

# INTERNATIONALIZATION OF SYSTEMIC SOFTWARE PRODUCERS

## - Use and Selection of Value Adding Partners

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### **ABSTRACT**

This study examines the use of value-add partners in the internationalization process of small software producers. The characteristics of the software industry are presented and the value networks of this industry are illustrated. The software market is characterized by high-levels of uncertainty. The nature of the market supports externalization through network relationships and drives companies towards co-operation. The usage of partners is a prominent way to deploy company's activities and to take advantage of its own strengths. Value-adding partners are often enabling software producer's internationalization. The study uses case-study method to provide a better view about the use of value-add partners in internationalization. The results of the research show that smaller companies in the software sector can and should use partners in their internationalization.

## INTRODUCTION

Today we live in knowledge based economy. Software business is one of the key components in this development. It is one of the fastest growing industries and the growth rate during the last few years was approximately 10 % (EITO 1999). This paper is about internationalization in software industry. There are several factors which are pushing software firms towards internationalization. For example, there is a need to get products and services into global distribution rapidly. For smaller firms with scarce resources co-operation is a good opportunity for reaching global markets.

The competitive and volatile nature of this business (and as well the nature of the whole Infocom<sup>1</sup> sector) drives companies towards co-operation. Partnerships may offer one solution to respond to the many changing challenges of this turbulent business environment. As our focus is on systemic enterprise solutions, this becomes even more crucial. Such software firms require additional services and partners who are willing and able to provide these. Software products and supporting services are dependent on each other. Partnerships and networks with other firms can help the firm to gain access to new markets and/or technologies, and offer then the ability to provide a wider range of products/services and an access to complementary skills and assets (see Mohr and Spekman 1994).

The paper is structured as follows. Theoretical issues related to internationalization of software companies are discussed in the first part of the paper. This part covers also the motives for partnering and partner selection in this context. In the empirical section of the study, two software producer cases are presented and analyzed. Two cases, which illustrate typical usage of value added partners, were selected. Finally, some key findings and conclusions are proposed.

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<sup>1</sup> The term Infocom industry has been used to cover the converging markets of the Information and Communication Technology (ICT) and media industry. Software industry is part of Information technology (IT) although its products are embedded into many products from other industry sectors as well.

## **CHARACTERISTICS OF THE SOFTWARE INDUSTRY**

Depending on the type of the product (i.e. whether if it is e.g. a software service or packaged software), the need for a partner may increase and the available internationalization options differ. Depending on the purpose of the software another possible division of software products is the following: 1) systems software and utilities, 2) application tools and 3) application solutions (IDC classification presented in OECD 1998).

Hoch et al. (2000) also look at the differences between the two extremes in the software industry, i.e. differences between professional services and the product business. Some of the differences in their survey are presented in Table 1. Professional services in the IT or software sector are normally provided by specific IT consultants (either small firms or firms like Accenture and Gap Gemini) or other software firms operating in the field of project business. The industry characteristics in this segment are closely related to that of management consultants. The business is built around people, relationships and trust with the customers. The other extreme, the software product business is more “tangible business” and its products are more “physical” and exportable.

Table 1: Dynamics of professional service business vs. software product (Partly based on Hoch et al. (2000), p. 46.)

	<b>PROFESSIONAL SERVICES</b>	<b>PRODUCT BUSINESS</b>
<b>Marginal costs</b>	Almost constant (service based on people, small economies of scale effect)	Almost zero (but high first copy costs).
<b>Market structure</b>	Highly fragmented, many actors with similar services.	Drive towards high concentration.
<b>Regional appearance</b>	Mainly regional, with increasing tendency to globalization (through partnerships and networks)	Highly globalize
<b>Customer relationship</b>	One to one (service based on good customer relationships, trust etc.)	One to few, one to many (tailor-made software products vs. packaged products)
<b>Need for support</b>	Solutions often based on other actors' products: applications, platforms etc.	Mass-market software products stand normally alone. Enterprise solutions need installation, customization, training etc. (often provided by professional service firms).
<b>Most important number to watch</b>	Capacity utilization rate	Market share (installed base) ("winner-takes-all-economy")
<b>Examples of firms</b>	Accenture, Gap Gemini, many small local players	Microsoft, Lotus, Corel in the mass-market segment. SAP and Baan in the enterprise solution segment.

Similar results were also got in the research conducted by the Telecom Business Research Center in 1999-2000. In a survey consisting of 171 Finnish small and medium sized (Infocom) enterprises (SMEs) the packaged software producer proved to be the most international. They also had more customers and more target markets than the firms producing more tailor-made products (see e.g. Kuivalainen 2000). However, there were a lot of similarities in their goals as well: almost all the firms were willing to increase their internationalization and partnering efforts.

Many firms also aim towards rapid internationalization because of the quest for the market leadership in their new developing market segments. This phenomenon is closely related to the concept of the "law of increasing returns" and to the concept of "killer application". Software business is said to be run by this "returns law". Campbell and Hulme (2001) call this "Winner takes all economy". Moore (1995) has written that the crucial limit is the reach of 40 percent market share in 1 to 2 years' time. However, this is more important to the packaged software producers who are more able to gain economies of scale and enjoy low marginal costs.

The nature of the software business drives companies towards co-operation. Co-operation may offer one solution to respond to the changing challenges of this turbulent environment. The software market is a high-technology market and it is characterized by high levels of market and technological uncertainty (Moriarty and Kosnik 1989, p. 7). Market uncertainty refers to the ambiguity about the type and extent of customer needs, and the second dimension refers to technology that includes both product and process technology, and it can be embodied in people, materials, cognitive and physical processes etc. (Moriarty and Kosnik 1989, p.8). The nature of the market supports externalization through network relationships. Partnerships can help the firm to access new markets (Mohr & Spekman 1994, p. 135). Smaller companies may get access to international distribution channels through partnerships with larger companies in the field.

According to the survey mentioned above (Puumalainen et al. 2000), 49% of the SMEs in Finnish Infocom-sector had partnering relations. 53% of the partnerships were related to sales activities. 47% of the respondents considered that the partnerships were strategically very important for their companies, and also three fourths of the companies saw that they would need partnerships in the future. Moreover, 43% of the companies seek partnerships for internationalization. 68% of the companies demanded technological expertise from potential partners, and 70% needed commercial expertise. Companies needing commercial expertise regarded themselves typically stronger in technological know how, but weaker in brand creation, customer relationship management and marketing communications. The companies seeking new partnerships agreed more with the argument that growth is only possible by internationalization, and these companies were generally more growth oriented. These companies also shared the opinion that there is not enough growth potential in the home market, that to succeed in the future it is essential to internationalize, and that they need a partner for internationalization. The most common motive for entering into a partnership with another company that the respondents mentioned was to concentrate on their own core competence(ies) or to complement their own skills (53%), and reasons related to marketing issues (marketing, sales or distribution) were mentioned in 50% of the answers.

## VALUE NETWORKS IN THE SOFTWARE INDUSTRY

Convergence of the software, telecommunications and media industries have created many new possibilities for the software firms. There are new types of firms, technological bases, products and services and value propositions for various customers. The mentioned motives for co-operation or partnering have made networking and the usage of partners a prominent way for a firm to deploy its activities to take advantage of its own strengths. Johnston and Lawrence (1988) have used the concept “value-adding partnership”. However, it is not always clear how does the value of the service or of the product materialize in this new business environment. There are questions like “who owns the customer in the complex value chain or value network” and who is the “dominant player” leading the network. The concept of value is often defined vaguely as well (Blankenburg Holm et al. 1999; Ramírez 1999).

Business networks are built on the different business relationships (for the definition of business network, see e.g. Emerson 1981; Anderson et al. 1994; Håkansson and Snehota 1995), which are connected. The environment of the relationship, i.e. the network, shapes the relationship. Value networks have been defined as a connected web of value creating and value adding processes (DeRose 1994, p. 16). Weiner et al. (1997) propose that in a value network, a company makes the most of the strengths of each value provider and co-ordinates production and delivery across companies. In this sense, value networks are business networks in which the value creation aspects are emphasized.

In the software business there are several actors that can be distinguished from each other. These include value-added resellers (VARs), system integrators (SIs), consultants providing guidance and training, and marketing agents. These actors (i.e. value adding partners) are often also the ones who enable the producer firm’s internationalization by offering its products at different markets. Some of the different players are presented in Table 2.

Table 2: Role of different actors for the software producer (Modified from Heinilä 2000)

<b>RESOURCE (I.E. ACTOR OR “PLAYER”)</b>	<b>PRIMARY FUNCTION</b>	<b>ROLE IN INTERNATIONALIZATION</b>
<b>System integrator</b>	Provides consultation for the end-users (defines their needs) and designs custom solutions.	Should know your product, so you should train and educate them.
<b>Solution provider</b>	Provides solutions. Work is based on end-user’s definition of needs	Should know your product, but you should also market them to end-users (they need to ask for your product).
<b>(Value added) Reseller</b>	Provides products with configuration and integration, turn-key projects.	Effective channel, if good partners can be found.
<b>Value distributor</b>	Distributor in the chain but provides also value added services. Target customer normally not the end-user, but the one who sells to the end-user	Could take care of international operations (role similar to indirect exporter)
<b>Volume distributor</b>	Distributor in the chain, more for packaged goods.	See above.
<b>Retailer</b>	Business front-end sales partner.	Might be able to bring in more sales from new markets. The length of the chain increases, hopefully also sales.
<b>Sales agent</b>	Third party software vendor. Revenues based on fees from the actual sales.	Might be useful in the distant markets where own presence is not always useful.
<b>Independent software vendor</b>	Software provider without contractual relationship to you.	Usable for packaged software.
<b>Influencer, consultant etc.</b>	Companies that comment, evaluate, and give guidance and advice to end-users.	Useful and important especially in the case of systemic software (e.g. extra-applications for ERP-systems)
<b>OEM (own equipment manufacturer)</b>	Normally provides product as one privately labeled product.	Easy way to get your products to international markets. However, this does not develop your own brand (potentially risky).

By using different kinds of partners firms can benefit from various complementary assets. The key aspect is to find the right firm or person, i.e. “player” to the right task. In internationalization, most of the partners who are able to sell and deliver are useful, but there are many possible problems in finding suitable partners and in managing of successful relationships with them.

## **INTERNATIONALIZATION AND ENTRY MODE CHOICE OF SOFTWARE SMES**

There have been several efforts to synthesize the internationalization literature (e.g. Andersen 1993). However, a single commonly accepted interpretation of “internationalization” is yet to be established. Internationalization patterns of individual firms are often seen as fairly unique and situation specific (Reid 1983).

The internationalization theories are typically divided into two major streams: behavioral theories (the stages theory and the network approach) and theories based on concepts from the field of economics. The stages theory suggests that the firm gradually increases its international operations (i.e. commitment) as it gains more experiential knowledge (see e.g. Johanson and Vahlne 1977, 1990).

The business logic within the Infocom sector suggests that firms, regardless of their size, must develop a global strategy as fast as possible. With limited resources, few connections and tight budgets, the entrepreneurs are therefore faced by an enormous challenge. As mentioned above, it is a “winner-takes-all economy” where the business focus and time-to-market are extremely critical. Some of the above-mentioned traditional theories on internationalization are being severely questioned. Within the knowledge-intensive industries, there are an increasing number of companies that do not follow the sequential, reactive and risk-averse path in their international expansion. On the contrary, the firms are born global (Rennie, 1993; Knight and Cavusgil, 1996 and Madsen and Servais, 1997) – operating internationally right from their inception or soon thereafter.

When a firm has decided where it wants to go, it should assess the potential entry modes, i.e. how to go there. In this study the modal choice will be the focus, leaving out the market choice decision. A small Software firm may enter new foreign markets in a variety of ways. There are several classifications of entry modes. However, the purpose here is not to cover all the possible entry modes and their versions, but to create a general view and understanding concerning the options available for small software firms. Even though virtually all modes of entry include

cooperation with other parties to some degree, the purpose of this paper is to focus on the cooperative / contractual modes of internationalization.

Exporting is still the dominant mode of entry within the Finnish Infocom SMEs (see Puumalainen et al. 2000). However, various cooperative modes of international expansion enjoy an increasing popularity within the firms. These include strategic alliances and partnership agreements etc. Frequently, a firm's successful entry into the international market is based on its ability of "networking" or forming partnerships and alliances with others. Since the resources of these firms are usually limited, the entrepreneur has to rely more on hybrid structures for controlling the sales and marketing activities (e.g. close personal relationships, partnerships etc.) (Oviatt et al. 1997).

Bell (1995) found in his research that the internationalization of small software firms was strongly influenced by domestic and foreign client followership. Coviello and Munro's (1997) research also supports the view that the internationalization of a small software firm is largely driven by the existing network relationships. Furthermore, major established partners in international networks often influence the small company's market selection and provide the mechanism for market entry. This can be seen ideal in the sense that the partnership will decrease e.g. the financial and market risks related to the market expansion. However, the SME's own control over the operations will also be reduced and it may get incomplete and filtered information about the markets and customers. A tight relationship may also set limitations for the small firm to pursue other opportunities in the market.

Even though there is an increasing amount of financing opportunities e.g. venture capital investments offered for the companies, the preferred mode of (initial) internationalization is often seen as the one that requires smaller capital outlay. Therefore, partnerships and other forms of cooperation provide a potential vehicle for the international expansion of smaller software firms.

## **PARTNER SELECTION AND SELECTION CRITERIA**

According to the mentioned survey conducted by Telecom Business Research Center the companies in the Infocom sector use co-operative relations relatively often for different purposes and companies regard them as strategically important (Puumalainen et al. 2000; Varis and Virolainen 2000). Co-operation is seen as one method for protection against technological and market uncertainty, which are very typical for this kind of technology-based markets.

The selection of a “right” partner is regarded as one of the most crucial tasks in partnership establishment (Cavusgil and Evirgen 1997; Buono 1997; Wilson 1995). Partner selection and partner selection criteria have been presented earlier in some academic papers in different contexts. Research has been done on technological settings (Woolthuis 2000; Duyesters, Kok and Vaandrager 1999; Håkanson 1993), on international joint ventures (Al-Khalifa and Peterson 1999; Venkatesh and Mahajan 1997; Glaister and Buckley 1997; Geringer 1991) and on international distribution or marketing alliances (Njissen et al., 1999; Cavusgil and Evirgen, 1997; Cavusgil et al., 1995; Abratt and Pitt, 1989). It seems that there is still quite a limited amount of research regarding partner selection in markets like the Infocom sector, which are very turbulent, where the products are mostly intangible and where the company’s competencies and knowledge are tacit by nature.

Geringer has distinguished two categories of partner selection criteria in the context of international joint ventures (Geringer 1991). This classification has been referred to in several studies later (Cavusgil and Evirgen 1997; Glaister and Buckley 1997; Al-Khalifa and Peterson 1999). It has also been noted that almost an unlimited range of alternative criteria may exist, but that it might be possible to simplify the analysis by distinguishing broad categories of these criteria, and that development of a parsimonious yet thorough typology might be possible (Geringer 1991, p. 45). Thus two distinguished groups of criteria have been pronounced: 1) Criteria associated with the operational skills and resources the venture requires for competitiveness (task-related criteria), and 2) criteria associated with the efficiency and effectiveness of the partners’ cooperation (i.e. partner-related criteria) (Geringer 1991, p. 45). The partner related criteria include the “intangible” traits of the candidate such as its business

philosophy, reliability, motivation, commitment, and intellectual property protection approach; the task-related criteria include financial, marketing, organizational, production and R&D resources, and customer service (Cavusgil and Evirgen 1997, p. 78). It seems that the complementary capabilities, the evaluation of knowledge base and trustworthiness play an important role in the Infocom sector. Also some criteria are not very significant in this market (as for instance production facilities or financial resources). In a fast-moving business environment, like in the software business, there is pressure to partner quickly, which makes it difficult to test and try potential partners and reputation for performance, and trustworthiness become the measures when the partner is an untested commodity (Wilson 1995).

In a modern network economy it may be inadequate to assume that the company is acting autonomously in the market, and thus, apart from standard partner selection criteria, the strategic network positioning of a potential partner should play a major role in partner selection (Duysters, Kok and Vaandrager 1999, p. 350). In addition to this, it is not sufficient to focus only on the fit between the two parties: the fit in the company's own alliance portfolio should be evaluated in the partner selection as well (Duysters, De Man and Wildeman 1999, p. 184). The selection criteria of potential partners should be complemented to fulfill all these needs, but keeping in mind that the usability of these management tools is not lost with the complexity and large amount of the criteria.

## **CASE STUDIES**

Two software companies were selected as the targets of our case studies. The cases are presented to give an illustration of how the companies use value-add partners in their international operations. The value networks, the partnering process and the partner selection criteria of the case companies are described.

## Company A: Middleware Software Producer

### *Introduction*

Company A is a leading vendor of middleware software for e-and m-commerce and transaction data security and management. During year 2000, the company formed various partnering agreements with the aim of bringing full-pledged business solutions to the market, and it entered several new technology partnerships to ensure compatibility with current and future technologies.

### *Background of the company*

The company has a history of a start-up business unit of a larger company. The Company's business idea is based on innovations and patents developed in this business unit. The business unit was separated from the parent company in 1999, and the company was founded in April 2000. The company's customers consist of 60 operators and 160 companies worldwide. There were on average 410 people working in the company in the year 2000.

### *The value network of the company*

Company A is targeting on operators and corporate customers with its middleware software products. The key players in the network are presented in the figure 1.

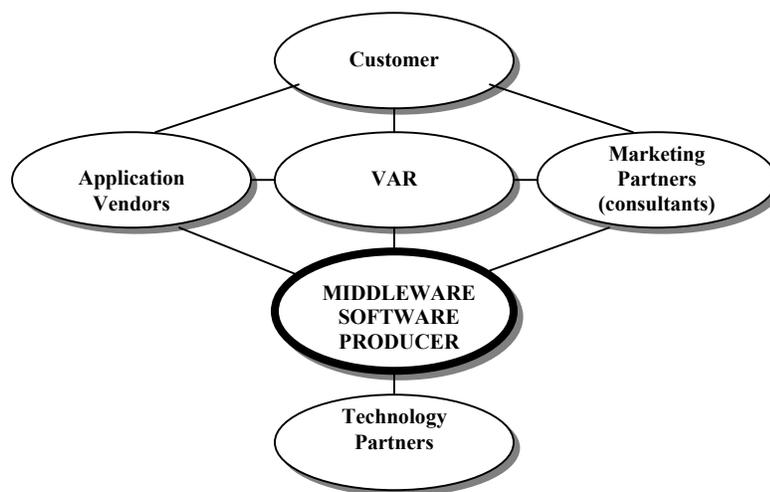


Figure 1: Value network of Company A

### *Partner selection*

It would be important to identify the value network of the company, and thus evaluate and select the potential partners. This evaluation should be made more proactive from the present more or less reactive mode. This should be done on the basis of value network identification and the company's general strategy. The general strategy is guiding the market entry strategies, where the criteria for partner selection are defined.

These criteria can be divided to company specific and technical criteria. The company specific criteria evaluate the general features of a company, its revenues and resources, especially how good human resources the potential partner has for the business case, i.e. how many people they can dedicate for common purposes. The technical criteria are mostly used to evaluate the compatibility of the company's and the partner's technologies.

### *Partner classification*

Company A classifies potential VAR and OEM (i.e. so called revenue generating) partners in three categories. The first category is "Global Key Partners", which represents key global players and where full resource commitment should be assigned. Global partners have activities around the globe, but representative of Company A wanted to stress that in spite of the partner's global presence, sales have to be conducted locally in each target market. Company A can handle 10-20 partners in this category. The second category is "Regional Key Players", which can be utilized for regional sales activities. These partners need also relatively strong resource commitment, and Company A can in practice have max 20 – 50 partners in this group. The third group is "Operative Partners" to which a "program approach" is applied. The company can handle a somewhat larger number of this kind of partners, but still it tries to limit their amount to max 30 – 40 partners.

Potential partners are also classified according to partner type. The partner types are: 1) Co-Marketing Partners -these are so called "Flag Bearer" companies, e.g. bigger companies, industry analysts, consultants, standardization bodies etc.; 2) Solution Partners -these can be system integrators and consultants who offer solution building services for end-customers and preferably resell (VAR); 3) Application Partners - application Vendors which develop applications and

preferably resell (VAR) or are OEMs; 4) Technology Partners - companies and products upon which Company A is dependent on or with whom the company has ongoing R&D activities.

#### *Partner selection process and evaluation*

The partner selection process of Company A can be described with three stages. First there is a qualitative evaluation on individual accounts by area or account managers. The second step is to do quantitative evaluation with information from administration systems. The third step is assessment and short-listing.

The fit of the potential partner is evaluated with four dimensions: 1) Product and service fit, 2) Customer fit, 3) Marketing and sales fit and 4) Business potential. These are presented in more detail in Table 3. All these aspects should be taken into account in partner evaluation, but at the moment the basic starting point for partnering negotiations is the business potential of the partnership.

The Product and Service Fit Evaluation looks at the feasibility of the partnership from the technical perspective. The products are evaluated for Company A's own offering and for the corporate's offering. Integration possibilities of the partner's products to Company A's solutions are evaluated. The depth of integration, and installation and integration capabilities are analyzed.

The Customer Segment Fit Evaluation is used to see how the potential partner can assist Company A in accessing the "business ecosystem" and corporate markets. The partner's value proposition for the customer is analyzed and the customer base alignment is considered. Also the geographical scope, customer service capabilities and business prospects are evaluated.

The Marketing and Sales Fit Evaluation includes the evaluation of partnership from sales and marketing perspectives. "Need for packaging" is analyzed; i.e. whether the product needs a "system" or complementary "total" product to be sold at the same time or whether it can be sold separately. Further questions are how this affects the sales cycle and sales model and how much sales and marketing resources can be expected from the partner. Also the value of the partner's brand and political alignment with Company A's customers are evaluated.

The Business Potential Evaluation is a more or less intuitive guess on the business potential and financial implications of the partnership. The scale of potential business cases is evaluated for the short term (0-6 months), mid term (6-12 months) and long term (> 12 months). Also the business model is analyzed, i.e. to which customers the combined efforts are sold and how the earnings are divided. Potential resource commitment and costs needed for the implementation of the partnership are evaluated.

On the basis of this evaluation information a simple SWOT-analysis is made about the potential partner. As a conclusion for the evaluation the most obvious risks and gains are listed. Also the key issues which could enhance the partnership success are presented.

Table 3: Evaluation criteria in partner fit evaluation

EVALUATION CRITERIA	RELATIVE IMPORTANCE
<b>Business Potential</b> 1. Strategic importance 2. Business potential (long-term) 3. Short- and mid-term revenue 4. Partner commitment to co-operation	High High Medium Low
<b>Customer Fit</b> 5. Complementing customer base 6. Complementing partnership network 7. Partnerships with competitors	High Low Medium
<b>Product and Service Fit</b> 8. Complementing products and/or services 9. Depth of product integration 10. Partner's competing product offering 11. Number of potential applications (application partners only)	High Medium High Medium
<b>Marketing and Sales Fit</b> 12. Strong global market footprint 13. Centralized (+) or decentralized (-) org. 14. Need for solution packaging	Medium Low Medium

## **Company B: Business to Business communication software and service provider**

### *Introduction*

Company B is a business unit of a firm that provides business-to-business communication services. Although it is not an independent firm, it operates rather independently with its own strategy, products and services, and its offering consists of a software product family.

Company B operates worldwide with its products. The use of partners in the implementation, installation and customization of the products is typical for solution provider businesses. B is not an exception. Also, in its internationalization, Company B has traditionally used external partners as a channel to new markets. Currently, half a dozen value added resellers (VARs) form a “core” network for the firm’s international operations and new partners are looked for with the established partner choice process.

### *Background of the Company*

The business of Company B started in 1990 when the first version of the software was released. The first international sales occurred in 1994. Since then, there have been more sales, and partnerships with some VARs have been formed. The software has been licensed to more than 250 customers around the world. B’s business communication solution covers most industry sectors. Most of the end customers are in retailing, transportation and logistics.

B has grown with its income. Currently there are approximately 35 people working for the product family, with 15 of them in sales and marketing and in management. The firm relies strongly on its partners and has concentrated its efforts on product development, as well as training and support of the partners. The selling, consultancy work and integration of the software into customers’ other applications and systems and the customer training are normally done by the partners.

### *Value network of the company*

The product of Company B is a systemic software product for business customers. Several key players in the network create the value for the end-user customer and the success of the product

in general depends on the co-operation of all the members in the network. There are many possible key players that can deliver value into the network (e.g. producer, VAR, SI or other professional software service provider, agent, consultant). Some of the possible players are presented in Figure 2.

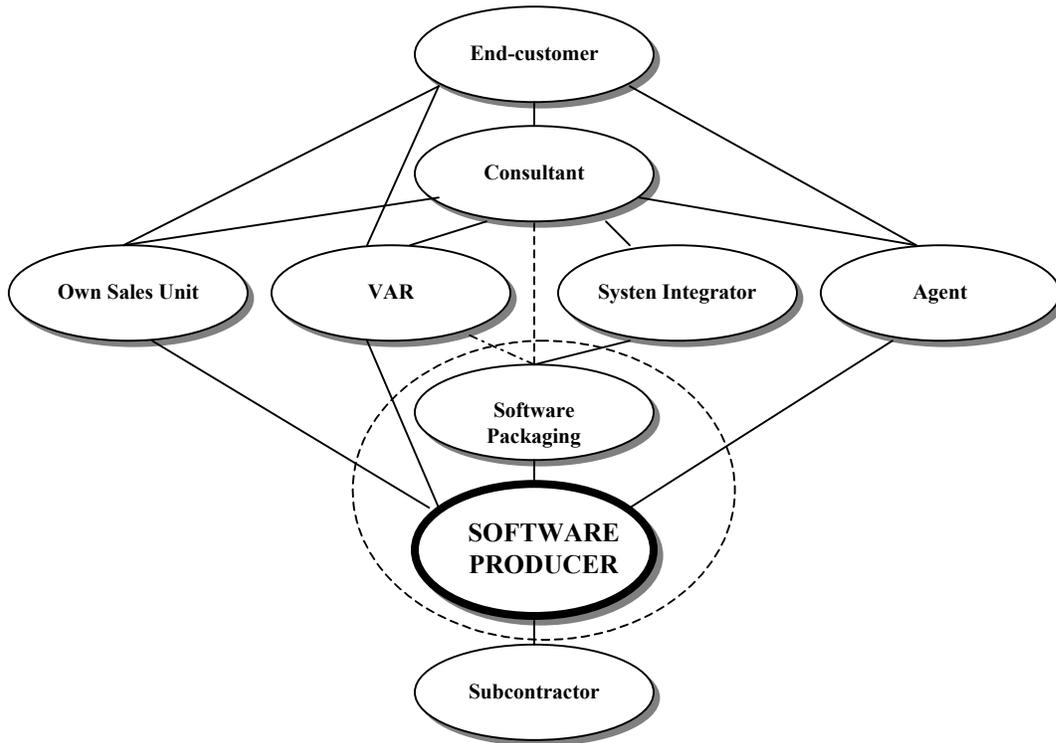


Figure 2: Value network of Company B

The most important partners, as mentioned above, have been VARs (Value-Added Resellers), or VAPs (Value-Added Partners) as the company itself prefers to call them. Most of the sales have been delivered through this kind of marketing channels. Depending on the sales, the role of Company B has been different. There are certain large customers who are more willing to deal directly with Company B than with small partners, or Company B has itself wanted to deal with a new customer directly because of strategic reasons (e.g. the customer is in a new field that the company wants to learn about).

Some of the players in the network are partly competitors of B, depending on what kind of solutions they offer in addition to their core businesses. For example a software solution

consultant may also be offering other applications with similar features. In this sense, getting into good relationships with consultants and system integrators building customer networks is extremely important.

Company B has relied on its partner network in international sales. It has not had enough resources to build up an active presence of its own. VAPs have been the ones who have had contacts with end-users and who have provided the solutions for them. However, the partners provide market information, and to some extent feedback from the end-customers to B. Partnering is seen as a fast and efficient way of doing business. Sales are gained more quickly as the VAPs have local knowledge and contacts.

It is essential for the Company B to identify and analyze all potential new players in its value network, since Company B aims to grow and get new partners. Good tools for this are well-defined partnering process and partner selection criteria.

#### *Partner selection*

Rather recently, B has prepared more defined processes for partner selection. Thus, written partner criteria exist. Gross criteria affecting partner selection include 1) business criteria, 2) marketing criteria, 3) potential criteria and 4) technical criteria. The formal procedure will be taken in use because the company wants to make the screening and selection process independent on the person who is in charge of the selection.

The business criteria include issues like the company's history and financial situation, target markets and industry focus, type of the potential partner's own products and references. The marketing criteria include issues like marketing capabilities and resources, existing contacts with potential customers and competitors, established marketing functions and market segment. The potential criteria include 3<sup>rd</sup> party training certificates (e.g. SAP or Microsoft certificates), relationships with other players within the industry and reputation. In addition, the business culture and the potential of the personnel are looked at.

The technical criteria include programming skills and system integration experience. The ability to give support for end-users and know-how and expertise on the e-commerce related applications, systems and platforms are also analyzed.

In the *partnering process* there are discussions in which it is defined how well a channel partner candidate matches the wanted profile. The screening process is demanding, and finding a good partner is difficult. It is also discussed how willing they are to develop their business. The most important aspect is the ability to offer a complete chain of customer service functions (pre-sales – sales – consultancy – implementation – technical support – after-sales). Of course it is important that the partner has knowledge in software, programming and system integration. Clear focus and target business-wise is also important.

The person responsible for recruiting new partners is the partner manager of the firm. He compiles a SWOT –analysis of the potential, i.e. strengths and weaknesses, opportunities and threats of the candidate firm and takes care of most of the negotiations. The steps in the partner management process are presented in Table 4.

This kind of more or less formal partnering process is used to make the partnering process adhere to project thinking. The estimated duration of the total process is not the sum of the sub processes, because there may be breaks and waiting between the steps.

Company B uses a two-category partner classification scheme. Partners belonging to the first group need to be able to provide tailored turn-key solutions and their employees need to participate Company B's academy training. The partners in the second group need to commit more marketing resources and have clear industry focus in their operations.

Table 4: Phases in the partner management process

PHASE	ISSUES INCLUDED	ESTIMATED DURATION
<b>1. First contact</b>	- Filling of partner application form - Collection of background information - Information given about validation criteria	1 week +
<b>2. Early negotiations</b>	- Business review (analysis of products and competences) - Partner assessment and presentation of partner program	3 weeks +
<b>3. Analysis of the potential partner</b>	- Filling of the partner analysis – form	2 weeks
<b>4. Second stage negotiations</b>	- Potential partner asked to visit - Preparation of the business plan (assistance given by Company B) - Draft of contract drawn	+ 4 weeks
<b>5. Signing of the Contract</b>		+ 1 week
<b>6. Early phases of the partnership</b>	- Partner folder is established, early information collection - Training issues are discussed and analyzed - Agreement on partner monitoring criteria	1 week
<b>7. Training</b>	Participation of partner’s personnel on training academy	+ 4 weeks
<b>8. Consultant gives further training</b>	- New partner receives in-house consultant	+ 2 weeks
<b>9. Pilot case</b>	- First customer	+ 8 weeks
<b>10. Normal operations</b>		
<b>11. Review</b>	- Partner meetings and assessments - Marketing plan developed further etc.	

## CASE DISCUSSION

The two cases represent typical small systemic software producers, which use value-added partners in their internationalization. The partnering processes of both companies seem to be relatively well defined. The evaluation is also rather organized and well documented. However, the question of how well the procedure is followed when the practical evaluation is done remains.

The most potential partners for Company A are the players that enable a fast spread for their software, i.e. application partners. An application partner is a company that has a technical device where company A's software could be installed as a standard complementary tool. On the other hand, operators could be seen as potential partners. When operators start offering an increasing amount of possibilities of doing mobile transactions, this would lead to increased use of the company's products.

Company B has used its partners well in its internationalization. It has received steady revenues from its international partners. However, there are also problems as the partners have not been able to grow as fast as Company B would wish. Thus, there is a need for new partners, as multiple partners and sales channels mean more sales, accordingly.

Company B should be looking at new possible distribution and sales channels. There should be more co-operation with consultants, system integrators and other providers of professional software services. However, this aim seems to be more reachable with good partnering process specifications. This is something Company B has realized as well, and more detailed partner programs have been developed. One issue worth of consideration is the importance of the different target markets, geographical, functional or sector dependent. The partnering efforts should be guided towards the main markets, as the resources for training and support are scarce. Also different channel structures could be used depending on the potential of the market. There could be more incentives for current partners to share market information, and joint operations/meetings could be arranged.

## **CONCLUSIONS**

According to two cases presented in this paper, the way companies are using partnering relations in internationalization supports the theoretical literature and the results of earlier studies made in different sectors. Clearly it is founded to claim that this kind of smaller companies can and should use partners in their internationalization. It has to be noted, like one company representative pointed out, that partnering is part of the building of company's value network, and that partnering is a deeper issue than couple of phrases in company presentations. Partnering

should start from the total strategy, which is based on the partnering orientation. This strategy has to be then put into practice also in product level, so that it is build in that way that it can be developed further and distributed with cooperative methods. This kind of strategy affects organizational structure as well.

The case companies have made efforts to structure and formalize their partnering processes. The aim is to make the evaluation more analytical and to hinder the effect of the person on the process. The companies have listed partner selection criteria, which focus both on evaluation of business potential and technical compatibility of companies. The process and tools for evaluation have to be simple enough and easy to use. However, at the same time they should be thorough and analytical to provide structure for decision-making.

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