Aalto University
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# Global Sales Channel Strategies of Technology Intensive Startups

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Katja Jokinen
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# GLOBAL SALES CHANNEL STRATEGIES OF TECHNOLOGY INTENSIVE STARTUPS

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**Abstract of master's thesis**

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**Abstract**

**Objective of the Research**

This research explores the global sales channel strategies of technology intensive startup companies. By doing so, the study aims at narrowing the prevailing research gap in this area. Previous literature has primarily focused on large multinational corporation's sales channel strategies and on mainly conceptual contributions. Thus, the sales channel strategies of technology intensive startups have received limited attention, especially in the field of empirical research. Technology intensive startup companies often lack the knowledge and resources to develop detailed global sales channel strategies and thus, fail to sell their products to potential customers effectively. Therefore, it was seen as important to contribute to this crucial area of research. Given this, the objective of this study is to evaluate what determines a successful global sales channel strategy for a technology intensive startup.

**Methodology**

This study is qualitative and exploratory in nature. The utilized research method is a multiple case study, where four Finnish technology intensive startups were interviewed on their global sales channel strategies. The interviews aimed at identifying sales channel strategy best practices and success factors. An analytic induction approach, also known as abduction, was used for this research. In this approach, the researcher first deductively builds up a preliminary framework from existing theory, which is later inductively refined as a final analytical framework based on the empirical observations.

**Findings and Conclusions**

Based on the extensive literature review and in-depth empirical research, seven factors were found to determine the success of a global sales channel strategy for a technology intensive startup company. The found success factors were the following: clear company vision and strategy, sales channel structure, sales channel choice, high product quality, intermediary selection and support, seller competency and customer understanding. Especially the linkage of the overall company vision and strategy to the sales channel strategy was seen as important for the success of the sales channel. This study contributes to existing theory by offering a holistic perspective to the sales channel strategies of technology intensive startup companies and by finding critical success factors in this area. The main managerial implication of this thesis is the notion that sales channel strategies do have an impact on a startup's success, as the employed sales channel strategy largely defines how and through which channel members the products are sold. This is why the sales channel strategy related matters require a significant amount of managerial consideration.

**Keywords** Startup company, SME, Global, Sales Channel Strategy, Success Factors, High-tech, technology

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**Tiivistelmä**

**Tutkimuksen tavoite**
Tämä tutkimus tarkastelee teknologiaintensiivisten kasvuyritysten globaaleja myyntikanavastrategioita. Tutkielma pyrkii kaventamaan tällä alalla vallitsevaa tutkimusaukkoa. Alan aiemmat tutkimukset ovat pääosin keskittyneet suurten monikansallisten yritysten myyntikanavastrategioihin ja käsitteellisiin tutkimusmenetelmiin. Tästä syystä teknologiaintensiivisten kasvuyritysten myyntikanavastrategiat ovat jääneet vähemmälle huomiolle, etenkin empiirisissä tutkimuksissa. Teknologiaintensiivisiltä kasvuyrityksiltä puuttuu useasti tiedot ja resurssit yksityiskohtaisten myyntikanavastrategioiden kehittämiseen, minkä seurauksena tehokas myynti potentiaalisille asiakkaille monesti epäonnistuu. Tästä syystä on tärkeää edistää alan tutkimusta. Tutkielman tavoite on selvittää mikä määrittää teknologiaintensiivisen kasvuyrityksen globaalin myyntikanavastrategian onnistumisen.

**Tutkimusmenetelmät**
Tutkielma on luonteeltaan laadullinen ja kokeellinen. Käytetty tutkimusmenetelmä on monitapaustutkimus, jossa haastateltiin neljää suomalaista teknologiaintensiivistä kasvuyritystä niiden globaaleihin myyntikanavastrategioihin liittyen. Haastattelujen tavoitteena oli tunnistaa myyntikanavastrategioiden parhaita käytäntöjä ja menestystekijöitä. Tutkimuksessa hyödynnettiin analyyttistä induktiota, jossa rakennetaan ensin alustava deduktiivinen viitekehys olemassa olevien teorioiden pohjalta. Viitekehystä jalostetaan tutkimuksen edetessä induktiivisesti, empiiristen tulosten pohjalta.

**Tutkimustulokset**
Laajan kirjallisuuskatsauksen ja perusteellisen empiirisen tutkimuksen pohjalta seitsemän menestystekijän todettiin vaikuttavan teknologiaintensiivisen kasvuyrityksen globaalin myyntikanavastrategian onnistumiseen. Havaitut menestystekijät ovat seuraavat: yrityksen selkeä visio ja strategia, myyntikanavan rakenne, myyntikanavan valinta, tuotteiden laatu, kanavajäsenten valinta ja tuki, myyjien pätevyys sekä asiakastietoisuus. Erityisesti yrityksen vision ja strategian linkittyminen myyntikanavastrategiaan todettiin olevan tärkeää. Tutkielma tukee jo olemassa olevaa tutkimusta tarjoamalla kokonaisvaltaisen näkemyksen teknologiaintensiivisten kasvuyritysten myyntikanavastrategioihin. Yksi tämän tutkielman tärkeimmistä johtopäätöksistä on myyntikanavastrategian suuri merkitys yrityksen menestymiseen: myyntikanavastrategia määrittelee suurilta osin sen miten ja kenen kautta yrityksen tuotetta myydään. Tästä syystä yrityksen johdon tulee kiinnittää tarkasti huomiota kyseisten strategioiden suunnitteluun ja toteutukseen.

**Avainsanat** kasvuyritys, pk-yritys, globaali, myyntikanavastrategia, menestystekijä, korkea teknologia

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# 1. INTRODUCTION

*"How companies go to market will determine who wins and loses the game"*

Jeffrey F. Rayport

(Rayport 2005, 21)

This thesis is about global sales channel strategies of technology intensive startup companies. The introductory chapter is structured as follows: first the background and importance of the topic is highlighted, second the research gap, problem, objective and output are presented. After this, the chapter moves on to introducing the research question of this study that leads the way throughout this thesis. The introductory chapter is concluded by highlighting the most important definitions of this research.

## 1.1 Background

The importance of startup companies as well as of the more advanced, small and medium -sized companies (SMEs) for the global economy has increased during the times of financial downturn. Startup companies contribute to the positive economic development not only in terms of tax revenue and employment, but they also foster innovation, sustainability and productivity (Kroes 2007; EK -Confederation of Finnish Industries). Moreover, the competitiveness of an economy is increasingly dependent on international trade, as exporting activities advance growth and are a source of foreign exchange (Albaum *et al.* 2002, 2). Thus, it is not surprising that the business slogan presented by Finnish researchers towards various companies is "Globalize or die" (Luorstarinen & Gabrielsson 2006).

Especially for Finland, a small and open economy (Luostarinen 1970), export oriented startup companies are crucial for the future wellbeing of the country. Finland has a strong and dynamic base in innovation and high technology, and thus, a significant amount of the SMEs and newly started businesses are active in the high technology sector (HighTech Finland 2011, 9). In 2011 Finland exported high technology products worth of 4,5 billion €, which contributed 8% of the total exports (Tulli 2011). Due to the important part that technology intensive SMEs and startup companies play in the

Finnish economy, this research focuses specifically on startup companies active in the high-tech sector.

However, several researchers have pointed out the difficulty of succeeding in exporting activities. Rajala (1997), for example points out that several Finnish companies that export high-tech products lack a well planned and executed sales channel strategy. This creates one of the worst bottlenecks to export activities (ibid.). Moreover, Song *et al.* (2008) found out that one of the most common reasons why technology intensive startup companies fail to prosper is their inability to bring their products effectively to potential customers. In this light, it is crucial for high-tech startup companies to have access to the various theories and best practices of global sales channel strategies. By sharing knowledge and lesions learned and by adopting sales channel strategy best practices, technology intensive startup companies can build and adjust their sales channels to be resourceful and effective.

This study contributes to the important field of sales channel strategy research in three ways. First, various streams of international business theory in regards to global sales channel strategies are examined and analyzed. This section covers the sales channel strategy structure and sales channel strategy choice, among others. Second, sales channel best practices, such as channel choice, implementation and execution, are gathered and evaluated from four Finnish high tech startups and SMEs. This part discusses also the various tradeoffs the case companies made when selecting their sales channel strategies. Finally, the study proposes factors that determine a successful sales channel strategy for a technology intensive startup company. As a whole, this study acts as a guide to global sales channel strategies and best practices for high-tech startups. In addition to global sales channel strategy success factors, also sales channel choice, implementation and execution are discussed.

## 1.2 Research Gap

Based on an extensive review of literature in the field of sales channel strategies, sales channel strategy selection and execution, it can quite confidentially be stated that a *research gap* persists in regards to the sales channel strategies of technology intensive startup companies. First, the existing literature in regards to sales channel strategies is widely dominated by the research on large multinational corporation's (MNCs) sales channel strategies (e.g. Dutta 1995; Krafft *et al.* 2004; Shervani *et al.* 2007). Only a limited number of studies focus on technology intensive startup companies and their sales channels (e.g. Gabrielsson & Gabrielsson 2011; Knight 1997).

As technology intensive startup companies differ from MNCs in several ways, the sales channel strategies of MNCs are not readily transferrable to startups. Technology intensive startup companies operate in ever changing business environments with harsh global competition, high R&D costs and short product life cycles (Francis & Collins-Dodd 2000). Moreover, startup companies often struggle with limited resources and credibility, and they characteristically sell highly innovative products that need to be explained in detail to customers (Brettel *et al.* 2011a). In contrast to this, MNCs often have a stable position in the marketplace and do not face the same amount of pressure and uncertainty that is a given for startup companies. Consequently, the sales channel requirements of these technology intensive startups differ from those of MNCs.

The research that does exist on technology intensive startup companies' sales channel strategies is concentrated on conceptual contributions and thus, empirical research in this field is scarce. This notion has been highlighted by researchers such as Burgel & Murray (2000), Hills *et al.* (2008) and Brettel *et al.* (2011a), who called for more empirical research of startup companies' sales channel strategies. This call has also been the motivation behind the empirical nature of this study.

Another gap in existing research on sales channel strategies was found in the geographical reach of the prior studies. Several of the conducted researches on sales channel strategies of technology intensive startups, have been conducted in a domestic or international context only (e.g. Varis *et al.* 2005; Gabrielsson *et al.* 2002; Brettel *et al.*2011a). These studies have a narrow geographical focus where the sales channel strategies have been examined from the home market perspective or from an international perspective where a limited number of host countries were included to the study. On the contrary, only a few studies focus on the broader global aspect of startup companies sales channel strategies, where the newly established startup companies rapidly enter several markets on a broader global scale (e.g. Al-Obaidi & Gabrielsson 2002a; Freeman 2006).

This research focuses on the global aspect of Finnish technology intensive startup companies' sales channel strategies, and thus, aims at narrowing the found research gaps in several ways. First, this study contributes to the understanding of the sales channel needs and requirements of the technology intensive startup companies, specifically. Second, the empirical nature of this research makes a contribution to the variety of research methods in this field. Third, the global aspect of this study aims at a more holistic picture of the true operating environment of Finnish technology intensive startup companies. Moreover, as this study aims at finding the factors that determine the success of a technology intensive startup company's global sales channel strategy, this research presents new knowledge to the research community.

## 1.3 Research Problem, Objective and Output

The *research problem* of this study is the following: Technology intensive startup companies often lack the knowledge and resources to develop detailed global sales channel strategies and thus, fail to sell their products to potential customers effectively (Rajala 1997; Al-Obaidi & Gabrielsson 2002a). This is a crucial problem that needs to be addressed, as the impact of the inability to effectively sell products to potential customers, often results in the overall failure of the startup company (Song *et al.* 2008; Brettel *et al.* 2011). Given this, the *objective* of this study is to evaluate what determines a successful global sales channel strategy for a technology intensive startup. The *output* of the study will be to generate practical guidelines on factors that determine the success of a global sales channel strategy. These guidelines can be applied when developing global sales channel strategies for technology intensive startup companies. The output of this study is helpful for startup managers' as they will gain more insight on global sales channel strategies in general and thus, will be able to develop sales channel strategies that lead to success instead of failure.

## 1.4 Research Question

In order to examine the research problem outlined above, one detailed research question has been compiled to clarify the direction of this study.

*Research question*: What determines a successful global sales channel strategy for a technology intensive startup?

## 1.5 Definitions

*Internationalization:* Johanson & Vahlne (1977, 23) define internationalization as the process in which a company gradually increases its international operations and commitment level in host markets. Often, the internationalization process is started from neighboring countries (Melin 1992, 104). This study regards internationalization as a geographical expansion of marketing and sales activities to host markets located relatively close to the home market i.e. the same continent. Therefore, in the context of this study, internationalization is recognized as a pre stage of globalization.

*Globalization* is defined by Eden & Lenway (2001, 387) as the "creation and growth of globalized activities, that is, phenomena that transcend national borders, extending across, leveraging, and moving between many locations around the globe simultaneously". Furthermore, Beckfield & Brandy (2008) recognize five dimensions of globalization that are created in the economic, political, cultural, social and environmental domain. This study investigates globalization from the economic viewpoint where companies expand their activities simultaneously to many locations beyond the home market and home continent. In this sense, globalization is seen as an evolution and geographical expansion of internationalization, as it reaches beyond the company's home continent.

*High-tech companies:* "are perceived to be those that incorporate into their products a state-of-the-art technology that is appreciated or recognized as such by their customers in the market segment served by them." (Al-Obaidi & Gabrielsson 2002a, 7) This study is limited to companies that produce and sell physical high-tech products i.e. products that incorporate state-of-the-art technology and which can physically be transferred from one location to another.

*Startup company:* can be defined as “a relatively new, usually small business, particularly one supported by venture capital and within those sectors closely linked to new technologies” (Bloomsbury Business Library - Business & Management Dictionary, 7035). Moreover, Blank & Dorf (2012) define a startup as “an organization formed to search for a repeatable and scalable business model”. This study views startup companies as a combination of these two definitions i.e. as companies that are relatively new and small, focused on new technology products and that are searching for a repeatable and scalable business model. In this light, startup companies are characteristically changing and adapting rapidly, as they are searching for the most profitable way of operation.

*Sales channel:* refers to the various means of making a product available to the target customers in a market place (Meldrum & McDonald 1995, 185). Previous research uses also terms such as “marketing channel” and “distribution channel” when referring to sales channel (Hutt & Speh, 2010, 283). This research defines a sales channel as the route through which the physical product is sold and marketed by the producer to the end customer.

# 2 LITERATURE REVIEW

This part of the thesis presents the existing academic research relevant for this study. The literature review has been divided into four parts as follows: first the relevant theories regarding the internationalization and globalization of a company are presented. After this, the discussion moves on to the existing research on the global sales channel strategies, more specifically their formation and structure. The third part examines factors that affect the sales channel strategy choice of high technology startup companies. The final part draws on the theories presented in the previous chapters and outlines a preliminary research framework on what determines a successful sales channel strategy for a high-tech startup.

## 2.1 Internationalization and Globalization of a Company

As discussed in the introductory chapter, this thesis examines the global sales channel strategies of technology intensive startup companies. The global sales channel strategies are an integral part of how a company internationalizes and globalizes. Therefore, the main theories regarding the internationalization and globalization of a company should briefly be presented before moving on to the extensive discussion on global sales channel strategies. This chapter introduces the two contradicting theories on the internationalization of a company, the *traditional internationalization* view (e.g. Johanson & Vahlne 1977, 1990, 2009; Luostarinen 1970, 1979; Chetty & Campbell-Hunt 2004) and the *born global* view (e.g. Jolly *et al.* 1992; McKinsey & Co. 1993; McDougall *et al.* 1994; Freeman *et al.* 2010; Gabrielsson *et al.* 2012).

The internationalization and globalization of a firm has been one of the main areas of research in the field of international business. However, the internationalization process of a company was not under major research until the 1970's (e.g. Johanson & Wiedersheim - Paul 1975; Johanson & Vahlne 1977). After this, companies, governments as well as researchers alike have taken on the quest of becoming competitive on a global scale and more research on the internationalization and globalization processes has emerged since.

The following two chapters present concisely the underlying differences between the traditional internationalization and the born global view.

### 2.1.1 Traditional Internationalizers

Traditional internationalizers (TI) can be defined as companies that internationalize gradually, first gaining a strong foothold in the domestic market and only after this starting their step-by-step wise internationalization to host markets (Johanson & Wiedersheim - Paul 1975; Johanson & Vahlne 1977, 1990; Luostarinen 1970, 1979). This pattern, called the Uppsala internationalization -model or the stages -model, was developed by two Swedish researchers, Jan Johanson and Jan-Erik Vahlne, in 1977. In 2009 the same researchers revised the model in the "light of changes in business practices and theoretical advances that have been made since 1977" (Johanson & Vahlne 2009). However, the content of the revised model is essentially the same with a few additional highlights including the importance of networks for TI internationalization (ibid.).

The underlying assumption of the Uppsala -model is that as companies gradually learn more about a specific host market, they become increasingly committed to this host market and invest more resources to it (Chetty & Campbell-Hunt 2004; Melén & Nordman 2009; Schwens & Kabst 2011). This pattern seems to be logical especially for companies that are risk-averse, as the step-by-step approach allows for host market testing in a low commitment form. The stages -model recognizes four learning and commitment steps which the company gradually goes through as it internationalizes: no regular exports, exports through agents, establishing an overseas sales subsidiary, and finally overseas production (Johanson & Wiedersheim - Paul 1975). These steps clearly demonstrate why the Uppsala -model is a perfect match for risk-averse companies: if needed, the low commitment forms at the beginning allow for easy and fast withdrawal from the host market.

According to the traditional internationalization view, companies export first to host markets with a low psychic distance and only after this, export to markets with higher psychic distances (Chetty & Campbell-Hunt 2004). The concept of psychic distance refers to the differences relating to language, culture, and business practices for example

(Johanson & Wiedersheim - Paul 1975; Johanson & Vahlne 1977; 2009). It is surprising that specifically the psychic distance has been reported to create more gaps and problems between the producing firm and the host markets, compared to the actual physical distance (e.g. Johanson & Wiedersheim - Paul 1975; Håkanson & Ambos 2010). This expresses the role of cultural differences in the internationalization process of a company and the need for overcoming them. Once the company gains experimental knowledge in a host market, it is also able to reduce the psychic distance to that specific market (Luostarinen 1970, 1979). Consequently, the company also has higher chances for success, as the differences have been identified and problems can thus be prepared for or completely avoided.

The Uppsala -model has been criticized for several reasons. The critics argue that the model is too linear and deterministic (Fina & Rugman 1996; Gabrielsson *et al.* 2012) and that it oversimplifies the complex process of internationalization (Dichtl *et al.* 1984; Freeman *et al.* 2010). Moreover, Oviatt & McDougall (1994) challenge the stage pattern and claim that companies frequently skip some predefined stages or proceed in a different order from one stage to the other. The Uppsala -model also ignores acquisitions and how companies' internationalization processes alter as a result (Forsgren 1990).

Partly due to the criticism raised against the traditional internationalization view, another view on companies' internationalization process emerged during the early 1990's. The new "born global" -theory (e.g. Jolly *et al.* 1992; McKinsey & Co. 1993; McDougal *et al.* 1994; Laanti 2006; Melén & Nordman 2009) challenged the traditional stages -model and opted for a different pattern of company internationalization. This view is discussed in more detail over the course of the next chapter.

### 2.1.2 Born Globals

This chapter discusses the born global (BG) pattern (e.g. Jolly *et al.* 1992; McKinsey & Co. 1993; McDougall *et al.* 1994; Freeman *et al.* 2010; Gabrielsson *et al.* 2012). The born global view creates also the foundation for this research, as the case companies analyzed later on in this research can be defined as born global companies. To avoid confusion, it is important to note that the literature on born globals uses varying terms to refer to the born global phenomenon. Among others, terms such as international new venture (NEV) (McDougall *et al.* 1994), high technology startup (Jolly *et al.* 1992) and global start-up (Hordes *et al.* 1995) are widely used. This study uses the terms “high technology startup” and “technology intensive startup company” to refer to born globals.

On the contrary to the traditional internationalization process view outlined in the previous chapter, the born global theory identifies companies that follow an alternative internationalization pattern. The born global view acknowledges that some companies do not internationalize incrementally and in stages, but enter host markets already at the inception of the company (McKinsey and Co. 1993; Oviatt & McDougall 1994, 1997; Chetty & Campbell-Hunt 2004; Gabrielsson *et al.* 2012). These firms have a global orientation already at conception and might enter host markets even without any experience from the domestic market (Jolly *et al.* 1992; Knight & Cavusgil 1996; Freeman *et al.* 2010; Schwens & Kabst 2011). This indicates that the born global companies do not follow the step-by-step approach suggested by Johanson & Vahlne (1977), but rather internationalize dynamically by skipping steps or even taking steps in reverse.

Table 1 below summarizes how the born global view differs from the traditional internationalization view presented in the previous chapter. These differences are examined in more detail over the course of this chapter.

Table 1. Two Views on Internationalization

| | Traditional View | Born Global View |
|---|---|---|
| **Research Question** | Why does internationalization unfold in an incremental manner? | How is it possible that firms venture into foreign markets already at inception? |
| **Empirical Background** | Swedish manufacturing firms in mid-1970's | Knowledge intensive small firms in early 1990's |
| **Research Focus** | Emphasizes on constrains to internationalization (e.g. psychic distance) | Emphasizes on enablers to internationalization (e.g. networks) |
| **Role of Knowledge** | Internationalization knowledge is primarily acquired in an incremental manner and from own experiences made in the foreign market | Knowledge is either rooted at the individual level through prior international experience of the management team or acquired through alternative mechanisms such as networks |
| **Internationalization Pattern** | Process view: reactive, incremental, gradually increasing | Entrepreneurial view: rapid, proactive, risk-seeking |

Source: adapted from Schwens & Kabst (2011, 62)

A born global is defined by Oviatt & McDougall (1994, 49) as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". A complementing definition by Knight and Cavusgil (1996, 11) defines born globals as "small, technology oriented companies that operate in international markets from the earliest days of their establishment". Both of these definitions are highly relevant for this study as the empirical analysis is conducted on small technology intensive startups and SMEs that are born global companies. These companies are chosen based on characteristics that previous research has identified to portray a born global. Below a list that synthesizes previous research on the most important characteristics of a born global:

- Manufactures *customized high-technology products* for global *niche markets* (McKinsey and Co. 1993; Knight & Cavusgil 1996; Chetty & Campbell-Hunt 2004)
- Has a strong *global vision at inception* (Jolly *et al.* 1992; McKinsey and Co. 1993)
- Is lead by *entrepreneurial managers* who view the *world as one market* and thus, target several host markets simultaneously (Oviatt & McDougall 1994; Rialp *et al.* 2005; Gabrielsson & Gabrielsson 2011)

- Is *small in size* and therefore *flexible* and able to move fast (Knight & Cavusgil 1996; Rialp *et al.* 2005)
- Has *strong international business networks* (Madsen & Servais 1997; Coviello 2006; Freeman *et al.* 2006; Schwens & Kabst 2011)

Researchers argue that there are several reasons why born global companies are becoming increasingly widespread in many parts of the world. Technological advances in production, communication and transportation have diminished cultural differences between markets and thus, enabled fast internationalization for born globals (Madsen & Servais 1997; Chetty & Campbell-Hunt 2004). Born global companies are small and flexible, therefore also able to quickly adapt to changing conditions and requirements. This is why constantly changing industry and market conditions as well as the increasing global competition create an optimal environment for born globals to surface and operate (Ovatt & McDougall 1997; Laanti et al 2006). Moreover, the fall of trade barriers and the following free movement of capital, goods, services and people have also assisted the rapid internationalization of born globals (Knight & Cavusgil 2004; Laanti 2006).

The notion that especially technology intensive startups commonly follow the born global internationalization path (Autio *et al.* 2000; Burgel & Murray 2000; Bell *et al.* 2001), is particularly crucial for this thesis. The case companies selected for the empirical analysis are technology intensive startups that can be described by the characteristics listed above and therefore, are categorized as born globals. Technology intensive startups often have high research and development costs that need to be amortized quickly. In order to do so, these companies strive for fast global revenues and growth (Burgell & Murray 2000; Schwens & Kabst 2011) and therefore, globalize at, or shortly after, inception (Chetty & Campbell-Hunt 2004). This study examines what determines a successful global sales channel strategy for a technology intensive startup. Consequently, the final results of this study can assist managers when developing a globalization strategy for such companies.

Now, as the two theories regarding company internationalization and globalization have been outlined, it is time to move to the main topic of the thesis, the global sales channel strategies of technology intensive startups. As mentioned earlier, the born global view is used as the cornerstone for this study. Therefore, the born global view on company internationalization creates also the context in which the global sales channel strategies are examined. Going forward, the terms "high technology startup" and "technology intensive startup company" are used to refer to born globals, as these terms reflect better the underlying assumptions of the studied companies.

## 2.2 Global Sales Channel Strategy

This section of the thesis focuses on the global sales channel strategies and aims to give an overview of the main streams of research in this field. The theories regarding global sales channel strategies are examined especially in the light of their suitability for technology intensive startup companies. However, the excising research in this field is dominated by conceptual contributions and empirical research is scarce, as pointed out by Burgel & Murray (2000), Hills *et al.* (2008) and Brettel *et al.*(2011a). This highlights the importance of new empirical research in the field of sales channel strategies and justifies the empirical nature of this study. Moreover, the global dimension of this research is valuable, as several of the conducted researches of sales channel strategies of technology intensive startups, have been conducted in a domestic or international context (e.g. Varis *et al.* 2005; Gabrielsson *et al.* 2002; Brettel *et al.*2011a).

An exhaustive description of global sales channel strategies is challenging, as some areas of the sales channel strategies and their management have received limited attention from the academic community (Ensign 2006; Vepsäläinen 2008). For example, little has been written on the challenges startups and born global companies face when selecting their sales channel strategies (e.g. Burgel & Murray 2000; Stray *et al.* 2001; Hills *et al.* 2008; Song *et al.* 2008). Moreover, academics have examined single channel strategies (direct and indirect), but the attention given to multiple channel strategy alternatives such as hybrid and dual, has not been as extensive (e.g. Anderson *et al.* 1997; Coelho *et al.* 2003). Furthermore, many researchers do not make the separation between the hybrid and dual sales channel, but rather regard these as the same strategy (e.g. McNaughton 2002; Coelho *et al.* 2003; Sharma & Mehrotra, 2007).

The differences as well as benefits and drawbacks of these strategies will be outlined in detail later on in chapters 2.2.2.1 - 2.2.2.5.

This chapter 2.2 with its subchapters goes first through the formation and theoretical background of sales channel strategies (Luostarinen 1979; Al-Obaidi & Gabrielsson 2002a; Sharma & Erramilli 2004). After this, the five global sales channel strategies are presented. Due to the time and resource constraints of a master's thesis, this study is limited to the following five sales channel strategies: direct, indirect, dual, hybrid and the internet based sales channels.

### 2.2.1 Global Sales Channel Strategy Formation

A *channel* refers to the various means of making a product or service available in the market-place (Meldrum & McDonald 1995, p. 185). In this sense, a channel serves as a bridge between the producer and the end-customer through which the products reach the target market. Accordingly, the sales channel choice and formation is of a high strategic importance for the producer, as these aspects can determine which companies succeed and which fail in the competition for customers (Burgel & Murray 2000).

It is important to note that the terms distribution channel and marketing channel are frequently used as synonyms to sales channels (Hutt & Speh, 2010, 283). However, one aspect that can easily give raise to confusion in regards to sales channels, is the fact that international business and marketing literature have developed separate definitions for sales channel structures (e.g. Luostarinen 1979; Hardy & Magrath 1988, 14-22). Ensign (2006) discovers in his work that some scholars consider international sales channels as a sub-set of marketing channels, whereas others regard international distribution channels as a separate field of research. Both of these research streams examine similar dimensions behind the definitions, such as the variety and number of channels, the degree of channel selectivity as well as the level of directness and ownership of the channel. However, the international business literature views these aspects from the internationalization stage perspective (e.g. Luostarinen 1970; Luostarinen 1979), whereas the marketing literature views the channel structures from a domestic market or a single-market context (e.g. Rosenbloom 2007).

This study regards the different sales channel strategies as derivates from the target country internationalization model developed by Luostarinen (1979 p. 110). The model concludes that a producer has the choice over two basic ways of selling his/her products: either to directly sell to the end-customer or to use independent channel members in the host market. Hence, Luostarinen's model identifies two basic sales channel alternatives A) the *direct sales channel* and B) the *indirect sales channel*. These two channel alternatives are also recognized by the marketing literature, but on a less international scope (e.g. Hardy & Magrath 1988 p. 15-22). This research focuses on the two basic sales channels mentioned above, the direct and indirect, but in addition, three other forms of sales channels are examined: the dual sales channel, the hybrid sales channel and the internet sales as sales strategy.

### 2.2.2 Global Sales Channel Strategy Structure

To be able to evaluate what determines a successful global sales channel strategy for a high-tech startup, the various sales channel options need to be defined. The following sub-chapters 2.2.2.1 through 2.2.2.5 discuss the structures, benefits and drawbacks of the five different sales channel strategy approaches relevant for this study. Two *single sales channel* strategies, the direct sales channel (e.g. Easingwood & Coelho 2003; Sa Vinhas & Anderson 2005; Shehzadi *et al.* 2010) and the indirect sales channel (e.g. Burgel & Murray 2000; Bandy *et al.*, 2009; Brettel *et al.* 2011b), as well as, two *multiple sales channel strategies*, the dual sales channel (e.g. Dutta 1995; Arnold 2000; Rosenbloom 2007) and the hybrid sales channel (e.g. Anderson *et al.* 1997; McNaughton 2002; Gassenheimer *et al.* 2007), are presented. In addition, a more contemporary channel option, the *internet as sales channel* (e.g. Sharma & Mehrotra 2007; Yan & Ghose 2010; Gabrielsson & Gabrielsson 2011) is reviewed.

Before moving on, it is useful to define the context in which the various sales channel strategies are examined in this study. As explained in the very beginning of this study, the sales channel strategies are looked at from the specific viewpoint of technology intensive startups, also called born global companies. Moreover, the individual sales channel strategies presented in the following chapters will be compared to each other in terms of cost, more specifically, the transaction cost economics theory (TCE), where a producer chooses the channel strategy with the lowest costs (e.g. Geyskens *el al*. 2006; Michael 2007). However, as found by several researchers (e.g. Burgel & Murray 2000; Easingwood & Coelho 2003; Dimitrova & Rosenbloom 2010; Brettel *et al.* 2011a), resource constrained technology intensive startups base their sales channel strategy choice not only on the TCE principle, but also on other parameters. This is due to the specific characteristics of the high-tech startups, such as the need for being agile and responsive to the fast paced and risky operating environment (Francis & Collins-Dodd 2000; Burgel & Murray 2000), as well as their varying needs in direct customer contact and learning opportunities, for example (Brettel *et al.* 2011a).

Therefore, the following five parameters were gathered from the existing literature on startup companies' sales channel strategies and are now used for the comparison of the various sales channel strategy options. The parameters are the following: *cost of using channel* (e.g. Bandy *et al.* 2009), *direct customer contact* (e.g. Brettel *et al.* 2011a; Bell 2010), *control over channel* (e.g. McNaughton 2002; Gabrielsson & Gabrielsson 2011), *potential for sales channel conflict* (e.g. Al-Obaidi & Gabrielsson 2002a; Chiang *et al.* 2003) and *customer reach* (e.g. Mols 2000; Coelho *et al.* 2003; Rosenbloom 2007).

The Table 2. below summarizes and synthesizes concisely these parameters and illustrates how they relate to the individual sales channel strategies. The following sub-chapters 2.2.2.1 through 2.2.2.5 will go into these parameters in more detail, and specify how each sales channel strategy affects each of these parameters. The TCE theory, however, will be explained in more detail in chapter 2.3. Sales Channel Strategy Choice, as the TCE relates specifically to the sales channel strategy choice (Dutta 1995; McNaughton 2002; Brettel *et al.* 2011a). The above highlighted five parameters will also be examined from the view point of the analyzed case companies, later on, in the empirical part of this thesis.

Table 2. Sales Channel Strategy Parameter Comparison

| Parameter | Explanation | Single | | Multiple | | |
|---|---|---|---|---|---|---|
| | | Direct | Indirect | Dual | Hybrid | Internet |
| **Cost of using channel** | The costs that the producer has to pay in order to use the channel. | High | Moderate | Low | Low | Low |
| **Direct customer contact** | The *depth* of the producers' contact to individual customers. | High | Low | Moderate | Moderate | High |
| **Control over channel** | The control the producer has over the whole sales channel and its activities. | High | Low | Low | Low | High |
| **Potential for sales channel conflict** | The potential for conflicts between channel members. | Low | High | High | Moderate | Moderate |
| **Customer reach** | The channels ability to reach customers in remote locations i.e. *width* of channel | Low | Moderate | High | High | High |

Source: synthesis on various researchers' views regarding global sales channel strategies (e.g. Bandy *et al.* 2009; Brettel *et al.* 2011a; Gabrielsson & Gabrielsson 2011; Mols 2000; Coelho *et al.* 2003; Rosenbloom 2007).

#### *2.2.2.1 Direct Sales Channel Strategy*

The single sales channel strategies can be divided into direct and indirect channels based on the level of directness and control of the channel (Gabrielsson 1999). In a *direct sales channel*, also called vertically integrated channel (Sa Vinhas & Anderson 2005), the producer sells directly to its end-customers using its own sales force (e.g. Park & Keh 2003; Shehzadi *et al.* 2010). The aim is to communicate one on one with targeted customers, achieve an immediate response and build long lasting relationships (Kotler *et al.* 2008, 692). As the direct sales channel is fully owned by the producing company, it also provides the highest level of control of the presented channels.

The benefits of using a direct sales channel are the increased scale and scope economies, improved communication with customers as well as improved co-ordination of activities (Easingwood & Coelho 2003; Shehzadi *et al.* 2010). Especially for startup companies, direct sales provide also the opportunity to learn directly from the customers about the needs and requirements in the marketplace. Fast learning and reflecting is extremely crucial for new companies in order to survive (Hills *et al.* 2008; Brettel *et al.* 2011a). It is also likely that an own sales force will be more committed and motivated to sell the product compared to an intermediary (Bandy *et al.* 2009).

In addition to the above mentioned benefits, the use of a direct sales channel can effectively eliminate sales channel conflict as this strategy minimizes third party involvement. (Easingwood & Coelho 2003; Webb & Lambe 2006). Sales channel conflict can be defined as any kind of conflicting interest across the sales channels (Coughlan *et al.* 2001, 37). The conflict of interest could arise between the manufacturer and an intermediary but also between two independent intermediaries. A sales channel conflict arises typically when two or more channel types reach the same customer or if a customer sets the channels into competition against each other (Sa Vinhas & Anderson 2005). However, as the direct sales channel does not include intermediaries, the risk for channel conflict is minimal.

Even if there are many benefits in using a direct sales channel strategy, there are also certain disadvantages. This strategy requires large investments from the producer and hence, results in a loss of strategic flexibility (Easingwood & Coelho 2003). Moreover, small startup companies, for example, may lack the financial resources and specific market knowledge needed to enter host markets successfully through direct sales (Al-Obaidi & Gabrielsson 2002a; Brettel *et al.* 2011a). In addition, the direct sales channel has a limited customer reach in comparison with the other sales channel options (Bandy *et al.* 2009). It is obvious that when the amount of channel members increases, also the market coverage and therefore, the customer reach enhances.

There has been debate in the academic community about the suitability of a direct sales channel for startup companies. Zachararkis (1997), for example, claims that direct exporting is not a suitable channel option for startups and hence, recommends the use of intermediaries such as export agents and distributors. Host market intermediaries can serve as an important source of knowledge in regards to local competitors and consumer preferences and thus, the direct sales channel is not necessarily the only way to gain market knowledge (Wu *et al.* 2007; Dimitrova & Rosenbloom 2010). Nevertheless, other researchers state that the direct sales strategy is indeed a widespread entry mode of small companies and that direct sales is necessary for new technology products in order to penetrate an unknown market and convince buyers (Hill *et al.* 1990; Madhok 1997; Combs 2004; Brettel *et al.* 2011b).

#### 2.2.2.2 Indirect Sales Channel Strategy

The previous chapter outlined the first option of the single sales channels - the direct channel. This part of the thesis will introduce the second single sales channel - *the indirect sales channel strategy.* In indirect sales, also called third party channel (Sa Vinhas & Anderson 2005), the producing company uses at least one independent channel intermediary located in the host market (Hutt & Speh, 2010, 284). An intermediary could for example be a distributor, an agent, a reseller, a wholesaler or a retailer (Al-Obaidi & Gabrielsson 2002a). However, different industries use a varying range of intermediaries and it is difficult to present an exhaustive list of all intermediaries. (Morelli 2006)

The advantages of using an indirect sales channel strategy are many. An indirect channel involves higher variable costs, but lower fixed costs compared to a direct sales channel. Hence, a company that uses an indirect sales channel faces lower total costs compared to another company using a direct channel (Bandy *et al.* 2009). Moreover, the use of an intermediary enables access to the expertise and market knowledge that the intermediary has accumulated over time (Easingwood & Coelho 2003; Wu *et al.* 2007; Bandy *et al.* 2009; Dimitrova & Rosenbloom 2010). This is especially important for small companies lacking sufficient market knowledge and suffering from the liability of foreignness (Zaheer 1995). The indirect sales channel is also critical for expanding market coverage quickly, especially in the high-tech sector (Bandy *et al.,* 2009; Brettel *et al.* 2011b). Moreover, a producer is more likely to keep a higher degree of flexibility through an indirect sales channel towards environmental change. This is the result from the fact that external channel members are easier to rescale compared to integrated systems. (Easingwood & Coelho 2003)

Like any sales channel strategy, also the indirect channel has its downsides. Channel conflict is more likely to arise when the amount of channel members increases. In addition, the indirect channel decreases the producers' level of ownership, control and customer contact (Gabrielsson 1999; Easingwood & Coelho 2003). Especially the lack of customer contact might be a deal breaker for producers that require a high level of contact with customers. A startup company, for example, might need a high level of customer interaction in order to learn about the market needs and consequently, be able to produce enhanced products (Brettel *et al.* 2011a).

In order to be successful, the indirect sales channel needs to be well organized and linked to the overall company strategy (Bellin 2006). The selection and performance management of an intermediary are especially critical factors for the success of the channel strategy (Bandy *et al.* 2009). It is also crucial to motivate and get the intermediary committed to selling the products. This is particularly important for startups that might struggle with gaining bargaining power against an intermediary. In the eyes of an intermediary a small company is only one of several clients and it might be tempting to be committed to larger and well established companies, whose products have a high demand. (Burgel & Murray 2000)

To conclude the chapter about indirect sales channels, it is worth highlighting that the ratio of direct vs. indirect sales channels used, especially in the high-tech industry, has shifted significantly during the past decades. According to Bandy *et al.* (2009), global technology sales through indirect sales channels have increased by 26% from the year 1997 to 2007. However, as the indirect sales channel is a more economical way for the producer to sell its products, challenging economic times and declining returns force these producers to move to an indirect sales channel strategy (*ibid*). Moreover, as small startup companies lack the resources to sell directly, they are more or less forced to cooperate with intermediaries in order to get access to assets, resources, and capabilities they do not own themselves (e.g. Burgel & Murray 2000). This demonstrates the difficulty in developing a successful sales channel strategy. Even if the indirect sales channel might not always be the most suitable channel for a startup company, the company might, for one reason or another, be forced to sell indirectly.

Based on the above discussion, the successfulness of an indirect channel is largely based on the producing company and the requirements it sets for a sales channel. There are certain tradeoffs to be considered, such as lower costs and higher customer reach compared to the direct channel, but higher potential for channel conflict and less overall control of the channel.

#### *2.2.2.3 Dual Sales Channel Strategy*

Now, as both single sales channel strategies have been introduced, it is time to move on to the multiple sales channel strategies i.e. where the producing company uses two or more types of sales channels simultaneously. The number of companies using multiple channel strategies for the distribution of their products is increasing steadily. This demonstrates also the shift from single towards multiple sales channels that has been highlighted by some researchers (e.g. Frazier 1999; McNaughton, 2002; Webb & Lambe 2006). Coelho & Easingwood (2008) even claim that multiple sales channels are becoming the most popular channel design among large businesses.

However, the suitability of these multiple sales channel structures for startup companies has been questioned by other scholars, such as Burgel & Murray (2000) and Combs (2004). Furthermore, Brettel *et al.* (2011b), for example, discovered that startup companies typically only use single sales channels and multiple sales channels are less likely in these companies. However, the frequency of a sales channel strategy is not necessarily the measure for the successfulness of the strategy. The success of any given sales channel is inevitably dependent on the company and its operating environment as well (Bellin 2006; Bandy *et al.* 2009).

Both multiple sales channel strategies (dual and hybrid) provide a higher degree of direct customer contact in comparison with the indirect sales channel, but still less customer contact than the direct sales channel (Gabrielsson 1999; Easingwood & Coelho 2003). This is due to the fact that in multiple sales channels, part of the sales is direct and part of the sales is indirect. Therefore, companies considering the use of multiple sales channels need to examine their requirement for direct customer contact and based on this, optimize the division of sales between the direct and indirect sales channels.

This chapter outlines the *dual sales channel strategy*. However, as the two multiple sales channel strategies (dual and hybrid) are rather similar strategies and many researchers regard these as synonymous (e.g. McNaughton 2002; Coelho *et al.* 2003; Sharma & Mehrotra, 2007), the discussion on the separate multiple sales channels will be kept fairly short

The dual sales channel strategy is the simultaneous use of direct and indirect sales channels (e.g. Dutta 1995; Chiang *et al.* 2003; Gassenheimer 2007). Varying terms, such as conventional sales channel (Anderson *et al.* 1997), mixed sales channel (Frazier 1999) and plural sales channels (McNaughton 2002), are used to refer to the dual sales channel. In this channel strategy the distributor becomes part of a mixed system, where the producer manages major customers directly and independent intermediaries focus on smaller accounts or other segments of the host market (Frazier 1999; Arnold 2000; Al-Obaidi & Gabrielsson, 2002a). In dual sales each member of the sales channel performs all functions necessary to serve its immediate customer (Anderson *et al.* 1997)

Advantages of the dual sales channel strategy include the lower fixed costs compared to full integration, access to outside R&D activities, expanded market coverage and reduction of the risk of becoming too dependent on either the direct or indirect sales channel (Mols 2000; Coelho *et al.* 2003; Rosenbloom 2007). In addition, as the dual channel serves several market segments, customers are able to choose the most convenient channel and have more options for where to buy the product from. An interesting phenomenon is pointed out by Chiang *et al.* (2003). They found out that several producers engage in dual sales in part to motivate intermediaries to perform more effectively. Similar findings have been reported also by Assael (1969) and Cohen (2000).

However, even if the dual sales channel is a cost effective way of reaching customers, it is seen as an adversarial sales channel strategy for high-tech companies that emphasize on cooperation and try to avoid sales channel conflict (Briones 1999; Frazier 1999; Al-

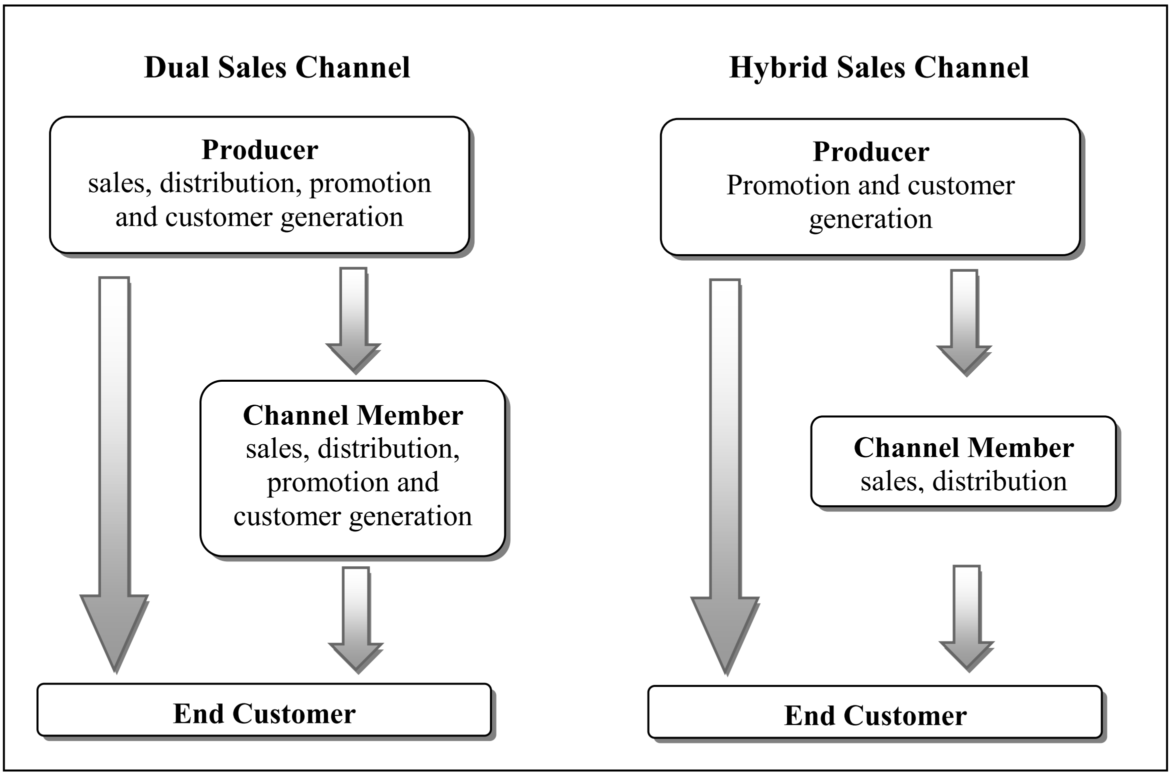
Obaidi & Gabrielsson 2002a, b). In a dual system the potential for channel conflict is high as the channel members have overlapping roles, perform the same activities and compete for the same customers (Chiang *et al.* 2003; Coelho *et al.* 2003; Yan & Ghose 2010). Even large high -tech companies such as Compaq, General Motors and Hewlett-Packard Co. have encountered channel conflicts specifically due to the competition for the same customers through separate channels (Gassenheimer *et al* 2007).

The dual sales channel can be the preferred channel option only when the relative power of a producer is stronger than the power of an intermediary. In this case channel conflicts can be overcome as the producer has strong control over the supply chain (Park & Keh 2003; Gabrielsson & Gabrielsson 2011). However, small startups with limited resources rarely have strong negotiation power over the intermediaries (Burgel & Murray 2000). In addition, even if the problems related to the dual sales channel could be overcome, some academics go as far as claiming that the dual sales channel is in an unstable and transitory state and hence, cannot prevail (e.g. Mols 2000).

#### *2.2.2.4 Hybrid Sales Channel Strategy*

The distinctive difference between the two multiple sales channels is that the *hybrid sales channel,* also called the composite sales channel (Anderson *et al.* 1997), is based on cooperation and partnership whereas the dual channel has a higher risk for channel conflict (Briones 1999; Gabrielsson *et al.* 2002; Chiang *et al.* 2003). The difference is demonstrated in Figure 1. below. In a hybrid sales situation each channel member specializes in a certain function and all members work together to satisfy customers' needs. The producer is usually responsible for promotion, developing leads and providing follow-up service, while the intermediary is in charge of sales and physical distribution (McNaughton 2002). Hence, the risk for channel conflict is lower than in the dual sales channel, but has, however, not completely been eliminated.

**Figure 1. Differences Between Dual and Hybrid Sales Channels**




Source: Gabrielsson 1999; Gabrielsson *et al.*2002

The hybrid sales channel is centered on the idea that the channel members cooperate vertically in order to satisfy customer needs. Therefore, this channel strategy is generally selected when the partnership advantages achieved through cooperation and trustworthy relationships are important for the producer (Anderson *et al.*, 1997; Gabrielsson & Gabrielsson 2011). Al-Obaidi and Gabrielsson (2002a) discovered that this is the case especially for high-tech companies.

As the multiple sales channel strategies, dual and hybrid, are similar strategies, the benefits of using the hybrid sales channel are comparable to the benefits of the dual sales channel. In general, both multiple sales channels generate higher sales performance, gain a wider customer reach and accumulate lower costs compared to single sales channels (Mols 2000; Coelho *et al.* 2003). However, the main difference in the hybrid sales strategy compared to the dual one is the higher level of coordination. This enables a more efficient and organized delivery of the products to the customer and hence, decreases the potential for channel conflict. (Anderson *et al.* 1997; Chiang *et al.* 2003).

The downsides of a hybrid sales channel strategy are similar to the cons of using the dual system; problems of control and channel conflict do still exist, even if they are of a lower significance compared to the dual channel. Moreover, even if the theoretical customer segmentation and activity division between channel members is feasible, it proves to be challenging in practice. Customers tend to use several sales channels for their purchases. Consequently, this may create problems even if the producer aims at dividing tasks between channel members and targeting specific segments through separate channels. (Mentzer *et al.* 2001; Gassenheimer *et al.* 2007)

#### *2.2.2.5. Internet Sales as Channel Strategy*

Now as the traditional sales channel options have been introduced, it is time to present a more contemporary sales channel strategy, *the internet sales.* This sales channel strategy is a fairly unexplored area of global sales channels and international entrepreneurship (Arenius *et al.* 2005; Bell 2010; Gabrielsson & Gabrielsson 2011). However, as especially born global companies have been relatively quick in adopting internet based sales channels, they are also highly relevant for this study.

It is obvious that the rise of the internet and hence, the access to a seemingly bottomless well of knowledge, has facilitated especially the internationalization of startup companies. However, the use of the internet as a general business tool and as a sales channel, are two different activities. This chapter discusses the internet as a purposeful sales channel and thus, other internet related activities are beyond the scope of this chapter.

The internet sales used on its own is a direct sales channel as the producer is in immediate contact with its customers through the internet. However, as most companies have used the internet in addition to other sales channel options, the internet sales has been viewed by many researchers as a variation of the multiple sales channels (Merrilees & Fenech 2007; Mukhopadhyay *et al.* 2008; Yan & Ghoose 2010). The internet sales strategy will be viewed as such also in this study.

The main difference to the traditional multiple sales channels is the scope of opportunities the internet sales have created. Due to the revolution of the internet, producers have had a unique opportunity to redesign their marketing and global sales channel strategies to reflect today's ICT -dependent economy. As the globe becomes increasingly connected to the world wide web, the internet as a sales channel offers a new way to globally reach a large number of potential customers for a fraction of the cost of more traditional sales channels. Moreover, the internet enables a producer to decrease overall marketing costs and reach customers that cannot be reached through traditional channels (Sharma & Mehrotra 2007). Especially important for startup companies that aim for fast market coverage and high customer contact, is the fact that internet sales enables direct communication with end customers (Brettel *et al.* 2011). This provides the possibility to gather valuable customer information and market knowledge. When a sales channel strategy is dominated by the internet sales, this channel presents also a relatively high level of producer control of the channel. (Younghwa *et al.* 2003; Sharma & Mehrotra 2007; Mukhopadhyay 2008; Bell 2010)

Similar to the other multiple sales channels, also the internet based sales channel has potential for channel conflict (e.g. Tsay & Agrawal 2004; Mukhopadhyay 2008; Yan & Ghose 2010). One crucial aspect of internet channel conflict is a phenomenon labeled as "free riding" (Sharma & Mehrotra 2007). The phenomenon is visible when a customer uses a sales person or intermediary to gain information about the product, but in the end, buys the product from the cheaper internet channel. Brynjolfsson & Smith (2000) found that prices in online stores were up to 16% cheaper compared to conventional stores. In this light the consumers' decision to buy from the cheaper online channel is predictable. However, this creates an obvious problem for the intermediaries as they lose paying customers to another sales channel. In addition to the "free riding" phenomenon, customers are able to compare prices more conveniently through the internet. This might lead to increased competition between sales channels and consequently, to overall lower prices. (Yan & Ghose 2010)

Now as all of the relevant sales channel strategies have been introduced, it is time to conclude the chapter 2.2.2. This chapter outlining the structure of the five sales channels is a central part of this study as it presents the sales channel options in detail as well as highlights the pros and cons of each strategy. In order to be able to answer the research question "What determines a successful global sales channel strategy for a technology intensive startup?" it is crucial to have a clear overview of the five sales channel options and the main streams of research in this field. The Table 3 below presents a summary of these five sales channel strategies and their pros and cons.

**Table 3. Overview of Sales Channel Strategies**

| | Overview of Sales Channel Strategies | | | |
|---|---|---|---|---|
| Single | **Direct Sales Channel** | | **Indirect Sales Channel** | |
| | The producer sells directly to the end customer using its own sales force. This channel is fully controlled and owned by the producing company. | | The producing company uses at least one independent channel intermediary located in the host market. This channel is generally structured in a tier format. | |
| | **Pros** | **Cons** | **Pros** | **Cons** |
| | Increased scale and scope economies | Requires large investments | Lower overall costs in comparison to direct | High risk of channel conflict |
| | Improved coordination of activities | Extensive host market knowledge needed | Access to intermediaries' know how | Low level of ownership and control |
| | High level of direct customer contact | Results in loss of strategic flexibility | Enables quick market coverage | Limited direct customer contact |
| | No sales channel conflict | Low customer reach | Producer retains strategic flexibility | Low intermediary commitment possible |
| | High control over the channel | | | |
| Multiple | **Dual Sales Channel** | | **Hybrid Sales Channel** | |
| | The producer uses direct and indirect sales channels simultaneously. Here, the producer and intermediaries perform overlapping roles and compete for the same customers. Consequently, regarded as an adversal sales channel strategy. | | The producer uses direct and indirect sales channels simultaneously. Here, each channel member specializes in a certain function and all members work together to satisfy customers' needs. Lower risk for sales channel conflict compared to dual. | |
| | **Pros** | **Cons** | **Pros** | **Cons** |
| | Lower overall costs in comparison to direct | High risk for channel conflict | Higher level of coordination compared to dual | Moderate risk for channel conflict |
| | Wide market coverage i.e customer reach | Moderate direct customer contact | Lower overall costs in comparison to direct | Moderate direct customer contact |
| | Access to outside R&D activities | Generally low control over the channel | Wide market coverage i.e customer reach | Low level of control over channel |
| | High level of flexibility | | Access to outside R&D activities | |
| | | | High level of flexibility | |
| | **The Internet** | | | |
| | The producer sells its products directly to the end customers through the internet. Generally regarded as a variation of the multiple sales channels as used frequently in addition to an indirect channel. Presents wider opportunities for customer contact compared to other multiple sales channels. | | | |
| | **Pros** | | **Cons** | |
| | Extremely wide market coverage i.e. customer reach | | Moderate risk for channel conflict | |
| | High level of direct customer contact | | All products are not suitable for internet sales | |
| | Low cost channel | | | |
| | Generally high control over channel, but often used as complementing channel | | | |
| | High level of flexibility | | | |

## 2.3 Sales Channel Strategy Choice

Now, as all of the five sales channel strategies have been presented, the *sales channel choice* of startup companies is discussed. This chapter is divided into two parts: the first subchapter addresses general issues startup companies face when selecting sales channel strategies and the second subchapter presents four categories of factors that affect the sales channel strategy choice of startup companies.

### 2.3.1 Startup Companies' Sales Channel Strategy Choice

It is surprising that the sales channel choice of startup companies has been understudied in existing research. Despite the fact that sales channel selection is an important determinant for the sales channel success of a company (Fischer 1990; Brettel *et al.* 2011a), sales channel selection in the field of startup companies has received limited attention from the academic community as pointed out by Burgel & Murray (2000), Stray *et al.* (2001) and Hills *et al.* (2008). The sales channel choice of multinational corporations (MNCs) has dominated the research in this area (e.g. Dutta *et al.* 1995; Krafft *et al.* 2004; Shervani *et al.* 2007) and the sales channel choice of startups has thus been neglected. This might be due to the complex nature of startups and the general lack of research in sales channel strategies within startups (Al-Obaidi & Gabrielsson 2002a, b; Ensign 2006).

Technology intensive startup companies in particular, face tremendous challenges in their sales channel strategy selection. Forces like rigid competition, varying customer needs and the increasing use of the internet, create new business risks as well as opportunities for these companies (Burgel & Murray 2000; Rosenbloom 2007). What makes their sales channel strategy selection especially difficult, is the ever changing operating environment with global competition, high R&D costs and shortened product life cycles (Francis & Collins-Dodd 2000). Moreover, startup companies often struggle with limited resources and credibility, and they characteristically sell highly innovative products that need to be explained in detail to customers (Brettel *et al.* 2011a). Consequently, the sales channel requirements of these technology intensive startups differ from those of MNCs. Therefore, the sales channel decisions of MNCs are not readily transferable to small technology intensive startups. All of the above described forces signal the need for optimized sales channel strategies that should be reevaluated periodically.

The optimal sales channel structure can be seen as a way of achieving competitive superiority in the market-place. Hence, it is crucial that the chosen sales channel is suitable for the company, its products and the target market (Burgel & Murray 2000; Dimitrova & Rosenbloom 2010). Moreover, the accurate evaluation and management of the chosen sales channel is essential (Bellin 2006).

The fundamental decision in choosing a sales channel is between the two basic sales channel strategies, the direct and the indirect sales channel. The producer needs to evaluate whether selling directly to end customers or whether using an intermediary would be more suitable for the company in the light of its products and the target market (Burgel & Murray 2000; Dimitrova & Rosenbloom 2010).

The sales channel selection process has been observed by many researchers from the transaction cost economics (TCE) perspective (e.g. Geyskens *el al*. 2006; Michael 2007; Brettel *et al.* 2011a). The TCE perspective suggests that a producer integrates those functions which it is able to perform at a lower cost compared to a third party. Consequently, a producer would choose the direct sales channel if the producer is able to sell to the end customer directly for a lower cost compared to using an intermediary. However, for resource constrained technology intensive startups this might not always be the case (Burgel & Murray 2000). As discussed in the chapter 2.2.2.2, small companies may prefer or may be forced to use an intermediary due to the expertise and market knowledge the intermediary has accumulated over time (Easingwood & Coelho 2003; Wu *et al.* 2007; Bandy *et al.* 2009; Dimitrova & Rosenbloom 2010). The TCE - related factors affecting the sales channel choice of startup companies will be outlined in more detail in chapter 2.3.1.4.

### 2.3.2 Factors Affecting Sales Channel Strategy Choice

This chapter examines the factors affecting the sales channel choice of startup companies. The factors are divided into four categories based on the factor type. The categories are the following; *product specific factors, company and sales channel specific factors, target market specific factors* and *transaction cost related factors.* A summary (Table 4.) of all factors as well as an illustration of the proposed sales channel strategy for each factor is presented at the end of this chapter.

The research in factors affecting the sales channel strategy choice of startup companies is scarce, as excising research in this field has almost exclusively focused on large manufacturing firms (see e.g. Dutta *et al.* 1995; Krafft *et al.* 2004; Shervani *et al.* 2007). Moreover, the research that *has* been conducted from the perspective of startup companies, is focused on the single sales channel strategies (Burgel & Murray 2000; Stray *et al.* 2001; Brettel *et al.* 2011a; Brettel *et al.* 2011b). Consequently, a comprehensive list of factors affecting the sales channel choice of startup companies proves to be challenging.

The following factors are based loosely on the work of Brettel *et al.* (2011a; 2011b) as they have been the pioneers in research regarding factors affecting sales channel choice of new entrepreneurial ventures (NEV). However, their research was conducted only within the domestic context. Hence, the results should be interpreted with some precaution for the global context and the sales channel choice should be made for each target market individually.

#### *2.3.2.1 Product Specific Factors*

As the individual product characteristics define largely the company overall strategy, the product specific factors are also important determinants for the sales channel choice. This chapter introduces three product specific factors that affect the sales channel choice of a startup company. The following three product specific factors were chosen because previous research has emphasized their importance for distribution systems (e.g. Burgel & Murray 2000; Combs 2004; Brettel *et al.* 2011a).

The first product specific factor is the level of *product customization*. A high level of product customization leads often to a direct sales channel, as the producer is able to be in direct contact with the customer and thus, can customize the product specifically for the buyer's needs (Burgel & Murray 2000; Brettel *et al.* 2011a).

The second factor in this category is the level of *product complexity*. When the product complexity is high and the product contains new and innovative technology, a startup company should choose a direct sales channel. The reasoning behind this is that the know-how underlying the new technology is generally relatively hard to transmit to intermediaries and thus, direct face-to-face sales is necessary to penetrate the host market and convince buyers to adopt the new technology (Hill *et al.* 1990; Madhok 1997; Combs 2004). However, in a study conducted by Burgel & Murray (2000), the researchers found out, against their own hypotheses, that in some cases high product complexity is a strong determinant for the use of intermediaries. In difficult host markets, an established intermediary has the necessary credibility to help the startup overcome the liabilities of newness and alieness (Zaheer 1995; Burgel & Murray 2000). This view is also supported by the notion of Weitz & Whitfield (2006) that the recent trend in specialization of intermediaries enables the use of a competent channel partner that is capable to build up the required product knowledge.

The third product specific factor is the *product synergies.* A product has high product synergies if its function increases when sold together with complementary products from other manufacturers (Brettel *et al.* 2011a). If the product has high product synergies, indirect sales should be used as intermediaries generally carry the complementing products as well (Dutta *et al.* 1995; Brettel *et al.* 2011a). The use of an intermediary is especially important for startup companies, which generally carry a limited offering of complementary products from other manufacturers.

#### *2.3.2.2 Company and Sales Channel Specific Factors*

The company and sales channel specific factors are related to the individual company characteristics, the sales channel strategy, and the requirements of doing business successfully. This chapter outlines eight factors that fall under this category and affect the sales channel choice of a startup company.

The first sales channel strategy specific factor is related to the historical channel experience in the home market. The *experience gained from using intermediaries* in the home market is a strong determinant for using indirect sales also for a host market

(Burgel & Murray 2000). The use of intermediaries in the home market provides a low risk opportunity to learn from collaborative relationships at a low cost.

The second factor in this category relates to the senior management involvement in a sales transaction. In case the *sales involve extensive negotiations with senior management* either from the customer's side or from the producer's side, the sales transaction should be direct (Hutt & Speh 2010, 283). This allows for enhanced one on one communication and customer specific customization of the sales process.

The third factor in this category investigates the level of physical assets required for establishing a sales channel. Multiple channels should be considered when "targeting more diverse market niches in mature markets" (McNaughton 2002, 200) where the company *does not need to invest in physical assets within the sales channel* or where the required investment is small. A situation where either the producer or the intermediary needs to invest in physical assets in order to establish the sales channel, is not optimal for multiple sales channels as it limits the flexibility of the relationship. The commitment of resources increases the switching cost of the relationship for both parties. (ibid.)

The fourth factor examines a company's level of knowledge-based assets and their protection. If a startup company is rich in intangible knowledge-based assets, the company will most likely be keen in protecting these assets. Knowledge-based assets could for example be the company specific business models and product specific technical knowhow. If these *knowledge-based assets can only be protected by having full control over the channel*, a direct sales channel should be the preferred option (McNaughton 2002).

As described earlier in chapter 2.2.2.3., the dual sales channel should be the preferred channel option only when *the relative power of a producer is stronger than the power of an intermediary* (Gabrielsson & Gabrielsson 2011). The relative power of a producer is also the fifth sales channel specific factor to be examined. The producer i.e. startup could gain strong relative power for example through a highly attractive product, which the intermediary is keen on reselling (Burgel & Murray 2000). In this case channel conflicts can be overcome as the producer has a stronger control over the supply chain (Park & Keh 2003; Gabrielsson & Gabrielsson 2011).

Partnership advantages are the sixth factor to be examined in this chapter regarding the company and sales channel specific factors that affect a startup company's sales channel selection. As described previously in chapter 2.2.2.4, especially high-tech companies regard *partnership advantages* achieved through trustworthy relationships with intermediaries as crucial for their sales channel success (Al-Obaidi & Gabrielsson 2002a). As the hybrid sales channel is centered on the idea that the channel members cooperate vertically in order to satisfy customer needs, it should be used when the producer regards partnership advantages as crucial.

This paragraph discusses the seventh factor in this category affecting the sales channel choice. In case a company requires *fast and wide customer reach* for the successful sales of its product, multiple sales channel should be chosen as these ensure a wider sales representation of the product compared to the single strategies (Mols 2000; Coelho *et al.* 2003; Rosenbloom 2007). Especially the internet based sales channel enables a wide customer reach for a low cost (Sharma & Mehrotra 2007). However, the internet suitability of the product should be ensured before using the internet based sales channel (Gabrielsson & Gabrielsson 2011).

The eight and last factor to conclude the chapter on company and sales channel specific factors, is the importance of customer retention. Brettel *et al.* (2011a) found out that a *high importance for customer retention* is a strong determinant for choosing the direct sales channel strategy. The direct sales channel strategy allows for activities that foster customer loyalty and that increase customers' switching costs from the product (Srivastava *et al.* 1999). Intermediaries, on the other hand, are rarely interested in fostering the relationship between the producer and the customers, as this would increase the intermediary's dependence on the producer (Brettel *et al.* 2011a).

### *2.3.2.3 Target Market Specific Factors*

Previous research identifies four target market specific factors that affect the sales channel strategy choice of startup companies (e.g. McNaughton 2002; Hutt & Speh 2010; Brettel *et al.* 2011b). These factors are related to either the actual target market, to the customers or to the competitors within the target market.

The first factor to be outlined is the market related uncertainty. If the host market development, especially changes in aspects like sales volumes or customer preferences are difficult to predict, the market can be defined uncertain (Williamson 1981). A *high market related uncertainty* leads to the permanent need to adjust intermediary incentive plans, as these are frequently based on the sales performance. Renegotiation of the incentive plans is time consuming and costly. In addition, high market related uncertainty increases the risk for channel conflict, as channel partners might interpret market scenarios differently. Consequently, a direct sales channel should be the preferred option in uncertain markets, as this strategy decreases the risk for channel conflict and costs of renegotiating intermediary incentives. (Brettel *et al.* 2011b)

The second target market specific factor relates to the targeted customers. When the *customers are large and well defined*, the startup company should consider selling directly, as customers can easily be identified and hence, also targeted efficiently without the help of an intermediary (Hutt & Speh 2010, 283). Especially when the customers are large and thus, can be seen as trendsetters in an industry, the direct sales transaction provides a valuable learning opportunity for the startup company. The gathered knowledge about customer needs and preferences is highly important for the future success of a high-tech startup company (Hills *et al.* 2008).

The third target market specific factor is outlined in this paragraph. A *fragmented and widely dispersed target market* calls for a sales channel strategy that can effectively reach several customers located in far-flung locations. In this case an indirect sales channel strategy should be the preferred option, as a host market intermediary is likely to have a superior knowledge of the rather difficult target market and thus, be able to target and reach the customers more efficiently than the producer (Hutt & Spech 2010, 284). Moreover, as discussed earlier in chapter 2.2.2.5, the internet as a sales channel is a fast and low cost way of reaching customers in dispersed locations (Younghwa *et al.* 2003; Sharma & Mehrotra 2007). Thus, the internet should be considered to be used for a fragmented and widely dispersed target market in addition to the indirect sales channel strategy.

The fourth and last target market specific factor is the predictability of customers and competitors. A host market where *customer and competitor actions are rather predictable* is a suitable environment to be using multiple sales channels i.e. dual, hybrid and the internet (McNaughton 2002). The multiple sales channels are more complex compared to the singe sales channel strategies and thus, have also a higher risk for channel conflict. This is why the optimal operation environment for multiple sales channel strategies is one where the external risks have been minimized for example in terms of predictable customer and competitor actions (*ibid.*).

#### 2.3.2.4 Transaction Cost Related Factors

Previous research has identified and examined five transaction cost related factors that affect the sales channel selection of a company (Shervani *et al.* 2007; Hutt & Spech 2010). There has, however, been contradicting findings on how well the TCE -principle applies to small technology intensive startups. For example Burgel & Murray (2000) and Brettel *et al.* (2011a) highlight that for resource constrained startups, the transaction cost is not necessarily the most important determinant when selecting a sales channel strategy. Nevertheless, as the TCE -principle gives some general guidance on what sales channel to select in which situation, it was considered beneficial to present five TCE - related factors in this research. The following paragraphs present these five factors and how they affect the sales channel choice of a startup: transaction asset specificity, technological uncertainty, volume uncertainty, behavioral uncertainty and transaction frequency.

The first factor to be introduced in this chapter is the transaction asset specificity. The transaction asset specificity refers to how resources, for example firm specific knowledge, relating to one specific transaction can be transferred to “alternative uses and by alternative users without sacrifice of productive value" (Willamson 1991, 282). In the distribution context, specific assets make an intermediary difficult to replace and thus, might trigger opportunistic behavior (Brettel *et al.* 2011a). Therefore, *high asset specificity* has traditionally been seen as a strong indicator for a direct sales channel strategy, as the opportunistic behavior of intermediaries can this way be eliminated (Williamson 1985; John & Weitz 1988; Shervani *et al.* 2007). However, Brettel *et al.* (2011a) surprisingly discovered in their study that the asset specificity did not have a significant impact on the channel choice of small startup firms. This might indicate that small firms do not necessary make decisions based on the TCE -principle.

The level of technological uncertainty is the second TCE specific factor that has been studied to affect the sales channel strategy choice of a company. It refers to how difficult it is to predict the changes in technological requirements for the product. A *high technological uncertainty* is a strong determinant for an indirect sales channel strategy, as this strategy allows for a wider market governance and thus, a higher degree of flexibility in terms of changing intermediaries in case a technological change makes one intermediary inferior to another. According to Brettel *et al.* (2011a) this applied also to technology intensive startups. (Brettel *et al.* 2011a; 2011b)

The third factor to be introduced is volume uncertainty. A company faces *high volume uncertainty* if the future sales volumes of its products are difficult to predict. This is especially common for startup companies, as they often operate in turbulent environments (Gruber 2003). In this case direct distribution should be the preferred sales channel option, as it allows for faster decision making compared to the indirect sales channel and enables smoother resolution of conflicts that arise from varying interpretations of evolving circumstances in the market place (John & Weitz 1988; Brettel *et al.* 2011a).

The fourth TCE -specific factor is behavioral uncertainty. In the transaction context, *high behavioral uncertainty* refers to difficulties in evaluating the sales channels' performance. Small companies might struggle, for example, with setting up reliable performance indicators for their sales channel strategies (Anderson 1985). From the TCE -perspective, the common response to the performance evaluation problems has been to use direct sales. This is due to the high level of producer control in the direct sales channel, which enables proximity to the sales operations and thus, greater evaluation capabilities of the channel. (Brettel *et al.* 2011a)

The fifth and at the same time the final factor to be introduced affecting the sales channel choice of a company, is transaction frequency. Traditionally TCE researchers have concluded that a *high transaction frequency* leads to the use of a direct sales channel (Dutta *et al.* 1995; David & Han 2004; Hutt & Spech 2010, 284). This is due to the achieved cost efficiency resulting from economies of scale in the direct sales channel. However, Brettel *et al.* (2011a) discovered, against their own hypothesis, that in the context of technology intensive startups, the high transaction frequency actually works in the opposite direction i.e. the higher the transaction frequency, the more indirect the sales channel choice. Despite of this, the startups that *did* act according to the TCE -prescriptions, were more successful (ibid.). This could be interpreted in the way that some small companies might be forced to co-operate with intermediaries to overcome the liabilities of foreignness and newness (Burgel & Murray 2000; Combs 2004), but do not gain bargaining power in the relationship and therefore, are not as successful as directly selling counterparts (Brettel *et al.* 2011a).

To conclude the chapter regarding the sales channel choice of a startup company, a summary table of all the above described factors is presented below in Table 4. For purposes of consistency, the table is divided into the same four categories as the discussion above: *product specific factors, company and sales channel specific factors, target market specific factors* and *transaction cost related factors.* The recommended sales channel strategy in each scenario is marked with an X next to each factor.

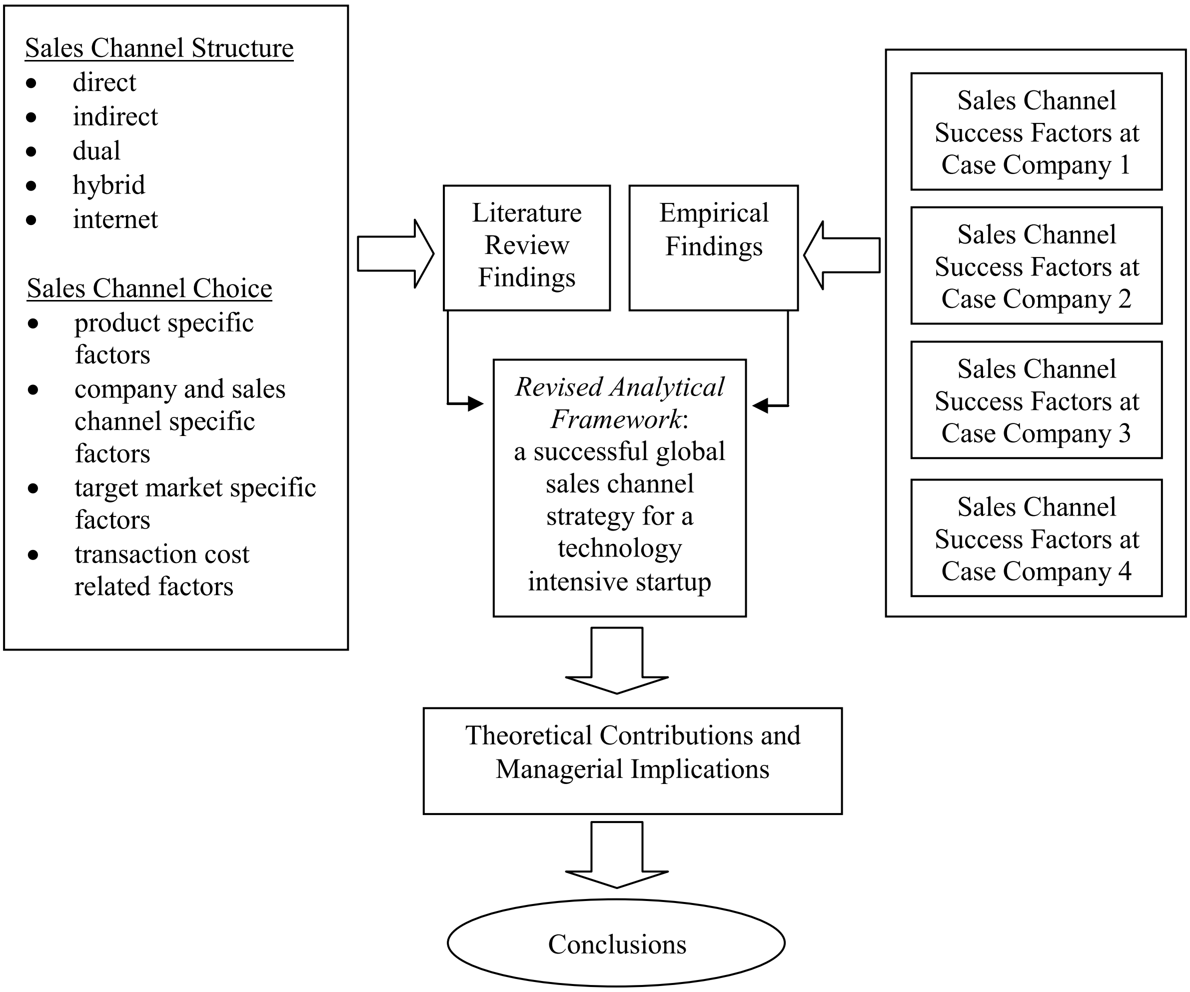
Table 4. Summary of Factors Affecting the Sales Channel Choice

| | Single | | Multiple | | |
|---|---|---|---|---|---|
| | Direct | Indirect | Dual | Hybrid | Internet |
| **Product Specific Factors** | | | | | |
| High product customization | X | | | | |
| High product complexity | X | | | | |
| High product synergies | | X | | | |
| **Company and Sales Channel Specific Factors** | | | | | |
| Experience from intermediaries in home market | | X | | | |
| Sales require extensive negotiations with senior management | X | | | | |
| Little investment in physical assets in sales channel required | | | X | X | X |
| Knowledge-based assets can only be protected by having full control over channel | X | | | | |
| Producer has high relative power | | | X | | |
| Partnership advantages regarded crucial | | | | X | |
| Fast and wide customer reach required | | | X | X | X |
| High importance of customer retention | X | | | | |
| **Target Market Specific Factors** | | | | | |
| High market-related uncertainty | X | | | | |
| Large and well defined customers | X | | | | |
| Fragmented and widely dispersed target market | | X | | | X |
| Predictable customer and competitor actions | | | X | X | X |
| **Transaction Cost Related Factors** | | | | | |
| High asset specificity | X | | | | |
| High technological uncertainty | | X | | | |
| High volume uncertainty | X | | | | |
| High behavorial uncertainty | X | | | | |
| High transaction frequency | | X | | | |

## 2.4 Preliminary Research Framework

This section presents a preliminary research framework (see Figure 2) for the thesis and at the same provides a summary for the literature review. The below illustrated framework will be build upon inductively in the latter parts of this research.

**Figure 2. Preliminary Research Framework**




As discussed earlier in the literature review, the research on global sales channel strategies is scarce, especially in regards to technology intensive startups. This fact has been highlighted for example by Burgel & Murray (2000), Hills *et al.* (2008) and Al-Obaidi & Gabrielsson (2002a). The limited amount of previous research in sales channel strategies results in practically non excitant research in the factors that determine a successful global sales channel strategy for a technology intensive startup. This made it challenging to gather such factors from previous research and to use an existing framework for this study. However, analyzing and combining several streams of literature in the field of sales channel strategies, enabled compiling of a preliminary research framework that presents two components that could potentially affect the success of startup companies' sales channel strategies. These components are the *sales channel structure* (e.g. Easigngwood & Coelho 2003; Bandy *et al.* 2009; Rosenbloom 2007) and *the sales channel choice* (e.g. Fischer 1990; Brettel *et al.* 2011a; 2011b; Dutta *et al.* 1995; McNaughton 2002). Both of these components can be further divided into sub items i.e. the sales channel structure can be one of the following: direct, indirect, dual, hybrid or internet based sales channel, where as the sales channel choice can be divided into four factor categories: product specific factors, company and sales channel specific factors, target market specific factors and transaction cost related factors. The literature review presented extensive discussion on these two components and their subcategories. Figure 2 illustrates that these two components make up the literature review findings.

The preliminary research framework in Figure 2 illustrates the flow of this research. Relevant findings are compiled from both the literature review as well as from the empirical case company interviews. These findings are combined into a final analytical framework (Chapter 4.3) that presents the factors that were found to determine a successful sales channel strategy for a technology intensive startup. This final analytical framework will in turn be the base for the analysis of the theoretical contributions and managerial implications of this research. Finally, the conclusions of this study will draw on the final analytical framework and on the elaboration this in relation to the current literature.

The next chapter of this study - the research methods chapter, will outline the above described research flow in more detail.

# 3 RESEARCH METHODS

This chapter discusses the research methods used for the study at hand. The chapter is structured as follows: first the *empirical research approach* used for the study is presented, after which the *selection of the research methods* is described. Thereafter, the chapter moves on to the *research design* where the data collection and analysis process, as well as, the unit of analysis are clarified. The research methods chapter concludes with the discussion on the *validity, reliability, generalizability* as well as the *limitations* of the study.

Before presenting the research methods used, it is worthwhile to review the research objective and to clarify the link between that objective, the literature review and the empirical part of the study. As outlined in the beginning of the study, the overall objective of the research is to evaluate what determines a successful global sales channel strategy for a technology intensive startup. Every part of the thesis is coming down to this specific objective: chapter two discussed the existing literature on company internationalization as well as global sales channel strategies, and identified a lack of empirical research in this field. The research at hand aims at narrowing this gap by collecting and analyzing empirical data on technology intensive startups' and SMEs global sales channel strategies. By comparing existing theory with the empirical results collected, the researcher will gain an in-depth understanding of the matters surrounding global sales channel strategies of technology intensive startups and therefore, be better placed to contribute useful knowledge on what determines a successful sales channel strategy for these companies.

The following sub chapters provide detailed explanations on *what* was done in order to get closer to the overall aim of the research and *why* the research was conducted this way.

## 3.1 Research Approach

Previous research has identified two broad methods of reasoning - the *deductive* and the *inductive* approach. Deductive reasoning is concerned with testing or confirming theory that rises from existing research, whereas inductive reasoning is concerned with the generation of theory from empirical data and observations (Saunders *et al.* 2000, 127). Hence, deductive reasoning can be viewed as the “top-down” approach where research moves from the more general to the more specific and, on the contrary, inductive reasoning is regarded a “bottom-up” approach where research moves from specific observations to broader theories (Trochim 2006a).

Despite the apparent contradiction between deduction and induction, the two types of reasoning are not completely exclusive of each other, as induction contains deductive elements and vice versa (Ghauri & Gronhaug 2002, 15). In fact, most research in social sciences has benefitted from a consensus between the two approaches (Bryman & Bell 2003, 11-12; Trochim 2006a). The utilization of both, the deductive and the inductive approach, is referred to as *analytic induction* (Taylor & Bogdan, 1984, cited in Patton 2002, 454) or the abductive approach (Dubois & Gadde 2002).

The analytic induction approach is also used in this research. As highlighted earlier, the global sales channel strategies of technology intensive startup companies have been under researched and there is lack of compound theory and frameworks that could be used for this research (e.g. Burgel & Murray 2000; Stray *et al.* 2001; Ensign 2006; Hills *et al.* 2008). However, this study has proposed a deductive preliminary research framework for factors determining a successful sales channel strategy for high-tech startups based on the various streams of literature dealt with in the literature review part. Later on, this preliminary research framework will be revised and built upon inductively based on the facts derived from the empirical observations. Thus, this research utilizes the analytic induction approach, where the researcher first deductively gathers propositions from existing theory and after this, inductively looks at the matter anew and creates a framework combining the existing theory and the empirical observations (Patton 2002, 454).

The analytic induction was chosen because the research area of startup companies’ global sales channel strategies is new and does not yet have a strong theoretical foundation (e.g. Burgel & Murray 2000; McNaughton 2002; Coelho *et al.* 2003; Ensign 2006; Hills *et al.* 2008). Therefore it was seen appropriate to first build a preliminary framework from excising theory and later on to revise this framework with the empirical results and thus, generate new theory and to provide fresh insights into the field.

## 3.2 Selection of Research Methods

Ghauri & Gronhaug (2002, 29) define research methods as the tools and ways of proceeding that aim to solve the research question. This chapter outlines the various research methods used for solving the following research question: "What determines a successful global sales channel strategy for a high-tech startup?".

Generally, research methods are divided into *qualitative* (e.g. words) and *quantitative* (e.g. numbers) methods and the superiority of these two methods is often debated (Silverman 2005, 6). However, the most important factor in the decision between the two, is the linkage of the research method to the research objectives and that the methods aim at solving the research problem (ibid.). The qualitative research method is often associated with the *positivist paradigm*, while the qualitative method relates to the *interpretivist paradigm.* A positivist researcher aims at explaining social reality while an interpretivist researcher seeks to understanding or interpreting it (Grix 2004,78).

This research is *qualitative* and *exploratory* in nature, therefore the researcher takes also an interpretivist approach towards the global sales channel strategies of technology intensive startups and aims at understanding this phenomenon. The decision of using a qualitative research method was made based on the following reasons. First, the existing literature in the field of sales channel strategies has relatively often focused on conceptual contributions and hence, empirical research is scarce (Burgel & Murray 2000; Hills *et al.* 2008; Brettel *et al.* 2011a). Second, little is known about the sales channel strategies of startup companies and therefore, a qualitative method is preferred as it allows the researcher to explore the topic more in-depth (Trochim 2006b). Third, the qualitative methods provide more flexibility and allow for a more comprehensive understanding of the phenomenon under research (Tahvanainen & Piekkari 2005).

This qualitative research employs a *case study method*, which provides a dynamic and holistic view of the phenomenon under investigation (Yin 2003, 3). Eisenhardt (1989,534) defines the case study as "*a research strategy which focuses on* *understanding the dynamics present within single settings*". Traditionally, the case study method is used when a "how" or "why" question is posed as the main research question (Yin 2003, 5). However, this research aims at answering a "what" question and thus, is not automatically categorized to be falling under the scope of a case study method, but rather under a survey research (ibid.). Despite of this, it can be argued that this research aims at solving a complex topic and providing a starting point for future research in a field that has a limited theoretical foundation. In this case it is justified to conduct a case study research, as a survey does not sufficiently encompass the complexity of the phenomenon under research (Yin 2003,6).

The unique strength of the case study method over other methods is the ability to combine various data from different sources such as archives, interviews and observations (Eisenhardt 1989; Yin 2003, 8). Moreover, the case study can be used to accomplish various aims, for example, to test theory, to provide description or to generate theory (Eisenhardt 1989). This study seeks to generate theory from an empirical *multiple case study,* where four case companies are interviewed. A multiple case study was chosen over the single case study because investigating more than one case is generally considered to be more compelling and thus, the overall study gains a higher level of robustness (Yin 2003,46).

This research follows a *collective case study design*, where the focus is less on the particular cases, but rather on understanding the phenomenon under study (Stake 1994). In this study the phenomena under research are the global sales channel strategies of technology intensive startups and SMEs. In line with the collective case study design, the individual case companies are not the main focus of the research but rather their sales channel strategies. Therefore, the discussion on the individual case companies is kept rather short in order to focus more in-depth on their sales channel strategies. This ensures a better understanding of the main issues of the research.

## 3.3 Research Design

This section discusses the *research design* of the study. Yin (2003, 20) defines the research design as "the logical sequence that connects empirical data to a study's initial research questions and, ultimately, to its conclusions". In this light, the research design could be seen as the glue that attaches the various parts of a study to each other. Therefore, it is a crucial part of a study and should be carefully planned. The research design of this study is based on the views of Eisenhardt (1989) and Yin (2003) as these two researchers are generally viewed as the main authorities in case study research.

This chapter is divided into two parts. The first part will outline the steps of the study taken in this research and the second will present the unit of analysis.

### 3.3.1 Steps of the Study

This chapter describes the nine steps taken during the study. These steps are illustrated below in Table 5. and discussed in more detail afterwards.

**Table 5. Steps of the Study**

| Step | Purpose |
|---|---|
| 1. Getting started | To focus efforts and indentify a research problem that is accurate and interesting to study. |
| 2. Writing the literature review | To gain an in-depth understanding of existing research in the field under study. |
| 3. Drafting a preliminary research framework | To summarize the main views presented in the existing literature. |
| 4. Selecting cases | To examine and select suitable case companies that comply with the set criteria. |
| 5. Entering the field | To gain access to the case companies and conduct interviews. |
| 6. Cross-case analyzing data | To gain familiarity with the empirical data and to identify most important trends of cross case analysis. |
| 7. Enfolding literature | To critically evaluate the empirical data in the light of the existing research. |
| 8. Creating the final analytical framework | To summarize the research findings from existing literature and empirical interviews. |
| 9. Reaching closure | To conclude the research by presenting main theoretical contributions and managerial implications. |

Source: partially adapted from Eisenhard (1989, 533) and Yin (2003, 50)

*Getting started:* The first step focused on indentifying a research problem that is accurate and interesting to study. Such research problem was found after a preliminary review of literature on global sales channel strategies and identifying a research gab in the field of startup companies.

*Writing the literature review:* After an extensive review of literature on company internationalization and global sales channel strategies, the literature review part was structured and written in three parts. The first part discusses the internationalization and globalization theories of a company, the second examines the global sales channel strategies of technology intensive startups, and the last section reviews the factors affecting the sales channel strategy choice of these companies.

*Drafting a preliminary research framework:* In line with the analytic induction approach, a preliminary framework was drafted based on the review of relevant literature. This framework is later inductively revised based on the empirical results and cross-case analysis.

*Selecting cases:* A preliminary list of potential case companies was created by interviewing several industry experts (e.g. investors of startup companies and members of the Aalto Entrepreneurship Society), searching through members lists of industry publications and industry associations (e.g. Kauppalehti, Talouselämä, TEKES). For a more detailed list of data sources, please see appendix I. in the Appendix section. The case companies were finally selected based on a set of predefined criteria, thus relying on *selective sampling* that falls under the purposeful sampling strategies (Fletcher & Plakoyiannaki 2011, 180). The aim was to find companies that share some common characteristics, but are different in terms of industry, size, age and target customers. The similarities ensured comparability of the cases, while the differences allowed for a broader scope of the research and enabled an accurate snapshot of the varying environments in which startup companies operate.

The criteria shared by all companies was set as follows: The case companies…

- … are born globals (see definition in 2.1.2)
- … sell physical high-tech products
- … engage in b2b -sales
- … target a niche market
- … have extensive sales abroad

The above criteria ensures, that the interviewed companies fall into the scope of this research and that the findings are comparable with each other as well as with the existing literature on startup companies and their sales channel strategies. In total, four case companies were selected to be interviewed: Firm A, Valoya Oy, FluidHouse Oy and Firm X. The number of cases selected falls into the recommended number of cases by Eisenhardt (1989). She suggests that the optimal amount of cases for a multiple case study is four to ten cases. In this study width was compromised for depth due to the resource constraints of a Master's Thesis.

*Entering the field:* From each company a person directly involved with the company's foreign sales channel strategy was identified and interviewed for approximately an hour. The interviews were conducted as *semi-structured interviews* (Patton 2002, 283) to ensure flexibility and probing where appropriate. The questions asked can be found in the appendix II (in Finnish) and III (in English). The list of interviewed persons can be found in the appendix IV.

*Cross-Case analyzing data:* The analysis phase did not only focus on analyzing the interviews, but also analyzing information gained from other sources such as company websites, reports and newspaper articles. This approach, called *triangulation* (Geertz 1973 sited in Biggam 2008, 101; Stake 1994, 24), ensures a deeper understanding of the case. Another important aspect of the analysis process was the translation of interviews from Finnish to English. As the translation task forced the researcher to think about the data in a detailed way, the data analysis process was already started when the interviews were freely translated into English. The cross-case analysis pointed out similarities and dissimilarities between the interviewed cases and the used sales channel strategies. Moreover, the cross-case analysis synthesized and analyzed the global sales channel strategy success factors gathered from the interviews.

*Enfolding literature:* The findings from the case interviews were reviewed and compared in the light of the literature review and existing research. The cross-case analysis was finalized by linking the empirical findings to the literature review.

*Creating the final analytical framework:* In line with the chosen analytic induction approach, the preliminary framework drafted earlier was reviewed and updated to reflect the conclusions gained from the empirical results, cross case analysis and the relevant findings from the existing literature.

*Reaching closure:* The research was concluded by discussing the main theoretical contributions and managerial implications arising from the research.

As with many comprehensive research studies, also this study encountered some problems along the way. One of the main problems was finding case companies that were suitable for the study and that fulfilled the strictly set criteria. Another problem was gaining access to some companies that actually fulfilled the criteria, as many managers were extremely busy and thus, had to decline participation in the interview.

### 3.3.2 Unit of Analysis

This chapter defines the *unit of analysis* of this research. The unit of analysis can be identified as the "case" or the major entity analyzed in the study (Yin 2003, 22, Fletcher & Plakoyiannaki 2011, 173). A research could only have one unit of analysis or multiple units of analysis, depending of the approach and the purposes of the research (Yin 2003, 76). The unit of analysis should not be confused with the *empirical unit of observation,* which is the unit(s) form which the actual data is collected (Fletcher & Plakoyiannaki 2011, 173)

The unit(s) of analysis varies in every research and depends on several aspects of the study such as the research question and purpose (ibid.). In this research, the purpose is to analyze what determines a successful global sales channel strategy for a technology intensive startup company. Therefore, the units of analysis in this research are the global sales channel strategies of the four interviewed case companies. Consequently, the empirical units of observation are the interviewed directors and managers of these companies.

## 3.4 Validity, Reliability and Generalizability of the Research

In order for a research to be credible and valuable for a research community, it should fulfill the requirements of validity, generalizability and reliability. These three issues are discussed next.

According to Yin (2003, 34) there are two important types of validity that ensure the quality of an exploratory research: the *construct validity* and the *external validity*.[1] The construct validity refers to overcoming the risks of subjective interpretation. By "establishing correct operational measures for the concepts being studied" (ibid.) the construct validity can be achieved. In order to minimize the subjectivity of this study, triangulation, i.e. multiple sources of data, was used (e.g. interviews, company reports, websites and newspapers) and the case reports were submitted to the case companies for review. These measures enhance the construct validity of the research (Yin 2003, 36; Gibbert *et al.* 2008).

The external validity can be enhanced by establishing a domain to which the study's findings can be generalized (Yin 2003, 34). However, the generalizability of case study results beyond the studied cases has been questioned by several researchers (see e.g. Saunders *et al.*, 253). Yin (2003, 37) responds to this criticism by highlighting that case studies rely on *analytical generalization* rather than statistical generalization. In analytical generalization the aim is to generalize a set of results to a broader theory rather than to populations or universes (Gibbert *et al.* 2008). This could be interpreted in the way that the results of a case study can be *transferred* to similar case companies (Fletcher & Plakoyiannaki 2011, 185). The external validity of a research is high if the empirical results of the study can be predicted to be similar if the study would be replicated (Yin 2003, 37). The research at hand was constructed in line with this *replication logic.* This is also why the steps of the study and the case company selection process were carefully described. By doing so, the researcher ensured easy replication

[1] It should be noted here that the internal validity, referring to the causal relationships between variables and results (Gibbert *et al.* 2008), is not relevant for exploratory case studies as these do not examine such relationships (Yin 2003, 34). Internal validity should be discussed in the context of explanatory or causal studies only.

of the study. Moreover, the researcher is fairly confident that if replicated, the new study would produce similar results to the study at hand.

The question of *reliability* is related to the above discussion. A reliable study ensures that the empirical research is explained in such a detail that it could be replicated following the same procedures and concluded with the same findings (Yin 2003, 37). The aim of reliability is to minimize any biases or errors of a study (Gibbert *et al.* 2008). To enhance the reliability of this study, all choices made in regards to the research methods and strategy, as well as, data collection were justified in the methodological section. Moreover, every step of the study was clearly outlined, all case interviews were recorded, stored in multiple locations and transcribed, and the secondary data used was drawn from publicly available and trusted sources. The interviewer and interviewee biases (Sauders *et al.* 2003, 252) were minimized by creating an open and confidential setting for the interviews.

Based on the discussion of the validity, generalizability and reliability of this research, it can quite confidently be stated that this research is credible and thus, also valuable for the surrounding research community.

## 3.5 Limitations

This section will conclude the discussion on the methodological choices made in this study. As every research, also this research has its limitations. These limitations are discussed next.

Due to the time and resource constraints of a master's thesis, this study was limited to the context of technology intensive startup companies and the following five sales channel strategies:

- direct sales channel strategy
- indirect sales channel strategy
- dual sales channel strategy
- hybrid sales channel strategy
- internet sales as a sales channel

Moreover, the given timeframe for the study limited also the amount of interviewed companies and thus, the amount of case companies is relatively small. However, the researcher aimed to immerse herself into the selected cases and therefore gained depth to the research.

The results of this research have also certain limitations. As all case companies were Finnish companies, this might limit the generalizability of the results to companies outside of Finland. Moreover, the strict criteria set for the case company selection limits the research results as well. The criteria limited the pool of companies from which to choose from and thus, the results may be too narrow for generalization to other companies not matching the initial selection criteria. The strict selection criteria made also the search for potential case companies extremely difficult. For example, the requirement for the case company to sell physical products proved out to be challenging to fulfill, as most of the otherwise compliant companies did not sell physical products but rather immaterial solutions or services e.g. software. However, as the studied companies should fall under the scope of this research, the limited selection criteria were justified.

Another limitation might be the fact that the researcher is working at one of the interviewed companies herself and thus, might have created a specific bias towards the company and its sales channel strategies. These bias have been minimized by viewing the topic as objectively as possible and by asking the interviewee to treat the researcher as a neutral person who is not familiar with the company.

# 4 EMPIRICAL FINDINGS, ANALYSIS AND DISCUSSION

The empirical findings, analysis and discussion section will *describe, analyze* and *synthesize* the findings of the conducted case interviews. Moreover, at the end of this chapter, the final analytical framework is presented. The final analytical framework has been build up inductively based on the empirical findings. However, according to the analytical induction approach, the preliminary research framework presented earlier in Chapter 2.4, has been used as a basis for the final analytical framework.

## 4.1 Presentation of Case Companies

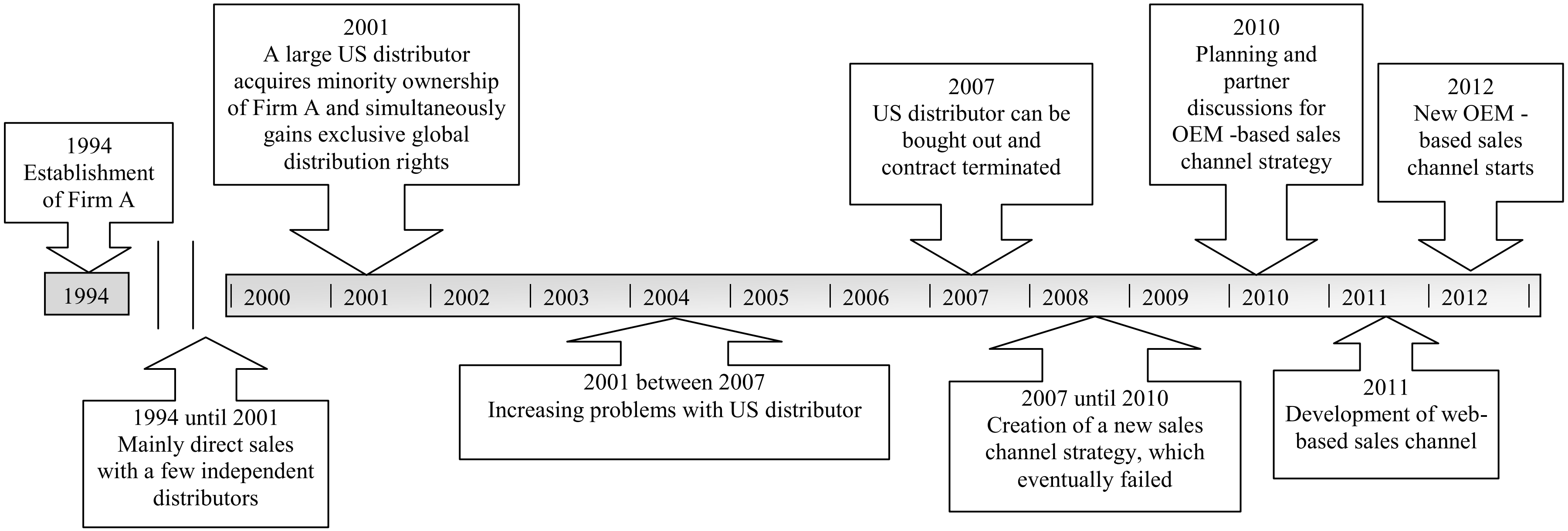
This first section of the empirical part will *describe* the findings of the four interviewed case companies: Firm A, Valoya Oy, FluidHouse Oy and Firm X. Each case description will be structured as follows: first the background and characteristics of the case companies are shortly presented. After this, the discussion moves on to the sales channel strategy of the specific company and the reasons underlying the decisions made. Each company presentation ends with highlighting the factors that were named by the companies to determine a successful global sales channel strategy for a technology intensive start-up. It is essential to lay out the individual cases before moving to the cross case analysis part, because these cases set the context for the next parts of this thesis.

### 4.1.1 Firm A

Firm A was founded in 1994 by a group of experts and scientists in the field of surface science. The company develops and manufactures innovative surface tension instrumentation that is based on extensive research and development efforts. These high-tech products are used in diverse chemical industries, such as the pharmaceutical and cosmetic -sectors. Firm A's products are sold globally for highly specialized research groups and laboratories owned by universities and MNCs, thus the company is targeting global niche markets. Currently Firm A employs ten employees and its yearly turnover falls between 0.4 and 1 million euro.

The company has undergone a turbulent past in regards to its sales channels and struggled somewhat in establishing successful sales channel strategies for its products. Therefore, case Firm A provides valuable retrospective lessons learned for this research in regards to establishing sales channel strategies for technology intensive startup companies. The interviewed Mr. B has been active in the company since 2007 as a partner and board member. The timeline (Figure 3.) on the next page marks the most important events in Firm A’s sales channel development. These events and the underlying reasons are discussed over the next paragraphs.

**Figure 3. Timeline of Firm A's Sales Channel Strategy Development**



Firm A started by selling directly to several key accounts and by having a few distributors for the markets in the Netherlands, U.K and the U.S. In 2001 the sales channel structure of Firm A changed, as a large U.S based company with a strong own distribution acquired a 10% equity interest in Firm A. Simultaneously, the U.S. company gained exclusive global distributor rights, excluding Japan, for Firm A's most expensive products. The collaboration seemed to work well in the beginning for both sides. However, after some time the management of Firm A realized that the U.S company did not perform as well as they should have.

> "*The distributor had probably noticed that our products were a bit harder to sell than expected, but that there was a huge potential in them. It seems that they [the U.S. distributor] had apparently made a political decision of not selling our products at all, wait until we file for bankruptcy, and then buy our intellectual property rights. This was quite a brutal approach to the whole situation*" -Mr. B.

In 2007, after some contractual twists and turns, Firm A was able to buy the U.S. distributor out of the contract. During the following years Firm A concentrated on building a new indirect sales channel that consisted of many small, special equipment intermediaries in various countries and one larger Swiss intermediary. However, in 2010 the company had to acknowledge that this channel had failed. There were several underlying reasons for the failure. At the end of the day, many of the intermediaries were not the right kind of companies to sell Firm A's products and thus, did not possess the skills necessary for successful sales. For the larger intermediary, the identified problem was the lack of proper account management from Firm A's side. The drivers that would push the channel to sell were not correctly understood. For example, lack of sufficient training for the frontline sellers and unsuitable sales margins for the chosen distributors, eventually resulted in low motivation to sell Firm A's products.

After the unfortunate events over the past years, Firm A started to look for other options for its sales channel strategy in 2010. Soon, the eyes turned on an alternative that would be based on the established sales channels of a partner who, "on the neighboring lot, sells similar products as Firm A". In this sense, the new sales channel was based loosely on the original equipment manufacturer (OEM) idea, where the OEM -producer sells its product to a partner, who in turn includes the OEM -product to their own product and finally, sells it to the end user. The difference in Firm A's channel compared to the actual OEM -model, was that the partner would not include Firm A's product to its own, but use its well established sales channels to sell Firm A's products. Firm A started negotiations with potential partners for its new sales channel in 2010. However, some of the partner companies did not see Firm A's market to be large enough for them and thus, decided not get involved.

> *"One possible partner did not consider our market large enough for them, about which one can only strongly disagree. However, the company that has the sales channels [potential partner company] has always the correct opinion and ultimately, makes the decisions."* -Mr. B

Despite of the problems with some of the potential partner companies, Firm A was successful in gaining an American partner distributor that produces lipids for the same end customers as Firm A. This company already had established successful sales channels and therefore, appeared to be suitable as a partner distributor. The establishment of the sales channel took a relatively long time due to the lessons learned from previous problems Firm A had experienced with other intermediaries. This time, Firm A wanted to make sure that everything would work seamlessly. The partnership officially started in early 2012.*"It is left to be seen how successful this channel will be, but it appears that these kind of sales channels could work well for Firm A"* -Mr. B.

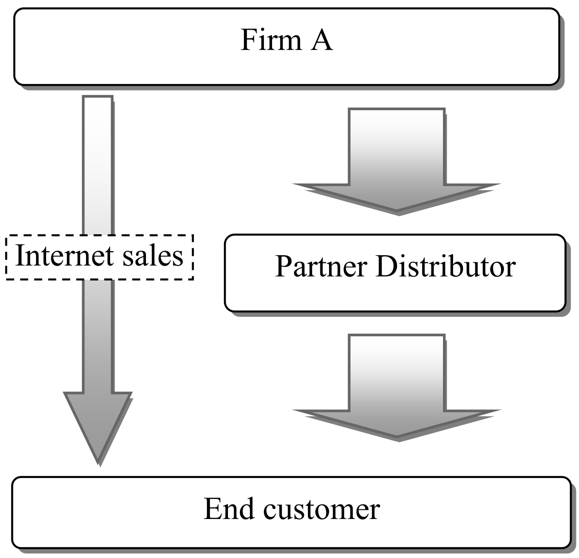
Firm A also sells directly through its website. During the summer 2011 the company completely revamped its website and Google marketing campaigns.

> *"The most important lesson learned, was that no one else can make the optimization [website and Google ad campaigns], but yourself. Through this, we were able to reduce 60% of the expenses and improve the efficiency of our web channel. Through the optimizations the deal flow has, depending on the way you calculate, increased 5-10 times."*
> -Mr. B.

The internet as a sales channel has proven out to be especially successful when targeting Firm A's university customers. Usually the researchers know exactly what they want, ask a few technology questions and then order the product. However, Mr. B identifies a clear challenge for Firm A: "*it is extremely difficult as a small technology intensive company to compete through internet sales, for example, against large distribution networks*". These distribution networks have set clear instructions for their frontline sellers to fill their sales quota. Therefore, these “hyena sellers” sell anything for whatever price, in order to fill their quotas. Consequently, it is extremely difficult for Firm A who sells its products directly through the internet, to compete against these “hyena sellers”. These sellers have gained the direct face to face contact to the customers and can convince the customers to buy the product they are selling. This cannot be achieved the same way through the internet sales.

Currently, Firm A’s sales channel structure is a multiple sales channel, where both direct and indirect sales are used (see Figure 4. below). Firm A sells directly through the internet and is responsible for the marketing as well as customer generation. The intermediary, in this case the partner distributor, is responsible for the indirect sales and distribution of Firm A’s products. Even if the producer and the channel member have roles that overlap to some extent, the channels do not compete against each other and thus, this is a form of the hybrid sales channel.

**Figure 4. Firm A’s Current Sales Channel Structure**




In regards to what determines a successful global sales channel strategy for a technology intensive start-up, Mr. B lists three factors. First he highlights the importance of customer understanding.

> "*Everything comes down to understanding the customers. The sales team as well as the top management need to be in contact with the customers on a day-to-day basis and truly understand the customers' needs*" -Mr. B.

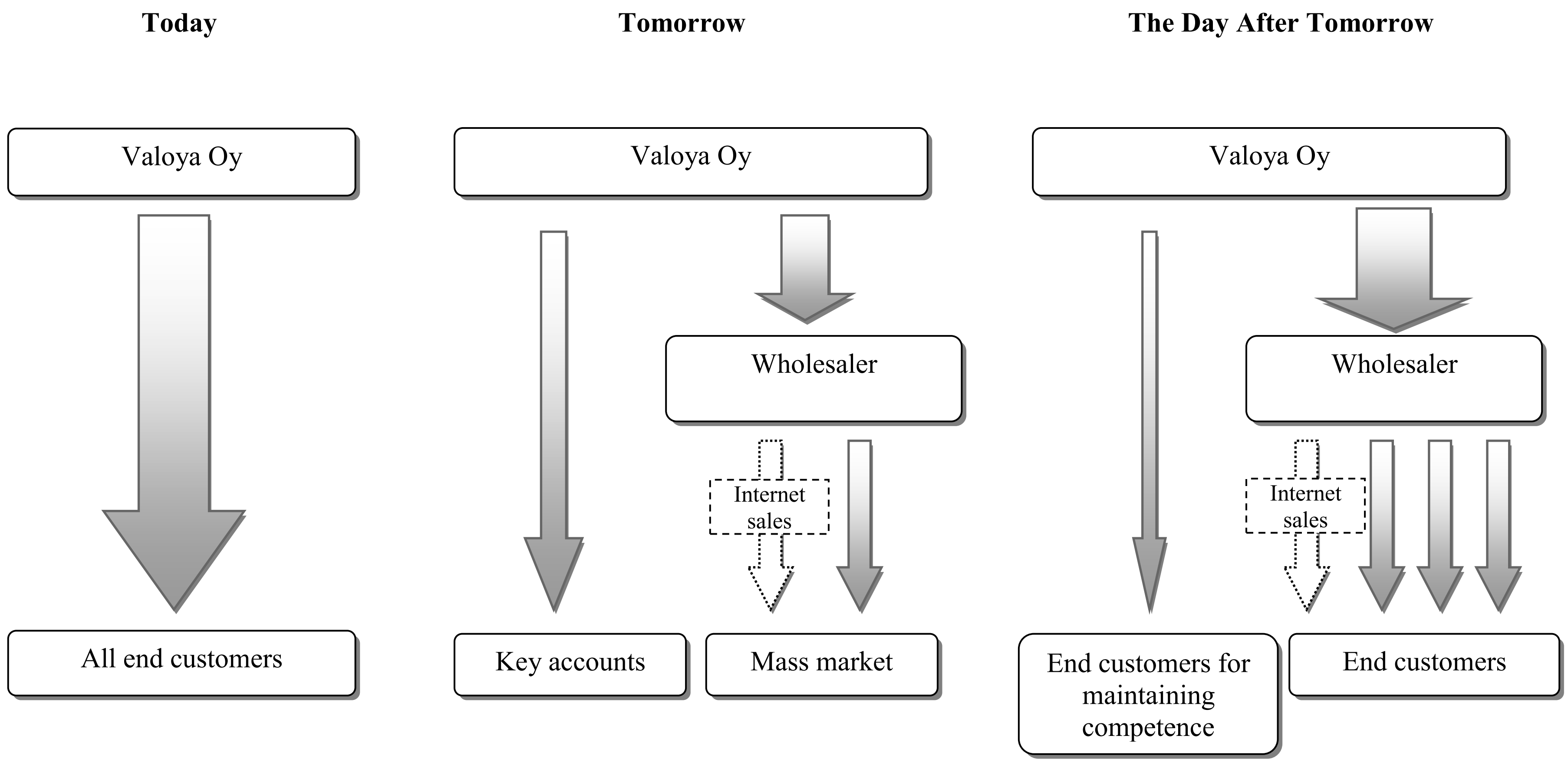
The second crucial factor is to match the sales channel strategy with the company type. As all companies are different, this decision needs to be holistically thought trough in the light of the company's overall vision and aims. The third success factor is to link the sales channel strategy with the company's marketing strategy. The crucial question here is to find out how the company can use new sales channels efficiently enough, in order to get the customers hooked.

### 4.1.2 Valoya Oy

Valoya Oy (Valoya) was established in 2009 and it is the youngest of the studied case companies. Due to its short history, the company is in the early phases of developing its sales channel strategy. Valoya is the provider of energy efficient LED -lighting for greenhouses. The products employ the newest LED -technology and have been developed through extensive R&D together with international research institutes and leading vegetable growers. As the addressable market for greenhouse lighting in Finland is not large enough, the founders had a strong global vision already at inception. At present, Valoya's products are sold globally, mainly targeting production greenhouses that grow vegetables, flowers or seedlings on a large scale. The company employs 11 employees and it is based in Helsinki with an affiliate office in Singapore.

The case interview was conducted with Valoya's Sales Director, Rabbe Ringbom. As the company does not have an extensive history in regards to its sales channels, the interview concentrated on three illustrative time periods: "today", "tomorrow" and "the day after tomorrow". These time periods and the proposed sales channels to be used are illustrated below in Figure 5. The following paragraphs will explain each time period in a more detailed manner.

Figure 5. Valoya's Current and Proposed Future Sales Channels



In figure Figure 5. the first image from the left, labeled as “today”, illustrates Valoya’s current sales channel strategy. Currently, Valoya sells directly to its end customers all over the world. The direct sales strategy has been used since the establishment of the company. Mr. Ringbom identifies two reasons for choosing the direct sales channel. The first reason was the lack of other viable sales channel options. It is difficult to get intermediaries interested in products that currently cannot offer high margins. The second reason was the “competence seeking” management team.

> “*If we would have outsourced all of our sales activities, the high competence requirements set for the intermediaries would probably not have been fulfilled. Once we select our partners, we seek for those who are interested in improving their own competences as well.* ” -Mr. Ringbom

The direct sales channel has been suitable for Valoya’s early stages. The sales team has been able to build up their own competences through direct sales, as they have learned the right way - through actual customer contact and not through secondary sources.

The “tomorrow” section of Figure 5. illustrates Valoya’s near future in regards to its sales channels. Mr. Ringbom’s estimate of the future sales channel structure is a hybrid sales channel, where Valoya sells directly to a few selected key accounts and a wholesaler is responsible for the mass market sales. Valoya’s direct contact to the key accounts is regarded crucial for maintaining competence and learning from the customers. In addition, there might be the possibility to sell through internet sales for some minority segments. The internet sales would be handled by the wholesaler. The “tomorrow” phase is regarded as a transitional period while moving towards the “day after tomorrow”.

The “day after tomorrow” picture demonstrates the long term future of Valoya’s sales channels. This phase takes place once LED -lighting becomes the major form of illumination in greenhouses. However, the exact timing of this is difficult to predict. The estimated sales channel structure for this period is similar to the structure of the previous period. The difference in this hybrid structure is the amount of channel members, as well as the sales distribution between Valoya and the channel members. Most of the sales i.e. 95% would go through several intermediaries and the rest would be Valoya's direct sales. Here, Mr. Ringbom highlights the importance of retaining a part of the sales as direct sales.

> "*I think it is highly important that we won't leave the customer interface completely at any stage, as this is the place we learn the most from. This is a problematic situation for a startup, because if you cut the direct contact to the customers, the company becomes arrogant. If we won't listen to customers directly and if we don't know what's going on, we behave like a large and arrogant corporation."* -Mr. Ringbom

A sales channel that employs purely indirect sales is regarded risky for Valoya. As a general guideline, the interviewed Mr. Ringbom states "*One should never outsource the eyes and ears of a company, because then you'll lose sight and sound to the customer base.*" However, some form of indirect sales might be suitable for Valoya when targeting customers that are located in remote countries and for whom the products need to be localized heavily. In this case the indirect sales might be suitable, as the local intermediary has a better understanding of the market and thus, the sales can be done more cost efficiently.

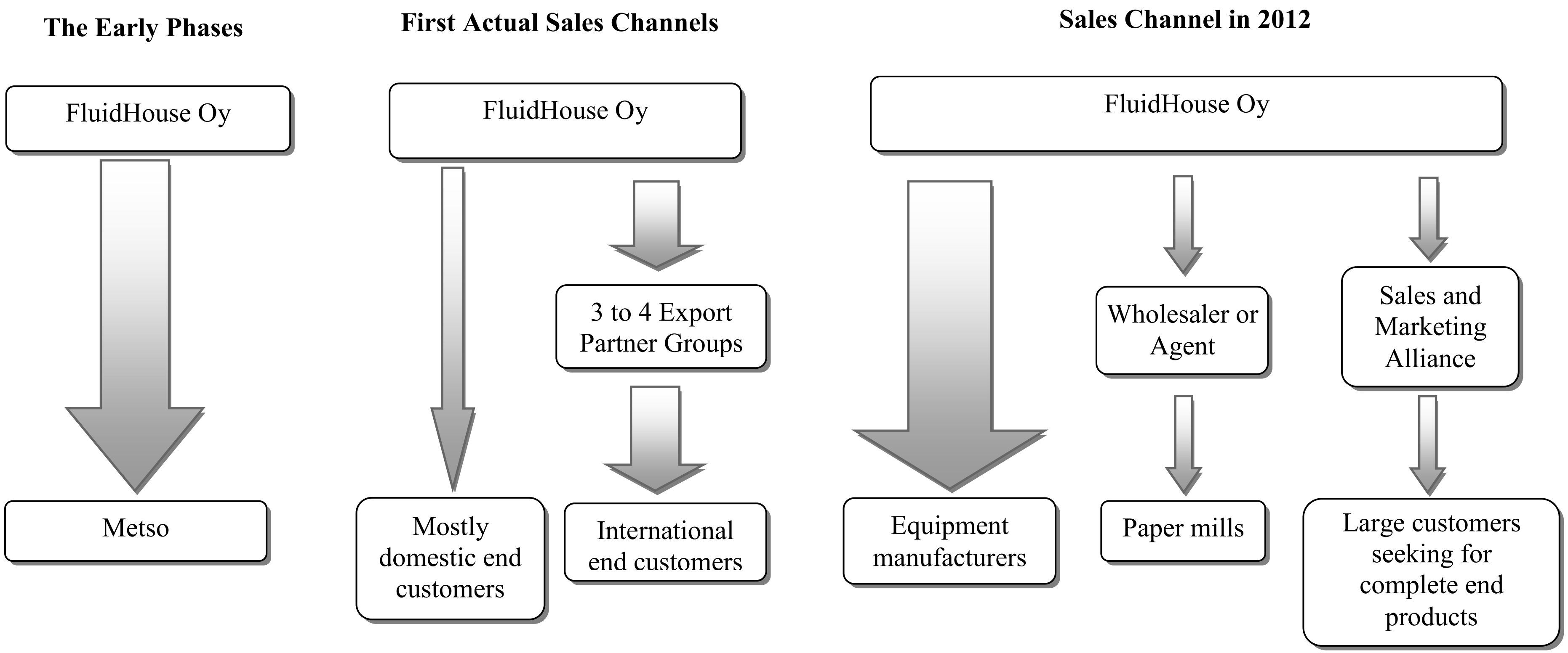
When moving on to factors that determine a successful global sales channel strategy for a technology intensive start-up, Mr. Ringbom lists three factors. First, he refers to the sales team's level of competency. The right kind of know-how is extremely important for the success of a sales channel. In Valoya's case, the success of the direct sales channel has largely been based on the right kind of learning "from the field and not the books". As a second success factor, Mr. Ringbom highlights a clear management vision that motivates employees to try their best. Mr. Ringbom's third success factor for an global sales channel strategy is simply to have good and competitive products.

### 4.1.3 FluidHouse Oy

FluidHouse Oy (FluidHouse) was officially established in 2003, but the actual operations begun in 2005. The company manufactures and supplies hydraulics and oil lubrication systems for large industrial companies as well as for equipment manufacturers such as Metso, Siemens and Rolls Royce. FluidHouse is one of the most important manufacturers of paper machine hydraulics and oil lubrication worldwide. This is a remarkable accomplishment for a young technology intensive company and thus, FluidHouse can be seen as a success story in regards to its sales channels. FluidHouse sells its products globally, however, the most important markets are the Nordic countries and China. This is also the reason why the company has a subsidiary in Shanghai. FluidHouse has a turnover of 11,2 million Euro and currently employs 80 employees.

The case interview was conducted with FluidHouse's Sales Director, Juha Keto-Tokoi and with the Area Manager responsible for the Northern, Central and Southern European sales, Marko Jokinen. The interview concentrated on how the company's sales channels have changed after the inception of the company and why these changes have taken place. The Figure 6. below illustrates FluidHouse's sales channel structure in three various time periods: the first illustration from the left demonstrates the direct sales during the early phases of the company, the second picture shows the first actual form of FluidHouse's sales channel and the third picture illustrates the company's sales channel structure today, in 2012.

Figure 6. FluidHouse's Sales Channel Structure Development



During the early years of FluidHouse's existence, their main customer was Metso, a large Finnish equipment manufacturer. When Juha Keto-Tokoi joined the company in 2006 as the sales director, 95% of FluidHouse's revenue came from the sales to Metso. This channel structure is reflected in the Figure 6. above. The Sales Director's first task was to expand FluidHouse's business and to widen its customer base. Through the recruitment of the new sales director, Mr. Keto-Tokoi, the company started to develop its sales channel strategy and to create its actual first sales channels.

In the beginning, FluidHouse was a contract manufacturer and thus, did not have actual own products. This created some problems when commercializing the business. FluidHouse could quite clearly define their core know how and what the company was capable of producing, but the actual product did not yet exist. In addition, the company did not know much about their target markets. Therefore, FluidHouse first wanted to "*explore the target markets, test the company's competitiveness and examine its opportunities in these markets*" -Mr. Keto-Tokoi.

These were the reasons that led to the use of export partner groups in addition to the direct sales. The export partner groups could be defined as FluidHouse's first actual global sales channels, while the direct sales channel continued to serve mainly the local customers. The illustration of this sales channel structure can be seen in Figure 6. above. The export partner groups are co-operation projects involving 4-6 companies, whose products or internationalization targets complement each other (Finpro). FluidHouse joined four export partner groups simultaneously, in order to internationalize its business. These export partner groups worked rather well for the purposes of exploring the markets and discovering the opportunities within them. However, as actual sales channels these groups were not as successful.

> *"In the beginning the export partner groups were successful in the sense that their use aimed at exploring and getting familiar with the target markets. However, the purpose was also to actually sell through these groups, but for this purpose the export partner groups seldom work. They might be a way to gain access to the markets, but if you actually want to sell something through the indirect sales channel, the sales efforts need to be based on a consignment contract with an agent"* -Mr. Keto-Tokoi

As a result, FluidHouse started negotiations with agents and wholesalers in Russia and Asia, among other countries. The export partner groups in France and Spain were continued, but in the form of a pure agent contract. Consequently, FluidHouse changed its indirect sales channels from export partner groups to agents and wholesalers.

However, it was soon noticed that the sales for the international equipment manufacturer customers required direct customer contact in order to succeed. This was the reason FluidHouse begun to strengthen its direct sales channel. The direct customer contact is crucial for FluidHouse as their products are highly technical solutions and thus, the sales require a profound expertise of these products and services.

> "*We have noticed that even the agents cannot carry out a sales transaction completely independently. They can create the contact and discuss to a certain point with the customers, but in the end, it requires someone from our sales team to close the deal.*" -Mr. Keto-Tokoi

Currently, FluidHouse uses a form of hybrid sales channel, where it employs both direct and indirect sales. The illustration of the current structure can be seen in Figure 6. above. Even if the channel members perform the same activities i.e. customer generation, sales and distribution, they do not compete against each other, thus the channel can be defined as a hybrid rather than a dual channel. The different customer segments are divided between the channels as follows: direct sales are used when dealing with the equipment manufacturers and the indirect channels serve other customer segments such as paper mills.

The reason for dividing the segments this way is the fact that the price competition for the equipment manufacturers is so harsh that it simply does not leave room for paying commissions to middlemen. In addition, as explained previously, several equipment manufacturers prefer a direct contact to the producer. Thus, FluidHouse sells its products directly to these customer segments. On the other hand, the use of agents is more cost efficient in other segments, as it would take enormous resources to directly contact all paper mills in Russia, for example. Therefore, indirect sales, more specifically the use of agents and wholesalers, is preferred in the paper mill segments. Agents and wholesalers can also be useful when FluidHouse searches for new equipment manufacturer customers abroad. In such cases, the local middlemen act as door openers to the foreign markets.

In addition to the more traditional direct and indirect sales channels, FluidHouse employs a sales and marketing alliance - the 1 Stop Group, as a more unconventional form of the indirect sales channel (see Figure 6.). The 1 Stop Group is formed by four Finnish companies that target the same customers in the Nordic countries. The sales and marketing alliance was started when FluidHouse and the three other companies realized that their products complement each other, and together they could form a turnkey service for their customers. All producers had noticed that especially large customers were rarely interested in individual components or parts, but were seeking for complete end products. As a result, the sales and marketing alliance was established to promote the complete turnkey services under one brand name - the 1 Stop Group. According to Mr. Keto - Tokoi and Mr. Jokinen, the marketing and sales alliance has worked well for its purposes. The key to its success has been the synergies created by the founder companies' common interest and vision.

In general, FluidHouse's sales have been the most successful when the direct sales channel has been used. This is also the reason why roughly 90% of FluidHouse's products are currently sold directly to the end customers. In this light, the indirect sales channel has a minimal role in the company's total sales. However, as mentioned earlier, the agents and wholesalers have proven out to be valuable door openers to foreign markets.

In regards to what determines a successful international sales channel strategy for a technology intensive start-up, Mr. Keto-Tokoi and Mr. Jokinen list three factors. First, they highlight the importance of a clear vision and strategy of where the company is going to and what the company is aiming for. This ensures that the sales channel decision is linked to the overall aims of the company. Secondly, the company should have clear and good products that have a distinct competitive advantage over rival products. When the product offering is clear, it is much easier to sell the products to potential channel members as well as to end customers. Last, but definitely not least, Mr. Keto-Tokoi and Mr. Jokinen emphasize that the sufficient producer support provided to the channel members is crucial for an indirect sales channel to succeed.

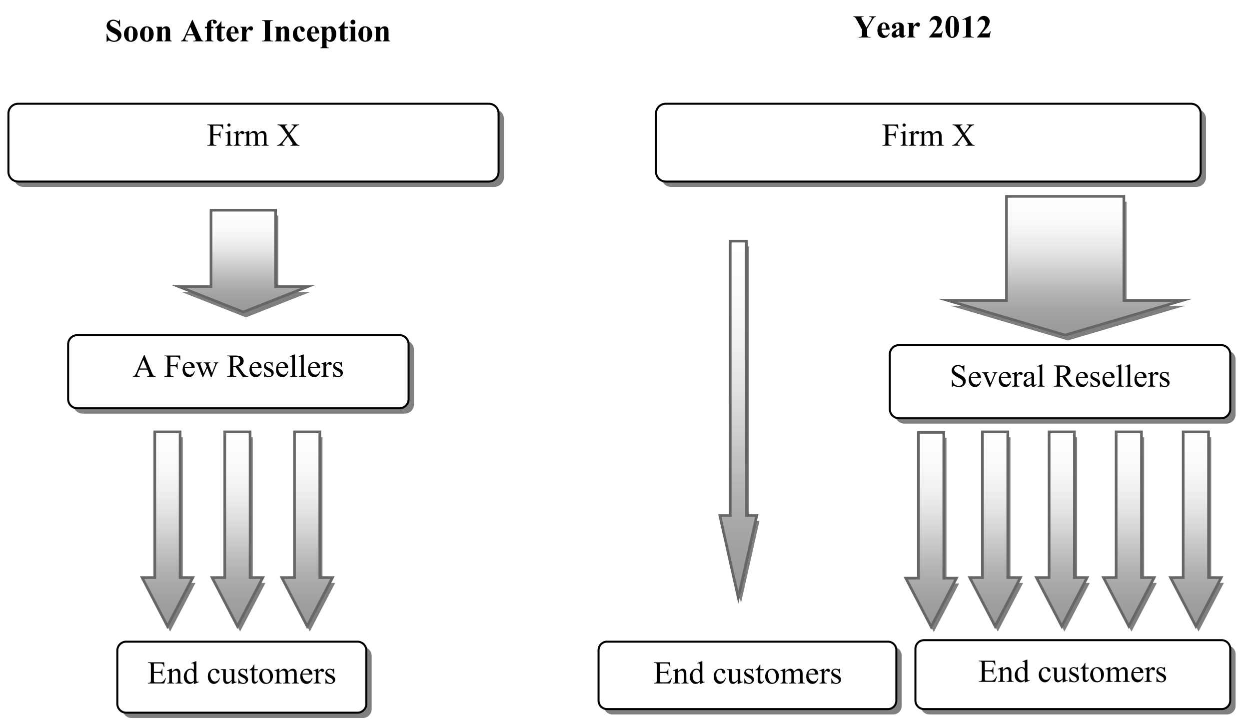
> *"It does not work that you employ an agent or an export partner group and just expect them to sell so that orders come flooding in. You, as a producer, have to provide extensive backup services for the channel members."* -Mr. Keto-Tokoi

### 4.1.4 Firm X

The fourth interviewed case company wishes to stay anonymous in this thesis and therefore, will be referred to as Firm X while moving onwards. Firm X produces innovative and high technology products for the use of various companies such as car manufacturers or industrial MNCs. The products are used for a variety of functions such as marketing and exhibition purposes. Firm X was founded in 2007 as a university spinoff after a research project. After the project, the researchers uploaded a demo video of the product on the internet and soon, the university received multiple inquiries from interested customers. Consequently, the researchers decided to establish a company that sells the innovated product. Since then, Firm X has grown into a successful company with 30 employees and a yearly turnover of 3,4 million. Moreover, Firm X is a truly global company as 90% of its sales revenue comes from abroad. Of the international sales, roughly 60% go to Europe, around 30% to the U.S and 10% to Asia. This is also why the company has opened two side offices in the U.S. and one in Singapore.

The case study interview was conducted by interviewing Mr. Y., the Vice President of Sales & Marketing. Mr. Y. joined the company recently, in the beginning of the year 2012. Consequently, the case interview concentrated on the company's current sales channel strategy and its success factors. The Figure 7. below illustrates the historical development of Firm X's sales channels and the following paragraphs will shortly describe the development. However, the main focus of this case description is on the current sales channel structure, pictured on the right below.

**Figure 7. Firm X's Sales Channel Structure Development**



In the very beginning, when the company had just started its operations in 2007, Firm X sold its products to the resellers only . This structure can be seen in the first illustration from the left in Figure 7. This strategy was "*seen as the easiest way for a small company to start conquering the world*" - Mr.Y.

Currently, Firm X employs a multiple sales channel strategy, where roughly 90% of the sales are conducted through resellers and the remaining sales are direct. This structure is illustrated on the right in Figure 7. The Firm's recently set up Services team will also be selling programming services and applications (ie. Software) in addition to the hardware. This will increase the need for using the direct sales channel in the future. The main target of the direct sales will be large sized corporations which will integrate Firm X's products into their total solution packages.

Many of Firm X's target markets have more than one reseller and none of the intermediary contracts is exclusive. Therefore, the intermediaries are occasionally competing against each other and thus, the sales channel strategy can be defined as a dual strategy. According to Mr. Y, it is unthinkable that even in a small geographical market Firm X would agree to have only one reseller. A large amount of intermediaries increases the visibility of the products and result in increased customer awareness, which in turn leads to increased sales.

There were several reasons why Firm X decided to use the dual sales channel with a dominant indirect channel structure. First, using multiple sales channels was a matter of cost efficiency: "*Even if the company has subsidiaries in the U.S. and Singapore, it would be impossible to handle all sales to over 40 countries without intermediaries*." - Mr. Y. Moreover, as Firm X operates in a field where the user experience and delivering the "wow-effect" are crucial sales arguments, intermediaries are important advocates of this content in the various target markets.

> "*We will always need this kind of local content creation by the intermediaries, this is also why the indirect sales channel will always remain . Moreover, the resellers have a better ability to deliver the "wow-effect" to the end customers as they know the local cultural factors."* - Mr. Y.

In addition, even if Firm X's products employ high technology, most intermediaries are very capable and have a profound knowledge of high-tech products in general. Therefore, Firm X's presales training to the intermediaries is a matter of days and thus, does not create a barrier for using the indirect sales channel.

According to Mr. Y. the dual sales channel structure with dominant indirect sales, has been a suitable option for Firm X. Even if the channel members do compete against each other, this has not been a serious problem for the company. Nevertheless, the dominant indirect sales naturally creates some transparency challenges, as the direct customer contact is limited. Mr. Y. highlights that it most likely will be easier to gain direct customer contact through the application development. This is also one reason why the company plans on expanding its programming services and application development, and aims to be recognized as a software developer in addition to being a hardware producer. However, "*the indirect channel will always remain a crucial part of Firm X's sales channel strategy, as the field of business requires the use of intermediaries*." - Mr. Y.

Firm X differs from the other case companies in the way that its products have more or less sold themselves. This has been the case already since the early days of the company.

> "The *selling has been relatively easy for us. We haven't had the need to actively search for intermediaries, as they have found us instead. We've gained extensive publicity through marketing, which has consequently turned resellers' attention to us."* - Mr. Y.

However, this reactive approach has not been the most optimal way of selecting resellers. Mr. Y. points out that Firm X will be more proactive in searching and selecting resellers in the future. The current reactive approach has led to some intermediary contracts where a small reseller closes one deal, but no ensuing sales has followed from this reseller. By proactively selecting larger AV integrators and System Integrators as resellers and distributors, Firm X can focus its resources more efficiently and thus, enhance the scalability of sales.

Due to the fact that Firm X has the most advanced product on the market, the company often has a high relative power in the producer - intermediary relationship. However, this naturally varies between the intermediary size and Firm X's percentage of the intermediary's total sales. "*In the end, it is the reseller who best understands the end customer's needs and therefore, ultimately decides what products it will offer to the end customers.*" - Mr. Y.

In regards to what determines a successful international sales channel strategy for a technology intensive start-up, Mr. Y. lists three factors. First he highlights the importance of proactively selecting the right intermediaries i.e. "*We want to select our intermediaries and not the other way around*" - Mr. Y. The reasoning behind this is the more efficient resource distribution of the producer, as discussed above. The second success determinant is related to the first; the selected reseller should be competent i.e. large enough to be able to generate high sales volumes quickly. This in turn enhances the scalability of sales. The third success factor pointed out by Mr. Y. is to have good and competitive products that have the capability of selling themselves.

## 4.2 Cross-Case Analysis and Discussion

In this cross-case analysis part of the thesis, all case presentations are *analyzed*, compared to each other and evaluated holistically. Moreover, the analysis will *synthesize* relevant literature from the literature review presented earlier and contrast the findings with existing research. This cross-case analysis chapter is structured in three parts as follows: first the companies are compared to each other in terms of their backgrounds and basic characteristics, after this, the used sales channel strategies are evaluated and discussed. Finally, the gathered sales channel strategy success factors are analyzed.

### 4.2.1 Company Backgrounds and Characteristics

The interviewed case companies have all varying backgrounds and characteristics as can be seen in Table 6. below.

Table 6. Case Company Comparison

| | Firm A | Valoya Oy | FluidHouse Oy | Firm X |
|---|---|---|---|---|
| **Establishment year** | 1994 | 2009 | 2003 (actual operations in 2005) | 2007 |
| **Yearly turnover** | 0.4 - 1M € | < 1M € | 11,2M € | 3.4M € |
| **Employees** | 10 | 11 | 80 | 30 |
| **Products** | Surface tension instrumentation | Greenhouse LED -lighting | Hydraulics and oil lubrication systems | Innovative high technology products |
| **Target customers** | Research groups and laboratories in MNCs and universities | Greenhouses and research institutes | Large industrial companies and equipment manufacturers | MNCs in various industries |
| **Target markets** | Global | Global | Global | Global |
| **Subsidiaries** | – | Singapore | Shanghai | Singapore and the U.S. |
| **Sales channel strategy used** | Hybrid | Direct | Hybrid | Dual |

The most noticeable differences can be seen in the age and size of the companies and in the products they sell. The age of the companies varies from three years (Valoya) to 18 years (Firm A). This resulted in variation of the empirical findings in terms of the time the sales channels had been used in the companies as well as the extent of historical developments within the used sales channels. This is also the reason why the individual case company descriptions differ in how extensively the historical sales channel developments are covered. Firm A and FluidHouse, for example, have a relatively long and eventful sales channel strategy history and therefore, these events were covered in an extensive manner. Valoya and Firm X, on the other hand, do not have such a long history and therefore, the case descriptions of these companies focused more on the present and future sales channel strategies. The varying ages of the companies also ensured several insights into how companies employ sales channels at different times of their growth: all companies except for Firm X, started off by selling directly to the end customers, but relatively soon switched to multiple sales channels (hybrid, dual, internet) which they developed and optimized further along the years.

The size of the companies ranges from 10 (Firm A) to 80 (FluidHouse) employees, but all companies can still be categorized as SMEs, as they employ less than 250 employees (Statistics Finland). Also, the yearly turnover varies from less than a million euro (Valoya) to 11,3 million euro (FluidHouse). Here, surprising is the fact that Firm X, a company that has existed only five years, has the second highest turnover of 3,4 million euro.

Probably the most variation in the case companies are the products they sell and the industries they operate in (summarized in Table 6. above). One aspect to sales channel strategies demonstrated clearly by the case interviews, is the fact that the employed sales channel strategy needs to be suitable for the product and for the company itself. Based on the interviews, it can be stated that the interviewed companies have recognized the sales channel requirements set by their products and the company aims, and therefore employed a sales channel strategy best suitable to these requirements. Firm A, for example realized that its sales channel requires a partner distributor with a wide distribution network already in place in order to successfully sell Firm A's products for the niche target market. Valoya on the other hand, emphasizes the importance of direct customer contact, as the success of the company is dependent of continuous learning about the customers' needs and wants. Realizations such as these, are reflected in the sales channel strategies selected by the case companies. This finding is also in line with the views of Burgel & Murray (2000) and Dimitrova & Rosenbloom (2010), who state that it is crucial that the chosen sales channel is suitable for the company, its products and the target market. This view was presented in chapter 2.3.1 about startup companies' sales channel strategy choice.

Even if the case companies differ in their backgrounds and characteristics, there are also certain similarities between the companies. This is partly due to the initial selection criteria set before selecting the case companies i.e. the requirement of being a born global (e.g. Oviatt & McDougall 1997; Knight & Cavusgil 1996), selling physical high-tech products, engaging in b2b sales, targeting a niche market and having extensive sales abroad. The similarities are especially visible in the markets the companies target: all companies sell their products globally. Moreover, all but Firm A have also subsidiaries outside of Europe. In addition, the sales channel strategies used are rather similar, as all but Valoya use a multiple sales channel strategy i.e. dual or hybrid. Moreover, Valoya plans to move to a multiple sales channel strategy in the near future as well. The employed sales channel strategies will be analyzed in more detail in the next chapter.

### 4.2.2 Sales Channel Strategy Structure and Choice

This chapter compares and *analyzes* the case companies' sales channel strategy structures as well as the reasons why these channels are used by the case companies i.e. the sales channel strategy choice. During the case company interviews, the interviewed were asked to mark on a questionnaire how important they regarded five sales channel strategy related parameters in their employed sales channel strategies. These five parameters are the same which were discussed in the literature review in Chapter 2.2.2; cost of using channel, direct customer contact, control over channel, potential for sales channel conflict and customer reach. The Table 7. below summarizes the results which are discussed in more detail over the next paragraphs.

**Table 7. Sales Channel Strategy Parameter Comparison by Case Companies**

| Parameter | Firm A | Valoya Oy | FluidHouse Oy | Firm X |
|---|---|---|---|---|
| **Cost of using channel** | – | ° | ° | + |
| **Direct customer contact (depth)** | ° | ° | + | +/° |
| **Control over channel** | +* | – | + | + |
| **Minimizing sales channel conflict** | N/A | ° | ° | ° |
| **Customer reach (width)** | ° | + | ° | + |
| **Used Sales Channel** | **Hybrid** | **Direct** aiming at hybrid | **Hybrid** dominant direct | **Dual** dominant indirect |

Legend: important marked as +, moderately important marked as °, not important marked as –. * Important parameter, but not possible to execute.

As can be seen from the Table 7. above, the *cost of using the channel* was only an important factor for one of the case companies. The other four companies regarded this parameter only as moderately important or not important. This is a somewhat surprising result in the light of the TCE -principle, where a producer makes sales channel decisions primary based on the cost of using a channel (e.g. Geyskens *el al*. 2006; Michael 2007). However, this result is very much in line with the findings of Easingwood & Coelho (2003), Dimitrova & Rosenbloom (2010) and Brettel *et al.* (2011a). These researchers acknowledge that resource constrained technology intensive startups base their sales channel strategy choice not only on the TCE principle, but also on other parameters. This is due to the specific characteristics of the high-tech startups, such as the need for being agile and responsive to the fast paced and risky operating environment (Francis & Collins-Dodd 2000; Burgel & Murray 2000), as well as their varying needs in direct customer contact and learning opportunities, for example (Brettel *et al.* 2011a).

The *direct customer contact* was highlighted as very important by all companies during the interviews. However, in the sales channel strategy parameter questionnaire, only FluidHouse and Firm X highlighted the direct customer contact as important, while Firm A and Valoya marked it only as moderately important (Table 7). Nevertheless, the quotes from the interviews emphasize the importance of the direct customer contact for these companies:

> "*Everything comes down to understanding the customers. The sales team as well as the top management need to be in contact with the customers on a day-to-day basis and truly understand the customers' needs*" -Mr. B, Firm A.

> "*I think it is highly important that we won't leave the customer interface completely at any stage, as this is the place we learn the most from. This is a problematic situation for a startup, because if you cut the direct contact to the customers, the company becomes arrogant. If we won't listen to customers directly and if we don't know what's going on, we behave like a large and arrogant corporation."* -Mr. Ringbom, Valoya

> "*One should never outsource the eyes and ears of a company, because then you'll lose sight and sound to the customer base.*" -Mr. Ringbom, Valoya

> "*The direct customer contact is crucial for FluidHouse as their products are highly technical solutions and thus, the sales require a profound*

> *expertise of these products and services.*" Extract from FluideHouse's case description.

The importance of direct customer contact is also reflected in the sales channel strategies employed. Valoya uses a direct sales channel, while the other companies use a multiple sales channel, where direct sales plays at least a moderately important role. Especially FluidHouse extensively employs the direct sales channel in its multiple channel strategy, as 90% of its sales are conducted directly.

As all case companies' products are relatively complex, the findings about the importance of direct customer contact are in line with the statement discussed in the literature review; a high level of product complexity requires direct sales as the product contains new and innovative technology and therefore, needs to be explained in detail to the customer (Hill *et al.* 1990; Madhok 1997; Combs 2004). As the direct sales channel has the highest degree of customer contact, this strategy should be used in these cases (Brettel *et al.* 2011a; Bell 2010). However, the case company X demonstrates a somewhat contradicting result to this theory. Firm X has successfully trained their intermediaries within a short period of time for the sales of their high-technology products. Now their sales channel strategy is dominated by indirect sales. This could be explained by the recent trend in specialization of intermediaries that enables the use of a competent channel partner that is capable to quickly build up the required product knowledge (Weitz & Whitfield 2006).

However, Firm A and Valoya pointed out also another reason for the use of the direct sales channel. These companies had problems in getting intermediaries interested in them, as the projected sales volume or the offered margins were not high enough. Similar findings have been reported by Burgel & Murray (2000), who argue that those startups that do not meet the intermediaries' expectations have to sell their products directly. This is linked to the power distribution in the producer - intermediary relationship, which will be discussed later on in this chapter.

The importance of the *control over the sales channel* is an interesting parameter, as the questionnaire answers are not reflected in the sales channels used. The control over the sales channel was marked important to all companies but Valoya. This is a contradicting result, as Valoya is the only company actually employing a direct sales channel which offers the highest level of control (McNaughton 2002). Conversely, the companies using a multiple sales channel highlighted the importance of the control over the channel, even if this is challenging in the multiple forms of sales channel strategies (Gabrielsson & Gabrielsson 2011).

However, explanations for these surprising results can be found from the interviews. First, Firm A stresses that the control over the channel is important for the company, but cannot be achieved through the current sales channel structure. Second, Valoya will be changing its sales channel structure to a hybrid in the near future, where the control over the channel is lower than in the direct sales channel. In this case the questionnaire answer is aligned with the sales channel to be employed in the future. Third, FluidHouse employs a hybrid sales channel, but with a dominant direct sales structure. In this from, the hybrid sales can provide a high level of control over the channel as 90% of the sales are conducted directly. The last explanation for the surprising result comes from Firm X, which currently uses a dual sales channel where the indirect sales are 90% of total sales and thus, the level of control is very low. Nevertheless, the importance of controlling the sales channel is reflected in the aim to increase the percentage of direct sales in the future. While the percentage of direct sales increases, the control over the channel increases as well (Park & Keh 2003; McNaughton 2002) and thus, the future sales channel will be in line with the questionnaire answer.

*Minimizing sales channel conflict* was only a moderately important parameter for all companies, at best. For Firm A this parameter was not relevant at all, as they did not see the sales channel conflict as a problem, but rather as a positive problem. Explanations for these results can be found from theory presented in the literature review. Researchers such as Assael (1969), Cohen (2000) and Chiang *et al.* (2003) discovered that in some cases sales channel conflict might be a positive problem as it could motivate intermediaries to perform more efficiently, for example. However, as Firm A and FluidHouse employ the hybrid sales channel strategy and focus on partnership advantages achieved through trustworthy relationships, the risk for encountering sales channel conflict is relatively low (Al-Obaidin & Gabrielsson 2002a). In the case of Firm X, sales channel conflicts are not seen as a problem either, as the relative power of Firm

X is commonly high in the producer - intermediary relationships. This is also in line with the findings reported by Gabrielsson & Gabrielsson (2011), who state that a dual channel is only a viable option for high tech startups when the relative power of the producer is high. As explained in the case description, Firm X's high relative power has been gained through the extremely attractive products which intermediaries are keen to sell. As a concluding  mark to the analysis of the sales channel conflict parameter, it is worth noting that as Valoya sells directly to its end customers it has not encountered sales channel conflict (Easingwood & Coelho 2003; Webb & Lambe 2006).

The last parameter on the questionnaire was *customer reach*. Here, the answers are more or less in line with the employed sales channel strategies: Valoya and Firm X marked the customer reach as important whereas Firm A and FluidHouse marked it as moderately important. Firm X, Firm A and FluidHouse all use multiple sales channels. As highlighted in the literature review, multiple sales channels ensure a wider sales representation of the product compared to the single strategies, and thus, allow for wider customer reach (Mols 2000; Coelho *et al.* 2003; Rosenbloom 2007). The only abnormality in the light of this statement is the fact that Valoya regards the wide customer reach as important, even if it uses the direct sales channel where customer reach is limited (Bandy *et al.* 2009). However, once again, this result can be explained by Valoya's aim for a hybrid sales channel in the future.

The questionnaire proved out to be a helpful tool for comparing and analyzing the employed sales channel strategy structures as well as the reasons why these channels were used by the case companies i.e. the sales channel strategy choice. Even if some of the questionnaire answers did not seem to directly line up with the employed strategies, sufficient explanations were found either from the case interviews or from existing theory, or in some cases, both. The next chapter builds upon these findings and presents the sales channel strategy success factors gathered from the case interviews.

### 4.2.3 Sales Channel Strategy Success Factors

This chapter *synthesizes* and *analyzes* the factors that the interviewed case company representatives highlighted to determine a successful global sales channel strategy for a technology intensive startup. The chapter ends with concluding remarks on the found success factors.

Table 8 below summarizes the individual success factors presented earlier at the end of each case description. To gain a more holistic view, Table 8 divides the success factors into five broader success factor categories: *clear company vision and strategy, high product quality, intermediary selection and support, seller competency* and *customer understanding*. These categories are discussed in more detail next.

**Table 8. Sales Channel Success Factors Outlined by the Case Companies**

| | Firm A | Valoya Oy | FluidHouse Oy | Firm X |
|---|---|---|---|---|
| **Clear company vision and strategy** | Sales channel strategy complies with overall company vision and aims<br><br>Sales channel strategy is linked to company's marketing strategy | Clear management vision that maintains high employee motivation | Clear company vision and strategy linked to sales channel strategy | |
| **High product quality** | | Good and competitive products | Clear and good products with a distinctive competitive advantage | Good and competitive products that sell themselves |
| **Intermediary selection and support** | Intermediary selection, training, motivation and producer support* | | Sufficient producer support for intermediaries | Proactively, rather than reactively, selecting intermediaries |
| **Seller competency** | | Sales team competency | | Intermediary competency |
| **Customer understanding** | Understanding customers and their needs | | | |

* Implicit success factor

The fact that three out of four case companies emphasized the importance of a *clear company strategy and vision* for the success of a sales channel strategy is a remarkable finding. Based on the high answer frequency, the clear company strategy and vision seems to be an important success factor for the sales channel strategies of technology intensive startups. However, the concept of strategy and vision clarity needs further explanation in this context. Based on the interviews, a clear company strategy and vision can be categorized as internal attributes that result from the management teams' action plan to achieve a particular set of long term goals. In case these goals can concisely be communicated to the internal (e.g. employees) and external (e.g. investors) stakeholders in the form of the company strategy and vision, these can be defined to be clear. Naturally, the way companies define strategy and vision clarity may vary from the above.

It is important to note, that especially the linkage of the sales channel strategy to the overall company strategy and vision was emphasized in the case companies' success factors. This supports the view of Burgel & Murray (2000) and Bellin (2006), who state that it is crucial that the chosen sales channel is suitable for and linked to the overall company strategy. A clear company strategy and vision help to determine what the company aims at achieving in terms of growth, target customers and geographical scope of operations. Once these aims are clearly set, the company can choose a sales channel strategy that best complies with these aims (Burgel & Murray 2000).

Another high frequency success factor that was highlighted again by three out of four case companies was *good and competitive products* that have a clear competitive advantage and that are capable of selling themselves. This seems to be a rather obvious success factor for the sales channel strategy of any company. However, as it was explicitly pointed out by three interviewed case companies, this might indicate that the importance of good and competitive products is even higher for the success of technology intensive start-ups' sales channel strategies, than to other companies' sales channel strategies. However, more research and empirical evidence is needed to confirm this.

*Intermediary selection and support* was an explicit sales channel strategy success factor for two companies that used intermediaries in their sales channel strategy. Moreover, the importance of intermediary selection, training, motivation and producer support provided to the intermediary came up also in another case company interview (Firm A), and thus the intermediary selection and support can be categorized as an implicit success factor for this company (see Table 8 above).

Choosing intermediaries that are suitable for the company and that possess the necessary skills for selling high tech products is important for the success of a sales channel strategy as demonstrated in cases Firm A, FluidHouse and Firm X. This finding is in line with the research of Irani *et al.* (2011) who claim that the choice of the best suitable and most efficient intermediary is a crucial success factor of the whole sales channel strategy. Every company might define intermediary suitability differently as companies and their requirements set for the intermediaries vary. However, Firm X, for example, defined a suitable intermediary as one that is large enough to be able to generate sales volumes quickly.

Linked to intermediary selection, intermediary training, motivation and support have also been pointed out in previous research to be affecting sales channel success (e.g. Shipley 1984; Shipley *et al.* 1989; Bandy *et al.* 2009). Furthermore, these activities enable the continuous information flow between the producer and the intermediaries. Information sharing between channel members improves the coordination and performance of the sales channel (Dimitrova & Rosenbloom 2010).

Naturally, the more competent the seller is, the more successful his or her sales transactions are as well (Yeoh and Calantone 1995). In this light it is not all that surprising that *seller competency* stood out as a success factor for two companies. Both, the competency of the producer's own sales force as well as the competency of the intermediary was pointed out. In Valoya's case, the success of the direct sales channel has largely been based on the right kind of learning of the sales force i.e. learning from the field and not from secondary sources. For Firm X the intermediary competency takes the form of the intermediary's ability to generate sales volumes quickly. Obviously, the meaning of competency differs from company to company as every firm sets the sales force or intermediary requirements differently. These requirements are often closely related to the company's overall strategy, and thus the requirement of seller competency as a success factor is also closely related to the success factor presented first i.e. clear company strategy and vision (Burgel & Murray 2000).

*Customer understanding* i.e. the producer's profound knowledge of the target customers' needs and wants, is the last success factor that was found to determine a successful global sales channel strategy for a technology intensive start-up. This success factor is related to direct customer contact, that was found to be important for all interviewed case companies, regardless of the employed sales channel structure (see the previous Chapter 4.2.2.). The more the companies are in contact with the customers' the more they are able to learn from and about them (Hills *et al.* 2008; Brettel *et al.* 2011a).

The importance of customer understanding for the success of a sales channel strategy can clearly be seen in this quote from one of the case descriptions:

> "*Everything comes down to understanding the customers. The sales team as well as the top management need to be in contact with the customers on a day-to-day basis and truly understand the customers' needs*" -Mr. B, Firm A.

This finding supports also the research of Bumgardner *et al.* (2001), who found out that the competiveness of small firms is largely based on the close relationship with their customers. The direct contact enables learning about the preferences of the customers and thus, for the company to produce customized products that fulfill the needs and wants of the end customers (ibid.).

As concluding remarks about the findings as to which factors determine a successful global sales channel strategy for a technology intensive startup, a few notes should be made. First, the interviewed case companies listed rather general success factors for the global sales channel strategy of a technology intensive startup. The listed factors fell into the following groups: clear company vision and strategy, high product quality, intermediary selection and support, seller competency and customer understanding. The universality of the found factors could indicate that such success factors have not previously been consciously thought of, or this could also indicate that the factors which determine a sales channel's success are, in fact, general and no specific factors can be listed.

The second surprising observation made, is the fact that the introduced success factors are not necessarily startup specific, but rather generic in their scope. However, as there is not a sufficient amount of previous research in this field, more research is required to determine whether the success factors found, do actually differ from the sales channel success factors of MNCs, for example.

The third observation in regards to the sales channel success factors is the fact that none of the factors was directly related to the global aspect of the sales channel strategies. However, an explanation for this could be the fact that the global reach is written already in the startups' dna, as highlighted in the chapter 2.1.2 (e.g. Jolly *et al.* 1992; McKinsey & Co. 1993; McDougall *et al.* 1994), and thus, the global reach is such an integral part of the companies' everyday operations that this was not explicitly addressed in the success factors.

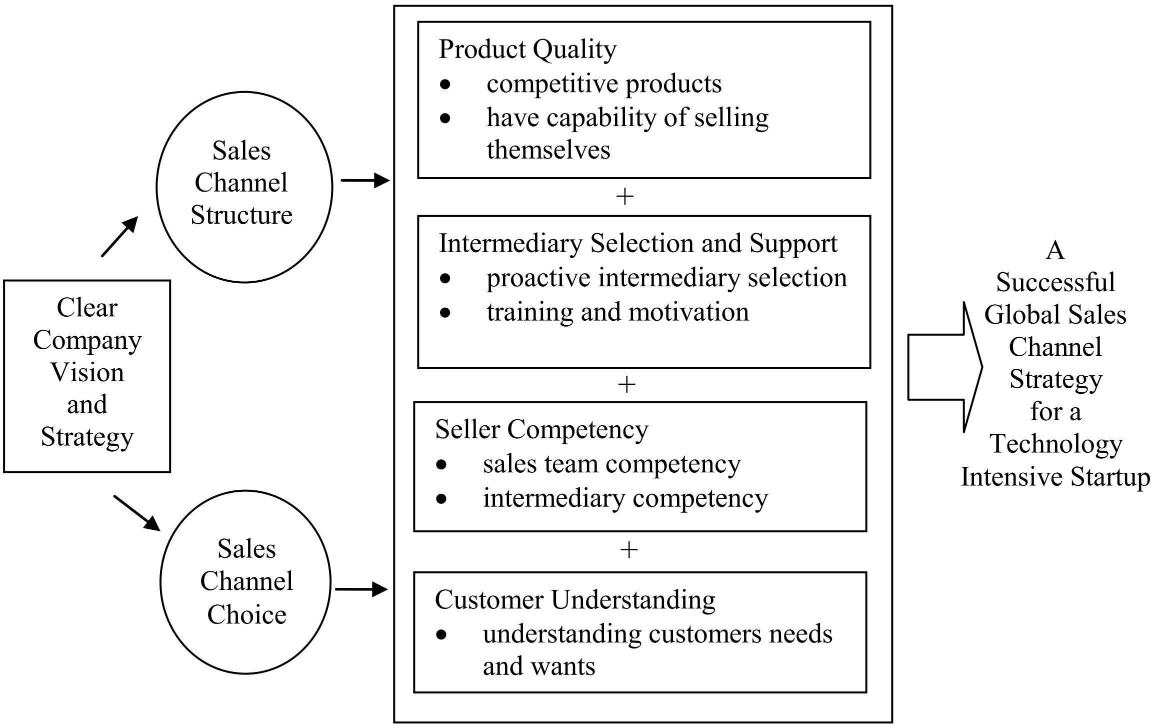
The last, but definitely not the least, note about the findings in regards to the success factors is the rather surprising fact that the case companies pointed out, independently from each other, similar sales channel success factors. This was not expected, as all companies operate in different industries and differ from each other in several ways. The only characteristics in common were the initial selection criteria set before selecting the case companies. This could indicate that there are indeed factors that determine a successful global sales channel strategy for a technology intensive start-up, and that the factors found in this research are such critical success factors. This finding underlines the importance of this research and points the direction for future research efforts.

## 4.3 Final Analytical Framework

This chapter of the thesis presents the final analytical framework (Figure 8) that has been build up using the analytic induction approach, as presented in the methodology Chapter 3. Along with the analytic induction approach, this thesis is based on continuous iteration between the existing literature, the empirical findings and the emerging theory. This is also the reason why the aim of this research was to gather and analyze factors that affect the sales channel success of startup companies, rather than to test an existing model on sales channel strategies.

The final analytical framework (Figure 8) below presents the factors that were found to determine a successful global sales channel strategy for a technology intensive startup. As these factors were discussed extensively during the previous chapter, this chapter will give a rather concise summary of the final analytical framework.

**Figure 8. Final Analytical Framework**




Chapter 2.4 presented a preliminary research framework for this study and highlighted the lack of profound research and applicable frameworks for the area of startup companies' global sales channel strategies (e.g. Burgel & Murray 2000; Ensign 2006; Hills *et al.* 2008). The final analytical framework in Figure 8 above builds on the preliminary research framework presented in Chapter 2.4 and modifies it based on the empirical findings.

Two components that could potentially affect the success of startup companies' sales channel strategies emerged from the review of various streams of literature: the sales channel structure (e.g. Easigngwood & Coelho 2003; Bandy *et al.* 2009; Rosenbloom 2007) and the sales channel choice (e.g. Fischer *et al.* 1990; Brettel *et al.* 2011a; 2011b; McNaughton 2002). These components are also a part of the final analytical framework. The empirical findings highlighted the importance of a *clear company vision and strategy* that is linked with the company's sales channel strategy. As the *sales channel structure* and the *sales channel choice* are parts of a company's sales channel strategy (e.g. Al-Obaidi & Gabrielsson 2002a; Sharma & Erramilli 2004; Brettel *et al.* 2011a), these two factors are also illustrated in the final analytical framework and can be concluded to be factors affecting the success of a sales channel strategy.

As discussed in the previous Chapter 4.2.3. along with a clear company vision and strategy, also *high product quality*, *intermediary selection and support*, *seller competency* and *customer understanding* were found to be factors that determine the success of a global sales channel strategy for a technology intensive startup company. These factors are summarized in Figure 8 above.

# 5 CONCLUSIONS AND RECOMMENDATIONS

In the final section of this research, a summary of the main findings along with the most important theoretical contributions of this study are presented. In addition, relevant managerial implications are outlined on how companies can enhance the success of their sales channel strategies. To conclude, suggestions for further research are given.

## 5.1 Summary of Main Findings

The *overall aim* of this research was to advance the understanding of sales channel strategies in technology intensive startup companies. The reasoning behind this overall aim was the fact that the existing literature does not sufficiently cover this research area. As pointed out in the introductory chapters of this study, the research on sales channel strategies is dominated by the research on MNCs (e.g. Dutta 1995; Krafft *et al.* 2004; Shervani *et al.* 2007) and the limited existing literature on startup companies is rather conceptual, with a lack of empirical content (Burgel & Murray 2000; Hills *et al.* 2008; Brettel *et al.* 2011a).

As several high technology startup companies struggle with setting up effective global sales channel strategies (Rajala 1997; Song *et al.* 2008), it was seen as important to address this issue and gather best practices in this field. Hence, the specific *research objective* of this study was to evaluate what determines a successful global sales channel strategy for a technology intensive startup.

This paragraph summarizes the main findings of this research. Based on the extensive literature review and in-depth empirical research, seven factors were found to determine the success of a technology intensive startup company's global sales channel strategy. These factors are briefly summarized below.

1. *Clear company vision and strategy:* A clear company strategy and vision can be categorized as internal attributes that result from the management teams' lucid action plan to achieve a particular set of long term goals. A clear company strategy and vision help to determine what the company aims at achieving in terms of growth, target customers and geographical scope of operations. Once

the aims are clearly set, the company can choose a sales channel strategy that best complies with these aims. It is crucial for the success of the sales channel strategy that it is closely linked with the overall company strategy.

2. *Sales channel structure:* The sales channel structure i.e. direct, indirect, dual, hybrid or internet sales, is an integral part of a company's sales channel strategy. Therefore, the sales channel structure, if suitable for the company and its products, is an important success factor for the sales channel strategy (Burgel & Murray 2000; Dimitrova & Rosenbloom 2010). The suitability evaluation can be done with the help of five parameters that vary from channel structure to another (Chapter 2.2.2). These parameters are the following: cost of using channel, direct customer contact, control over channel, minimizing sales channel conflict and customer reach.

3. *Sales channel choice:* What sales channel a high-tech startup company chooses, can determine the success or failure of the whole sales channel strategy (Fisher 1990; Brettel *et al.* 2011). The optimal sales channel structure can be seen as a way of achieving competitive superiority in the market-place. Hence, it is crucial that the chosen sales channel is suitable for the company, its products and the target market. Chapter 2.3 presents a detailed discussion on the sales channel strategy choice of startup companies and introduces several factors that affect the sales channel strategy choice of these companies. The factors can be divided into four broader categories: product specific factors, company and sales channel specific factors, target market specific factors and transaction cost related factors.

4. *High product quality:* A key component for a successful sales channel strategy is to have good products with a clear competitive advantage and which are capable of selling themselves. This seems to be a rather obvious success factor for the sales channel strategy of any company. However, this study highlighted the importance of good and competitive products for technology intensive startup companies, as they do not have a readily established and trustworthy

brand that could sell their products. In the studied cases, the high quality products were the attributes that created the company’s credibility in the marketplace. This might indicate that the importance of good and competitive products is even higher for the success of technology intensive start-ups’ sales channel strategies, than to other companies’ sales channel strategies. However, more research and empirical evidence is needed to confirm this.

5. *Intermediary selection and support:* Proactively choosing intermediaries that are suitable for the company and that possess the necessary skills for selling high tech products is important for the success of a sales channel strategy employing intermediaries. Naturally, companies define differently what defines intermediary suitability. For example one of the studied startups defined a suitable intermediary as one that is large enough to be able to generate sales volumes quickly. Moreover, the support the producer provides to the intermediary is seen as important for the indirect sales channel success. An efficient intermediary that gains adequate support from the producer ensures a wide distribution network that extends beyond the producer’s own capabilities.

6. *Seller competency*: Seller competency is a crucial success factor for a sales channel strategy. This seems to be a rather natural success factor for any kind of a company. However, this study demonstrated what forms of seller competency can be important for technology intensive startups. For one case company, the success of the direct sales channel has largely been based on the right kind of learning of the sales force i.e. learning from the field and not from secondary sources. For another company the intermediary competency takes the form of the intermediary’s ability to generate sales volumes quickly. Obviously, the meaning of competency differs from company to company as every firm sets the sales force or intermediary requirements differently. However, the studied cases highlighted that the more competent the seller is, whether an intermediary or the producer’s own sales force, the more successful the sales transactions are as well.

7. *Customer understanding*: The competiveness of technology intensive startups is largely based on the close relationships with their customers. A remarkable finding of this study was the fact that all studied startups highlighted the importance of direct customer contact, regardless of their employed sales channel structure. This might indicate that even if technology intensive startups employ other than the direct sales channel strategy, they still seek the direct contact to their customers, as this is perceived particularly important by such companies. The direct contact enables learning about the preferences of the customer and thus, for the company to produce customized products that fulfill the needs and wants of the end customers. A perquisite for a successful sales channel strategy of a startup company is that the producer is able to learn about the customer preferences and needs. One of the best ways of doing so is through direct customer contact.

Several conclusions were drawn on the factors that were found to determine the success of a global sales channel strategy for a technology intensive startup company. First, the success factors were found to be rather general. This might indicate the lack of conscious consideration among startups of what actually determines the success of a sales channel strategy. However, this could also signal that the actual sales channel success factors are in fact, rather general and no detailed factors can be listed. Second, the success factors found were not necessarily startup specific, but generic in their scope and might apply also to larger companies. Nevertheless, more research is needed to verify this. A remarkable observation made, was the fact that that the studied case companies, independently from each other, pointed out similar sales channel success factors. This was not expected, as all companies operate in different industries and differ from each other in several ways. This could indicate that there are indeed factors that determine a successful global sales channel strategy for a technology intensive start-up, and that the factors found in this research are such critical success factors.

## 5.2 Theoretical Contributions

The existing research on sales channel strategies is scarce. Therefore, this thesis contributes to the existing sales channel research in several ways. This study offers a holistic perspective to the sales channel strategies of technology intensive startup companies. Issues such as sales channel structure and sales channel choice are addressed and best practices are gathered through the literature review and the empirical research. Over the literature review, tools such as the sales channel strategy parameter comparison (Table 2) and the summary of factors affecting the sales channel choice (Table 4) are compiled to help managers struggling with the sales channel strategy choice.

Moreover, this thesis offers a significant contribution to existing theory in finding factors that determine the success of a global sales channel strategy for a technology intensive startup company. Such a research has not been conducted before and therefore, the results of this study open the academic discussion for such success factors. Obviously, more research in this field is required to gain a wider pool of case companies and results.

Furthermore, this study builds up an analytical framework on the sales channel strategy success factors using the analytic induction approach. This approach was chosen due to the lack of existing frameworks in this area of research. Therefore, the presented analytical framework is pioneering as it boarders the views on sales channel strategy research in regards to technology intensive startup companies.

## 5.3 Managerial Implications

This chapter outlines the most important managerial implications that can be drawn from this research.

It was shown during the course of this study that sales channel strategy considerations are an important part of technology intensive startup companies' path to success. In the very beginning of this thesis, a quote from Jeffrey F. Rayport (2005) was presented "*How companies go to market will determine who wins and loses the game*". This summarizes the most important managerial implication of this thesis: the sales channel strategy does have an impact on a company's success, as the employed sales channel strategy largely defines how and through which channel members the products are sold. This is why the sales channel strategy related matters require a significant amount of managerial consideration.

The literature review as well as the empirical findings highlight that a well chosen, planned and managed sales channel strategy will help a startup company to become successful. This thesis aimed at increasing managers' awareness of the various sales channel options available with their pros and cons (summarized in Table 3). Moreover, experiences and best practices from four Finnish high technology startups and SMEs were gathered and analyzed. This information along with the found sales channel success factors, should be helpful for managers when setting up global sales channel strategies in technology intensive startups.

Three specific managerial recommendations can be given based on this research:

1. Managers should search for best practices from other similar companies when setting up sales channel strategies.
2. Managers should make sure the chosen sales channel strategy can be adapted, modified or completely changed as the company grows and its requirements change.
3. Managers should pay close attention to the sales channel success factors presented in this study when creating and managing their sales channel strategies. The success factors were gathered from four Finnish technology intensive startup companies and thus, along with the analytical generalization principle, might be applicable to other similar companies as well. The sales channel strategy success factors presented were the following: *clear company vision and strategy, sales channel structure, sales channel choice, high product quality, intermediary selection and support, seller competency and customer understanding.*

## 5.4 Suggestions for Further Research

This chapter will present suggestions for further research and at the same time, conclude this thesis.

It is obvious that more research on technology intensive startups and their global sales channel strategies is needed to fully understand the phenomenon and to close the existing research gap. Specifically, additional research is needed on the factors that determine a successful global sales channel strategy for a technology intensive startup company. Additional empirical evidence will refine the found sales channel success factors and make them applicable to a larger pool of companies and countries.

In addition, the build analytical framework should be tested on a larger case company sample and revised if needed. Moreover, it would be interesting to study whether the sales channel success factors differ for other startup companies active in the field of low-technology or that sell immaterial products (e.g. software) or services.

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# 7 APPENDICES

**Appendix I**. List of Data Sources

| Source | Description | Purpose |
|---|---|---|
| **Aalto Entrepreneurship Society** | Europe's largest entrepreneurship community | Identifying possible case companies |
| **Investors of startup companies** | Industry experts | Gaining insights to startup companies |
| **Fonecta Finder** | Web based company search engine | Retrieving basic company information |
| **Kauppalehti's online ranking list** | List of top performing startup companies in Finland | Identifying possible case companies |
| **Talouselämä's online ranking list** | List of top performing startup companies in Finland | Identifying possible case companies |
| **TEKES NIY list** | List of young and innovative companies that receive TEKES funding | Identifying possible case companies |
| **HighTech Finland** | Publication introducing high-tech innovations in Finland | Identifying possible case companies |
| **NordicGreen/Cleanindex** | Internet portal for investors looking to invest in innovative cleantech companies in the Nordic | Identifying possible case companies |
| **Cleantechinvest** | Private equity fund management company focusing on cleantech | Identifying possible case companies |
| **Internationalization award of the President of the Republic** | Granted once a year for successful exporting companies | Identifying possible case companies |
| **Articles** | Online/newspaper articles | Identifying possible case companies and gaining secondary information on chosen companies |
| **Case company interviews** | Four case companies and five interviewees | Gathering empirical data |
| **Case company magazines and brochures** | Detailed case company material | Gaining case company information |
| **Case company websites** | Detailed case company material | Gaining case company information |

**Appendix II.** Finnish Interview Guideline for Semi-structured Interviews

1. Tausta
    - Voisiteko lyhyesti esitellä yrityksenne (esim. historia, tuotteet, pääkohdemarkkinat, henkilöstömäärä)?
    - Mikä on Euroopan sisäisen ja globaalin myynnin osuus yrityksenne kokonaismyynnistä? Tärkein markkina Euroopassa ja globaalisti?
    - Mikä on työnkuvanne yrityksessä?

1. Myyntikanavan rakenne
    - Kertoisitteko yrityksenne pääkohdemarkkinoiden myyntikanavista (esim. myyttekö suoraan loppuasiakkaille, käytättekö välikäsiä tai kenties molempia)?
    - Piirtäisittekö kuvan myyntikanavastanne?
        - Mikä sivulla 3. olevista kuvista vastaa parhaiten yrityksenne myyntikanavaa?

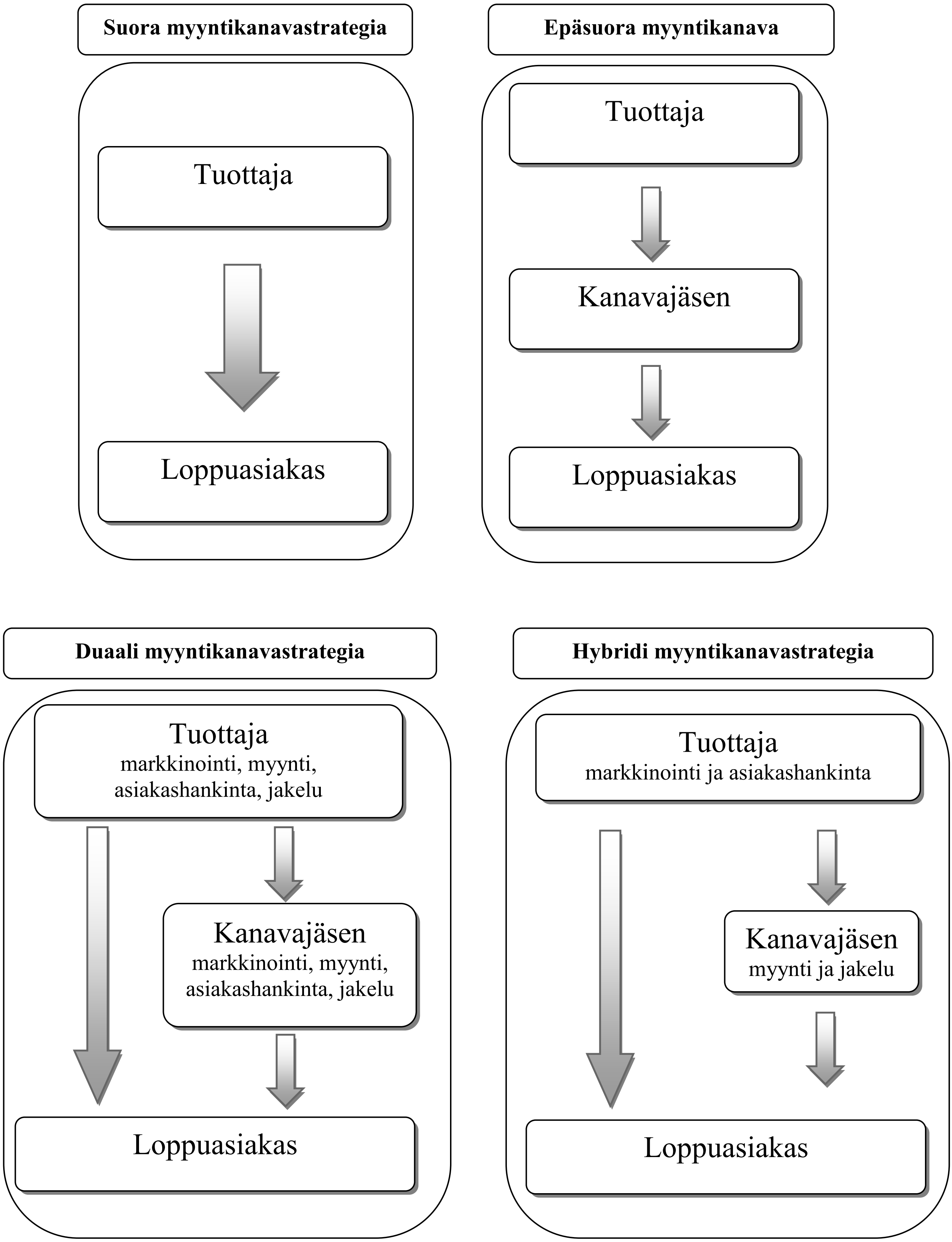
2. Myyntikanavan valinta ja menestystekijät
    - Miten myyntikanavanne ovat muuttuneet yrityksen toiminnan aikana?
        - Miksi?
    - Mistä syistä valitsitte nykyiset myyntikanavanne?
    - Ovatko myyntikanavanne olleet onnistuneita? Miksi/ miksi ei?
        - Mitkä myyntikanavat ovat olleet erityisen onnistuneita?
    - Mitkä tekijät ovat mielestänne erityisen tärkeitä globaalin myyntikanavastrategian onnistumisen kannalta?

3. Kanavajäsenet
    - Kuinka monta jäsentä (jälleenmyyjä, agentti, välittäjä, jakelija, vähittäiskauppias yms.) myyntikanavaanne kuuluu? Keitä he ovat?
    - Mikä on kanavajäsenten myynnin osuus yrityksenne kokonaismyynnistä? Kuinka tärkeä rooli yrityksellänne on kanavajäsenten kokonaismyynnissä?
    - Kilpailevatko kanavajäsenet toistensa kanssa (esim. palvelevatko he samoja asiakkaita tai suorittavatko he päällekkäisiä tehtäviä myyntikanavassa)?

4. (Muuta lisättävää tai kerrottavaa yrityksenne myyntikanavista? Esim. viimeaikaisia trendejä tai muita huomioita?)

5. Myyntikanavastrategian ominaisuudet
    - Kuinka tärkeäksi arvioisitte seuraavat ominaisuudet myyntikanavastrategiassanne? Merkitkää tärkeyden aste (tärkeä // jokseenkin tärkeä // ei tärkeä) sekä **tärkeysjärjestys** (1-5)
    - Jos pidätte jotakin ei listattua ominaisuutta tärkeänä tai jokseenkin tärkeänä, voitte lisätä sen taulukkoon.

| Ominaisuus | Selite | Tärkeys | | | Tärkeys-järjestys |
|---|---|---|---|---|---|
| **Kanavastrategian alhaiset kustannukset** | Kanavastrategian käyttökustannukset ovat mahdollisimman pienet. | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| **Suora asiakaskontakti** | Yrityksen oma myyntitiimi on yhteydessä loppuasiakkaisiin koko myyntiprosessin aikana. | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| **Kanavastrategian hallinta** | Yrityksenne pystyy valvomaan koko kanavan tapahtumia. | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| **Kanavakonfliktin minimoiminen** | Kanavajäsenet eivät kilpaile samoista asiakkaista tai suorita samoja tehtäviä saman kanavan sisällä. | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| **Kanava tavoittaa laajan asiakaskunnan** | Myyntikanava on kattava ja tavoittaa mahdollisimman monta asiakasta. | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| | | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| | | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |
| | | Tärkeä | Jokseenkin tärkeä | Ei tärkeä | |



Suora myyntikanavastrategia
Tuottaja
Loppuasiakas
Epäsuora myyntikanava
Tuottaja
Kanavajäsen
Loppuasiakas
Duaali myyntikanavastrategia
Tuottaja
markkinointi, myynti, asiakashankinta, jakelu
Kanavajäsen
markkinointi, myynti, asiakashankinta, jakelu
Loppuasiakas
Hybridi myyntikanavastrategia
Tuottaja
markkinointi ja asiakashankinta
Kanavajäsen
myynti ja jakelu
Loppuasiakas

**Appendix III.** English Translation of Interview Guideline for Semi- structured Interviews

1. Background
    - Could you shortly present your company (i.e. history, products, main target markets, number of employees)?
    - What is the share of the European/Global sales compared to the total sales of the company? What is the most important market in Europe and Globally?
    - What is your role in the company?

2. Sales Channel Structure
    - Could you tell me about your company's sales channel in its key markets (do you sell directly or do you employ intermediaries, or perhaps both)?
    - Draw a picture of your sales channel
        - Which of the pictures on page 3. illustrates your strategy the best?

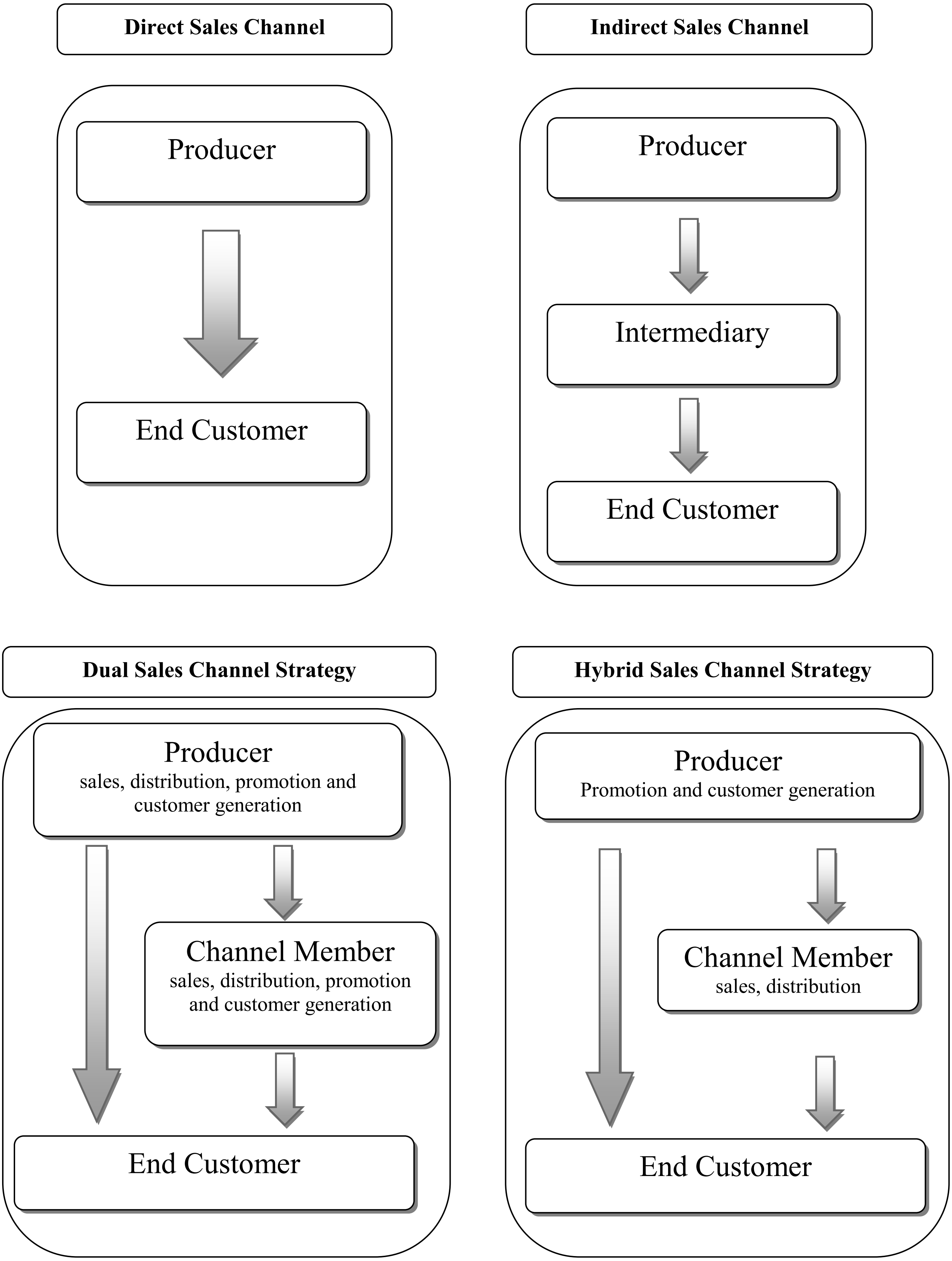
3. Sales Channel Selection and Success Factors
    - How has the company's sales channel changed after the inception of the company?
        - why?
    - What were the reasons you decided to use the current sales channel(s)?
    - Have your sales channels been successful? Why / why not?
        - Which sales channels have been especially successful?
    - What factors would you identify as especially important for a successful global sales channel strategy?

4. Channel Members
    - How many channel members (reseller, agent, intermediary, distributor, wholesaler) does your sales channel involve? Who are they?
    - What is their share of your total exports? How important is your company's role in the channel members' total sales?
    - Do your channel members compete with each other (i.e. are they serving the same customers or are they performing overlapping activities in the channel)?

5. (What else would you like to tell about your company's sales channels? e.g. recent trends or other notes?)

6. Sales Channel Strategy Parameters
    a. How important would you rank the following in terms of your company's sales channel strategy? Please indicate the level of importance (important // moderately important // not important) and the **rank of importance** (1-5)
    b. If you consider a parameter that is not listed as important or moderately important, please add it to the list.

| Parameter | Explanation | Importance | | | Importance rank |
|---|---|---|---|---|---|
| **Low cost of sales channel** | The costs for using the channel are as low as possible. | Important | Moderately important | Not important | |
| **Direct customer contact** | Your own sales force is in contact with the end customers during the whole sales process. | Important | Moderately important | Not important | |
| **Control over channel** | Your company is able to control the whole sales channel. | Important | Moderately important | Not important | |
| **Minimizing channel conflict** | The channel members are not serving the same customers or performing the same activities in the channel. | Important | Moderately important | Not important | |
| **Channel has a wide customer reach** | The sales channel has a wide span width and reaches as many customers as possible. | Important | Moderately important | Not important | |
| | | Important | Moderately important | Not important | |
| | | Important | Moderately important | Not important | |
| | | Important | Moderately important | Not important | |


Direct Sales Channel
Producer
End Customer
Indirect Sales Channel
Producer
Intermediary
End Customer
Dual Sales Channel Strategy
Producer
sales, distribution, promotion and customer generation
Channel Member
sales, distribution, promotion and customer generation
End Customer
Hybrid Sales Channel Strategy
Producer
Promotion and customer generation
Channel Member
sales, distribution
End Customer

**Appendix IV.** Conducted interviews

Mr B, Partner and Board Member, Firm A, Helsinki. Interview conducted on 10.5.2012 in Helsinki.

Rabbe Ringbom, Sales Director, Valoya Oy, Helsinki. Interview conducted on 10.5.2012 in Helsinki.

Juha Keto-Tokoi, Sales Director and Marko Jokinen, Area Manager, FluidHouse Oy, Interview conducted on 21.5.2012 in Jyväskylä.

Mr. Y, Vice President, Sales & Marketing, Firm X Oy, Helsinki. Interview conducted on 29.6.2012 in Helsinki.