of these potential end-users. In the case of a very big project, it is possible that the LED-line is sell directly to the end-user; however, it is difficult to have access to these end-users without local wholesalers or industrial distributors.

Figure 38. Architectural Works End-Users.

Neon Light Substitute

This segment complements the other three, facades, architectural work and indoors, because some applications of the LED-line could be taken from neon light and other illumination solutions. On the other hand, as mentioned before, the LED-line from Tammerneon can also be installed to locations where neon light is not an option as LED technology operates on a low voltage and does not require safety distances to people or other structures. Moreover, LED-line does not contain any toxic materials unlike neon light and fluorescent tubes contain mercury.

Indoors

Different types of illumination solutions are used to light up the interiors of different places. For example, interior designing in restaurants, bars, casinos, nightclubs and hotels are using illumination solutions to create a better atmosphere in accordance to the situation. As the LED-line is safe to use, it presents an advantage and an opportunity over other sources of illumination. The following Figure 39 illustrates different situations in which illumination is desired to create a comfortable atmosphere for consumers.

Figure 39. Indoors End-Users.

4.3.3. Potential Distribution Channel Alternatives

As seen in previous Section, there are many applications and potential customers for the LED-line that Tammerneon manufactures. However, it is essential to find suitable distribution channels for the targeted geographical areas such as the BC and Poland. As mentioned in previous Section, the LED-line form Tammerneon should be sell through industrial distributors, also known as resellers and wholesalers. The reason for this is because this product can be sold as bulk products and thus should be sold with a push strategy.

Also, depending on the wholesalers chosen, the end-user will be targeted too. This is mainly because industrial distributors also target different end-users, so it's important to consider this because the wholesaler will target other industrial end-users according to its networking capabilities and market expertise. The following Tables will present some potential industrial distribution or wholesalers that have presence in the geographic areas targeted which are Estonia, Latvia, Lithuania and Poland.

The following Tables will summarize the empirical results gathered from the research process for the LED-line from Tammerneon. The following are industrial distributors or wholesalers that are potential partners to resell the LED-line. They were chosen to investigate simply because they cover as best as possible the desired geographical zones required by Tammerneon. That is, with the same company they have sales subsidiaries in other countries. On the left column of each Table there are some key variables that are relevant for analyzing and making a conclusion about which are the most suited alternatives to contact of these potential distributors.

The first Table 14 summarizes the wholesaler Rexel. It is important to make the remark that this company is one of the market leaders in the world and they have operations on the targeted countries from Tammerneon with the sales subsidiary acquired Elektroskandia, which is presented in Table 15. Rexel has acquired global presence because they acquire other companies, this strategy has proven to be successful because they have grown significantly and they are able to provide local services through their sales subsidiaries.

Table 14. Rexel (Extracted from Rexel Group, 2010).

Company	REXEL ELECTRICAL SUPPLIES
Geographical Presence	Estonia, Latvia, Lithuania and Poland. Total presence in 34 countries in Europe (including Finland), Americas and Asia.
General Information	World leader in a sector structurally sustained by the need for alternative energies and the development of new electrical applications. In 2009 total turnover was 11.3€ billion.
Sales by Markets	Industrial – 32% Commercial – 43% Residential – 25%
Customers	➢ Electricians and SME contractors ➢ Key Accounts and International Key Accounts ➢ Large Projects Customers ➢ Government agencies and service companies ➢ Wholesale and retail resellers
Webpage	http://www.rexel.com/en
Remarks	Rexel Group acquired Elektroskandia. http://www.elektroskandia.fi/

As mentioned before, Elektroskandia belongs to the Rexel Group presented in previous Table 14. The Finnish subsidiary Elektroskandia Suomi Oy is responsible for the wholesale activities in the BC. In Poland however, it operates on independently. As seen in previous Table 14, Rexel focuses mainly in three main markets: industrial, commercial and residential. This corporation is also interesting because they have as customers electricians and small contractors as well as large key accounts.

Table 15. Elektroskandia (Extracted from Elektroskandia Suomi Oy, 2010).

Company	Elektroskandia
Geographical Presence	Finland, Russia, Estonia, Latvia and Lithuania.
General Information	Elektroskandia is a company that imports, sell and markets electrical supplies, lamps, cables, electrical and telecommunications supplies.
Product Portfolio	From the lighting solutions: ➢ Lighting mountings ➢ Light sources ➢ Lamp posts
Customers	Electrical contractors, industrial companies and electrical and telecommunication companies.
Webpage	http://www.elektroskandia.fi/
Remarks	It is owned by Rexel.

Sonepar, shown in Table 16, is another market leader with operations worldwide in more than 36 countries over 5 continents. Sonepar operates in the BC with its sales subsidiaries SLO. However, in Poland the acquired wholesaler from Sonepar is Alfa Electro. SLO Finland OY, illustrated in Table 17, is also responsible for its wholesales businesses in the countries Estonia, Latvia and Finland.

Table 16. Sonepar (Extracted from Sonepar, 2010).

Company	sonepar
Geographical Presence	Worldwide. About 36 countries in 5 continents. In Poland the reseller is http://www.alfaelektro.com.pl/pl. In BC and Finland is SLO.
General Information	Sonepar is an electrical equipment distributor that is represented by over 160 companies operating in 36 countries on five continents**.** Total turnover was 12€ billion in 2009.
Product Portfolio	Connection, Automation, Control, Lighting, between others
Sales by Product Family	Lighting Solutions accounts for 15.8% of total turnover.
Customers	Residential, Industry, Services and Utilities.
Webpage	http://www.sonepar.com/

Table 17. SLO (Extracted from SLO Suomi Oy, 2010).

Company	SLO
Geographical Presence	Estonia, Latvia, Lithuania and Finland.
General Information	Wholesaler of electrical and tele products serving hundreds of customers daily at seven national outlets.
Product Portfolio	Installation materials, lighting and lamps, cables, network building materials, between other electrical components.
Customers	➢ Electrical Contractors ➢ Power Distribution and Telecom Companies ➢ Network Building Companies ➢ Industry ➢ Public Sectors
Webpage	http://www.slo.fi/
Remarks	Company is owned by Sonepar.

Onninen, shown in Table 18 is a smaller wholesaler which is still family owned. However, they have strong presence in the geographical areas targeted and they have strong presence too and experience too. Being smaller player and with its own wholesales operations in different geographical areas have its advantages too and this is why it was considered to be part of this research. It lighting solutions are rather interesting when thinking about the LED-line, as they already are offering light sources that include LED technology and industry and outdoor lighting.

Table 18. Onninen (Extracted from Onninen Oy, 2007).

Company	onninen
Geographical Presence	Estonia, Latvia, Lithuania and Poland. Other countries include: Sweden, Norway, Finland, Russia and China.
General Information	Onninen offers a comprehensive range of products in electrical, lighting, cables and utility, sanitary, heating and plumbing, ventilation and refrigeration, pipes and fittings, plastic and environmental, and steel to customer segments like Contractors, Industry, Infrastructure and Retailers. The total net sales for year 2009 was 1.34€ billion.
Product Portfolio	From lighting products solutions: ➢ Office lighting ➢ Industry lighting ➢ Outdoor lighting ➢ Light sources, including LED
Customers	Customer segments like Contractors, Industry, Infrastructure and Retailers.
Webpage	http://www.onninen.com/

Another important fact to mention is that there were found many other smaller wholesalers too. However, if Tammerneon in a future wishes to consider other industrial distributors to target other geographical zones, the list of these potential candidates is presented by the following Table 19.

Table 19. Other Smaller Potential Industrial Distributors.

Company Name	Geographical Zones	Webpage
Solar	Scandinavia, Germany and Netherlands	http://www.solar.eu/
As Effex	Estonia	http://www.effex.ee/?lang=en
Electrum Trading AS	Estonia	http://www.electrumtrading.ee/eng/index.php?st=1
Silman Elekter	Estonia	http://www.silman.ee/en/?grp=en&mod=firma
Apgaismojums	Latvia	http://www.apgaismojums.lv/galvena.php

These potential distributors might be of small scale, in with little coverage geographically speaking, however, they are in the business as well with experience and in the covered areas and moreover, some of them are working on project basis offering customized lighting solutions indoors or outdoors to the targeted segments such as facades, architectural works and so on. Therefore, it is also recommended to Tammerneon to consider these companies for a future as well. The presented wholesalers in this Section are all considered to be potential distribution channel for Tammerneon's LED-line because they are experts in reselling electrical components from many different important suppliers such as ABB, Siemens, Schneider Electric, Osram and so on. However, a further analysis must be done to select the most appropriate distributor. On the next Chapter 5, the final conclusions of the empirical research findings will be made for both the Standard Price Pylon and the LED-line.

5. EVALUATION AND SELECTION OF DISTRIBUTION CHANNEL OPTIONS

This Chapter will evaluate which end-user should be targeted in accordance with the best channel alternatives. Using the framework of Section 2.3.3., and as shown in the following Figure 40, this Chapter will be divided into 5 Sections in which each product will be evaluated in order to select the best distribution channel alternatives.

Figure 40. Stages for Channel Selection (Adapted from Gorchels et al. 2004, p. 24.)

5.1. Standard Price Pylon

5.1.1. Definition and Evaluation of the End-User

As mentioned before, segmentation is a crucial activity for marketing in B2C and B2B. Businesses from all industry sectors use market segmentation in their marketing and strategic planning. According to Verhallen et al. (1998), segmentation of industrial markets is typically based on observable characteristics of firms such as their location and size. Kotler and Keller (2006) argues that B2B markets can be segmented with some of the same variables used in B2C segmentation, such as geography, benefits sought, and usage rate, but business marketers also use other variables.

The following variables in Table 20, from the framework provided by Section 2.2., will be providing a framework for the evaluation of the Standard Price Pylon market segments identified which are the general information pylons and fuel stations. Both segments will be evaluated and determined which is more convenient to target. As seen before, it is important to choose a market segment or end-user accordingly with the product itself and the channel requirements.

Table 20. Variables for Evaluating the Standard Prices Pylon End-Users in Poland.

Segments / Variables	General Information Pylons	Fuel Stations (independent owners)
Value for End-user	Low	High
Sales Volume	Uncertain	Medium
Ability to Reach buyers in the market	Uncertain	High
Potential Profit	Uncertain	Medium
Will the segments be attractive in the future?	Yes	Yes
Can the demand be met?	Uncertain	Yes

In the case of the general information pylon, it is very uncertain to measure the potential end-user because the demand can be really low from shopping centers and offices complexes would only need one pylon. Moreover, the Standard Price Pylon was not designed for this application or to target these end-users. Therefore, this solution might become of low value to these end-users because of the price of it. There are other pylons designed to satisfy this particular segment at a lower price.

In the case of the fuel station, the Standard Price Pylon is the perfect solution for smaller or independent fuel stations because they will be able to tailor the Standard Price Pylon at their convenience and to be able to differentiate from their competitors. Moreover, as discussed before, this segment or end-users account for approximately 50 per cent of the market share in the fuel retail in Poland. Therefore, it is recommended to Tammerneon to target the fuel stations rather than as a general information pylon for shopping centers or office complexes.

5.1.2. Distribution Channel Options

As pointed out before, the Standard Price Pylon is a complex product that requires to be tailored according to customer specifications. Because of this, it is unlikely that a potential distribution channel candidate can buy to stock it. Instead, the distribution channel has to buy it in a build-to-order context and in accordance to customer requirements.

Nevertheless, the ideal channel partner would be an industrial distributor that has access to the end-users. For example, the potential distribution channels evaluated in the following Section 5.1.4. are companies that are distributing other products like gas pumps, hoses and that offer services such as restorations and construction of fuel stations. Hence, these companies can be considered as potential industrial distributors.

However, these potential industrial distributors should be considered as potential partners or sales representative and not as a common industrial distributor or wholesaler.

5.1.3. Channel Requirements

It is critical the definition of channel requirements for finding the best distribution channel partner. In the case of the Standard Price Pylon, installation service is particularly important. Also, the product customization is rather important as the end-users of fuel stations will require to tailor the Standard Price Pylon. Some other important variables for the channel requirements are presented by Table 21.

Table 21. Variables for Evaluating the Channel Requirements for the Standard Prices Pylon End-Users in Poland.

Variables	Description
Support Services	Installation services are required from the industrial distributor.
Product Customization	Fuel stations should be able to configure or tailor the Standard Price Pylon accordingly to be able to differentiate from other competitors or fuel stations. Therefore, the ideal distributor should be able to forward the specifications to Tammerneon.
Technical Advice	Fuel stations will require technical advice on how to configure or tailor the Standard Price Pylon. This has to be considered further and perhaps develop a web-based program were fuel stations owners can configure their own solution.
Product Availability	The Standard Price Pylon should be sold on a build-to-order context. Because it needs to be tailored to each fuel station, it is not possible to sell it as a bulk product.
Total Solution	The Standard Price Pylon will complement the solution offered by the potential industrial distributors. For example, some of them were distributing gas pumps and hoses; therefore they can also include to their services the Standard Price Pylon.
Exclusivity	The Standard Price Pylon can be subjected to be sold exclusively by an industrial distributor. However, this can also be sold to other distributors to create more demand.

As mentioned before, the most important channel requirements are the installation services and product customization capabilities. However, the most important aspect about selecting a suitable distribution channel is that they have access to the fuel stations. The other channel requirements presented by previous Table 21 can also be negotiated when the final partner is selected. It is important to mention that the objective of this thesis research does not include the negotiation aspect with the potential industrial distributors evaluated in the following Section 5.1.4. an evaluation of the potential industrial distributors found will be presented. After the evaluation, the final recommendations will be presented on Section 5.1.5.

5.1.4. Evaluation of Distribution Channel Options

The following Table 22 will evaluate and compare four industrial distributors that were identified and presented in Section 4.2.3 for the Standard Price Pylon. The variables selected for evaluating the industrial distributors were taken from the framework developed in Section 2.3.3.

Table 22. Evaluation of the Potential Distribution Channels for the Standard Price Pylon End-Users in Poland.

Distributors / **Evaluation Variables**	**PetroNova**	**Fortis**	**Serwis**	**POLpetro**
Coverage in Targeted Markets	Poland	Poland	Poland	Poland
Knowledge of Marketplace	More than 6 years as a company	More than 8 years as a company	More than 11 years as a company	More than 10 years as a company
Relevant Product portfolio	High	High	High	Medium
Modernization and construction of Fuel Stations	Yes	Yes	Yes	No
Access to targeted end-users (independent owners)	High	High	Low	High
Installation Service	Yes	Yes	Yes	No
Trained Sales people	Yes	No	Yes	Yes

Because the end-users of the Standard Price Pylon are more specific, it was possible to identify negative aspects of some of the potential distributors. For example, POLpetro's product portfolio is not so relevant even though they are reselling commodity products to fuel stations. This is because their products are more standard and do not require technical know-how in comparison to the other companies which are selling pumps, hoses, fuel dispenser and so on.

Moreover POLpetro lacks installation services which are crucial for installing the Standard Price Pylon and because they are only reselling products, they do not have additional services such as modernization and construction of fuel stations. On the other hand, Serwis is considered to have a low targeting on the desired market segment because they are mainly targeting bigger fuel stations such as PKL Orlen. These fuel

stations are requiring highly customized pylons and as discussed earlier, the Standard Price Pylon targets smaller independent fuel stations.

After considering the positive and negative aspects of these potential industrial distributors, it is recommended to attempt to contact firstly PetroNova and Nova because they will be able to target better the end-users or independent fuel stations in Poland. Moreover, these two companies are also offering services of construction and modernization of fuel stations which is very convenient for the success of reselling the Standard Price Pylon.

5.1.5. Selection of Distribution Channels

After the evaluation process of the above Section it results convenient to select and recommend as industrial distributors the companies PetroNova and Fortis. This decision is supported with the fact that they are able to target better the end-users or fuel stations that are apt to use the Standard Price Pylon and because of the capabilities of construction and modernization of fuel stations. The following Figure 41 will illustrate the recommended model for distributing the Standard Price Pylon in Poland.

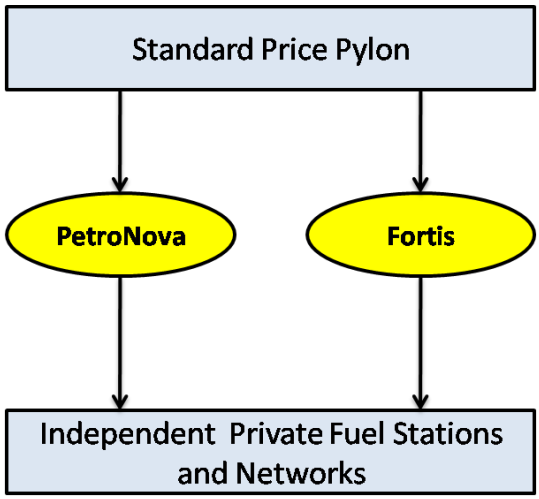

Figure 41. Distribution Channel Model Recommended to Resell the Standard Price Pylon in Poland.

It is also important to mention that the Standard Price Pylon should be sell in a build-to-order context because the independent private fuel stations should be able to tailor the pylon according to their needs and requirements. In this way, the distribution channel of Tammerneon will be able to collect an affordable batch of pylons from different end-users. See Figure 42.

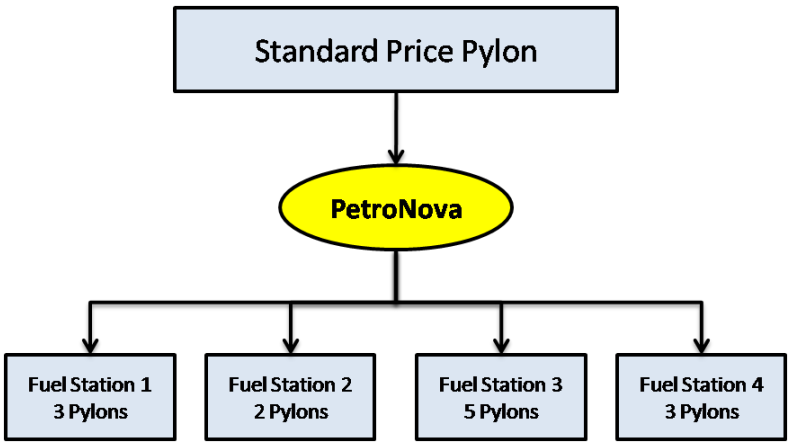

Figure 42. Distribution Channel Model Recommended for Achieving an Affordable Batch Number for Manufacturing and Reselling the Standard Price Pylon.

It is expected to take time to negotiate the terms of the distribution of the pylon. However, negotiating with these potential distributors is not in the scope of the objectives of this thesis. Poland has a lot of potential to the Standard Price Pylon because as seen in previous Sections, approximately half of the market share of the fuel stations is owned by independent companies and networks, which are indeed the potential end-users of the Standard Price Pylon. Moreover, partnering with a polish company like the one proposed will facilitate penetrating into the market. They will share the risk with Tammerneon and should the project of selling the Standard Price Pylon under this model succeeds; the same could be done in other countries with potential too.

5.2. LED-line

5.2.1. Definition and Evaluation of End-User

As mentioned before, segmenting and defining the end-user is very important for this research. The segments were already defined and presented in previous Section 4.3.2. and with the framework of customer segmentation of Section 2.3.1., the following variables will be used to evaluate the different segments discussed on Section 4.3.2., and they are presented by the following Table 23.

Table 23. Variables for Evaluating the LED-line End-Users in the Baltic countries and in Poland.

Segments / Variables	Facades	Architectural Works	Indoors
Expected Demands	High	Medium	Medium
Sales Volume	High	Low	Low
Ability to Reach buyers in the market	Medium	Medium	Medium
Potential Profit	High	High	High
Will the segments be attractive in the future?	Yes	Yes	Yes
Can the demand be met?	Yes	Yes	Yes

As facades have more applications and potential end-users, it is considered to be the biggest segment. From there and as mentioned before, even though in essence the application is the same, there are more sub-segments as mentioned before such as hotel chain, restaurants, night clubs and so on. Moreover, these same sub-segments can apply to use LED-line to illuminate the interiors. Therefore, facades and indoors will be the considered to be the most attractive segments, and from there the many different sub-segments and end-users.

On the other hand, architectural works such as bridges and big structures can be really attractive because perhaps the segments in size are smaller; however, they will require buying bigger amounts of meters or kilometers of the LED-line. Hence, they must not be set aside, but also be aware and make an effort to target them too. Finally, is important to mention that Tammerneon has a flexible manufacturing system and is able to manufacture big batches of LED-line if required. Also, as Tammerneon will be entering the market, it is expected to start selling smaller batches at the beginning, therefore there is almost no risk of not fulfilling the demand of segments.

5.2.2. Distribution Channel Options

In the case of the LED-line, the ideal distribution channel partner could be an industrial distribution partner or wholesaler. The reason is because this product can be sold to stock and even though it can be tailored with different colors as seen before, it is possible that several customers buy the same color of the same batch. As seen before, an industrial distributor will be able to buy to stock and resell it in smaller batches to end-users that only require a small amount of LED-line. The potential industrial distributors will be evaluated and selected in the following Sections 5.2.4. and 5.2.5.

5.2.3. Channel Requirements

According to Gorchels et al. (2004), it is important to define what will the customers expect or demand from the potential channels to be able to make a purchase decision. These channel requirements are indeed important because they help to understand what will be expected from the potential industrial distributors. The variables that will be considered to evaluate the channel requirements are presented by the following Table 24.

Table 24. Variables for Evaluating the Channel Requirements for the LED-line End-Users in the Baltic countries and in Poland.

Variables	Description
Technical Advice	Customers will require to some extent technical advice about the LED-line. Therefore, it is needed to find a partner with good trained sales people.
Customer Education	Although the LED-line is considered high touch product, customer education should be relatively simple because the value from the solution is easy to perceive, hence customer education shouldn't be an obstacle, but still some technical advice will still be required.
Product Availability	To have sufficient inventory also depends on the demand or availability to sell the LED-line. Also, this will depend on the end-user, because as mentioned before, end-users as bridges and big structures will require a high volume of LED-line.
Total Solution	LED-line does not require being part of a total solution offering from the industrial distributor selected.
Aggregation	The LED-line do not depends on other sub-products to become a total solution to customers.
Support Services	Installation, repair and other services might be required from the industrial distributor. Therefore, a suitable channel partner should be able to provide it if needed.
Product Customization	End-users should be able to buy different standard colors of the LED-line. Should they need a special color, the order should then be placed to Tammerneon and end-user should have to wait for a lead time.
Exclusivity	LED-line is to be sold without exclusivity rights to industrial distributors.

At this point, the potential end-customers and segments have been presented and evaluated. Also, with previous Table 24, the importance of the channel requirements were discussed. The following Section will focus on the evaluation of the industrial distributors that were identified and finally in Section 5.2.5. the industrial distributors will selected.

5.2.4. Evaluation of Distribution Channel Options

The following Table 25 will evaluate three industrial distributors that were identified and presented in Section 4.3.2. The reason that Elektroskandia and SLO are not evaluated is because they are subsidiaries of Rexel and Sonepar, respectively. Onninen on the other hand, is a smaller company which is family owned, however they are a good potential candidate for distributing that should be considered as well.

Table 25. Evaluation of the Potential Distribution Channels for the LED-line End-Users in the Baltic countries and in Poland.

Distributors / Evaluation Variables	**Elektroskandia in BC and Poland**	**SLO in BC and Alfa Electro in Poland**	**Onninen in BC and Poland**
International Coverage	34 countries in Europe (including Finland), Americas and Asia.	Presence in targeted countries plus other 36 in 5 continents	BC, Nordic countries and China
Coverage in Targeted Markets	Operates with Elektroskandia in BC and it has 8 sites and in Poland operates too with 30 sales sites.	In BC operates with SLO with 16 sales sites and in Poland as Alfa Electro with 37 sales sites.	In BC it has 14 sales sites and in Poland around 34 sales sites.
Knowledge of Marketplace	More than 12 years of experience in Poland and BC.	More than 10 years of experience in BC	More than 15 years of experience in Poland and BC
Relevant Product portfolio	Lighting mountings Light sources (indoor, outdoor, decorative)	Lighting and Lamps (indoor and outdoor)	Outdoor lighting Light sources including LED
Financial Situation	In 2009 turnover decreased by 12%. Total turnover was 11.3 billion Euros.	In 2009 turnover decreased by 12.9 %. Total turnover was 12 billion Euros.	In 2009 turnover decreased by 23%. Total turnover in 2009 was 1.34 billion Euros.
Installation Service	Yes	Yes	Yes
Trained Sales people	Yes	Yes	Yes

The major differences founded were perhaps how they operate and how big the companies are. For example, Rexel and Sonepar, who are the biggest wholesalers, they operate through subsidiaries in different geographical territories. This is a good strategy to grow, because by acquiring local wholesalers who have knowledge on the market they are able to enter the market by minimizing risks and expenses.

On the other hand, the smaller player Onninen is a smaller wholesaler; however their experience appears to be greater in the targeted countries. Moreover, because they are a smaller company, it may be easier and less bureaucratic to do business with them and still would be able to cover the market areas because they have strong presence too. A major drawback is that they were affected the most by the recession as their sales decreased about 23 per cent compared to the year 2008. This can also become an advantage because they might be looking for new opportunities as well and the idea of becoming Tammerneon's reseller might be of value to them too.

After the evaluation process is completed, the selection process may continue. Selecting the best alternative sometimes results very evident and logical due to the analysis of the alternatives. In this case, and as shown by the results of the empirical study of the alternatives to become distributors of the LED-line, the industrial distributors compared are rather similar.

5.2.5. Selection of Distribution Channels

As the distributors analyzed are relatively similar, the final decision can be taken according to the strategic objectives of Tammerneon. For example, if the company wants to think to sell its products in more different geographical zones, then perhaps the best choice is Rexel or Sonepar. If Tammerneon wishes to sell its products in a future in Nordic countries then, Sonepar is a better choice along with its subsidiaries SLO.

The final suggestion to Tammerneon, as seen in Figure 43, is to contact first Onninen. The reason for this is because they operate in the target countries with the same company and they have strong presence too. They are originally a Finnish company so the business culture should be rather similar to Tammerneon than the other companies who belong to foreigner bigger corporations. Moreover, in their webpage, they have a section especially for potential suppliers. Therefore, it might be inferred that they are opened to do business with manufacturers.

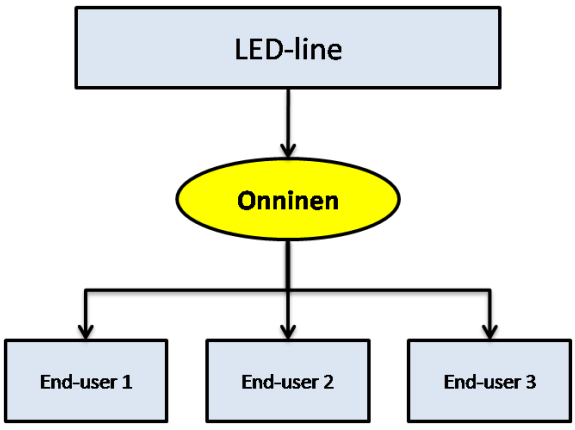

Figure 43. Distribution Channel Model Recommended to Resell the LED-line in Baltic countries and in Poland.

However, Tammerneon should consider having an open agreement in terms that it can be possible to use other distributors in same geographical areas. The reason for this is mainly to make the LED-line available as much as possible. Tammerneon should also be ready to use resources in terms of time and effort to achieve the sales level required. Also, as mentioned before, Tammerneon should attempt to sell this product with a push strategy approach. Nevertheless, in case that the LED-line is sold to a big project, Tammerneon must be flexible and build-to-order the product too. Pushing the products through the SC will require effort in terms of time and effort; however, should the product has success in the targeted markets, the rewards would be significant.

6. CONCLUSIONS

6.1. Major Recommendations

The objective of this thesis has been to identify new business opportunities for the Standard Price Pylon and LED-line that Tammerneon manufactures. The main idea for these two products is to market them in order to find new customers. It is necessary to find adequate distribution channels for getting access and knowledge to target customers in new markets. Therefore, the research problem of this thesis consisted of the following sub-questions:

1. Who are the potential end-users in the targeted markets?
2. Which is the most suitable distribution channel partner for each product and potential end-user?

These research questions were answered by presenting some of the potential end-users and distribution channel alternatives for each product. In order to achieve these research goals, the thesis commenced with the creation of a theoretical background to explore the marketing concepts of market segments and distribution channel alternatives. After understanding and defining these concepts, the research process was developed to generate the empirical information needed for evaluating the best alternatives and opportunities for business.

6.1.1. Standard Price Pylon

Concerning the Standard Price Pylon market opportunities in Poland, it is recommended to contact the companies PetroNova and Fortis to develop a partnership for distribution. These companies meet the channel requirements needed to successfully resell the Standard Price Pylon in Poland. Moreover, they have the market knowledge and access to the end-users identified with the segmentation research for the applications of the product. Figure 44 presents the final recommendations of the Standard Price Pylon reselling model.

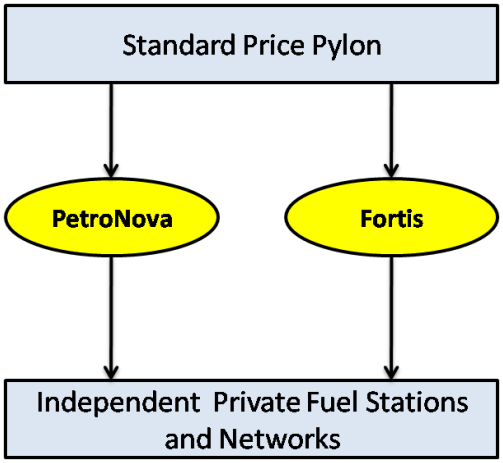

Figure 44. Distribution Channel Model Recommended to Resell the Standard Price Pylon in Poland.

Because of the nature of the Standard Price Pylon, meaning that in needs to be tailored according to the end-user wishes, this product needs to be sold under a pull approach or build-to-order context. However, because of the flexible manufacturing system, it is possible to achieve an affordable batch for different end-users. Therefore, it is rather important that Tammerneon and these potential distributors proposed develop a system in which the end-user is able to configure the Standard Price Pylon accordingly and to forward the order to Tammerneon efficiently and accurately.

6.1.2. LED-line

In the case of the LED-line, the applications and end-users were found more difficult to segment. This is because the value added that an end-user perceives for this product can be affected by many personal factors difficult to measure. Furthermore, as stated before, the LED-line should be sold under a push system; because when a potential end-user has a need for illumination, it is more probable that they will contact a distributor or wholesaler such as Onninen. It is through this distribution channel that the LED-line can be pushed to the end-user. It was concluded that Onninen is the best potential distributor because they cover geographically the areas that Tammerneon wishes to target. See Figure 45.

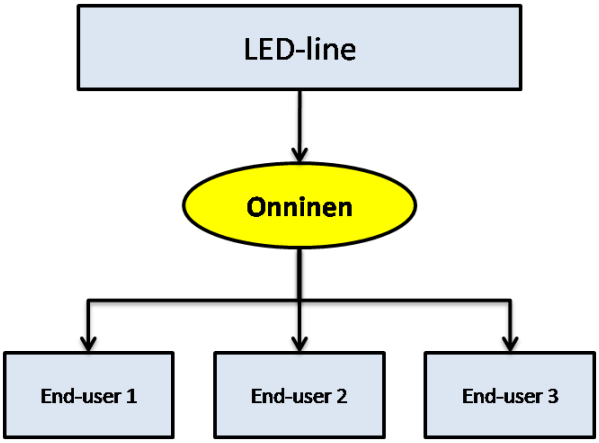

Figure 45. Distribution Channel Model Recommended to Resell the LED-line in the Baltic countries and in Poland.

The idea of reselling the LED-line through an industrial distributor such as Onninen results very convenient because wholesalers' typically are buying to stock and are able to buy bigger batches of products at an affordable price and then resell them to end-users which will require smaller amounts of the LED-line. Moreover, as Onninen has presence on the BC and Poland, it is possible to target many small segments of end-users distributed through these geographical areas and sell bigger amounts of LED-line.

6.2. Managerial and Theoretical Implications

6.2.1. Managerial Implications

To sell products or services will always imply selling costs. Moreover, selling through distribution channels such as the ones pointed out in the previous Sections will require additional resources as well that might add selling and distribution costs. Hence, it is recommended to analyze these implications deeper because it is very important to have them well defined in order to achieve a profitable business in the targeted geographical areas.

After defining the selling and distribution costs, Tammerneon's Sales and Marketing Department should define as well a business plan describing how their products will create value to the distribution channels selected. Profits are important for Tammerneon and its potential distributors too and having a good deal for both parties will be important for developing partnerships in the long run. Tammerneon's Sales and Marketing Department should approach the recommended distribution channel alternatives for the Standard Price Pylon and LED-line to define objectives and begin negotiations.

To define selling and distribution costs and to initiate contact and negotiations with these potential distributors will require time from then sales and marketing department

of Tammerneon. However, as the objective of this thesis was to provide a list of suitable candidates to distribute the products in the desired geographical areas, it is already a good starting point for acquiring these potential distributors as channels to target the marketing segments identified for both products.

6.2.2. Theoretical Implications

The theoretical framework presented in Chapter 2 was based on literature research and its goal was to develop a framework for identifying potential end-users for the Standard Price Pylon and the LED-line that Tammerneon manufactures. Moreover, the theoretical framework provided the tools and concepts required to identify, evaluate and select potential distribution channels to use as resellers or industrial distributors in the potential geographical territories of Poland and BC.

The business opportunity model proposed in Figure 12, Chapter 2, aims to generate the segmentation of potential end-users of a product. After understanding the value added to the end-user and defining and segmenting these potential end-users, the framework proposes a model for finding appropriate distribution channel alternatives. However, the theoretical framework is limited to the actual contact with the potential distribution channels proposed because approaching and making initial contact requires a business plan and analysis of the selling and distribution costs to propose the negotiation terms and objectives.

6.3. Future Research

A future research direction for these cases analyzed would be for example the evaluation of the resources and selling costs that will be associated with selling these products with the potential distribution channels proposed. As mentioned before, this will require time and effort from the Sales and Marketing Department of Tammerneon. However, as seen in the results, there are good potential business opportunities for the Standard Price Pylon and LED-line in Poland and in the BC.

If there is an opportunity to make business with these potential distribution channels in the future, it will be interesting to evaluate business opportunities in other geographical areas, too. In the case of the LED-line, the biggest wholesalers found are active worldwide. As for the Standard Price Pylon, a similar analysis can be conducted in other markets of central Europe in the hope to increase sales.

A successful company must always be willing to invest in research for identifying new sources of opportunities for innovations and with market expansion to increase revenue and sales. To enter a foreign market is never simple but it is possible with adequate research analysis and as mentioned before, in the beginning stage of expansion it is easier and more efficient entering the market with local distribution channels because they have access and knowledge of the end-users targeted.

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APPENDICES

Appendix 1: Themes of the Meetings

Classification of Themes	Main Themes of the Meetings	Important Concepts of Themes Discussed on the Meetings
I	The End-User	• New customer segments • Market Segments • Marketing-Mix • Incrementing market share • Expanding business into other geographical areas • End-users of the products • Selling models in other countries like Sweden
II	Distribution Channels	• Distribution channel alternatives for each products • Direct sales to end-users • Wholesalers and resellers
III	Customer Value	• Customer Value and Selling Strategies • Perceived Value
IV	Push and Pull Strategies	• Production process of the products • Push and pull approaches • Build-to-order • Batch sizes • Customization • Standardization

Appendix 2: Persons that Participated in the Meetings

Date	Themes	Persons that Participated in the Meetings
1) 17.06.2010	I	CEO Harri Salminen Business Unit Director Niko Suomela Sales Director Arto Kovasin Marketing Manager Jenni Eikrem
2) 24.06.2010	II & III	CEO Harri Salminen Business Unit Director Niko Suomela Sales Director Arto Kovasin Marketing Manager Jenni Eikrem
3) 28.06.2010	I & II	CEO Harri Salminen Business Unit Director Niko Suomela Sales Director Arto Kovasin
4) 30.06.2010	IV	Business Unit Director Niko Suomela Sales Director Arto Kovasin
5) 10.08.2010	I & II	Sales Director Arto Kovasin
6) 1.09.2010	I & II	Senior Engineer Markus.Helminen