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B2B STRATEGY & PROCESS DEVELOPMENT

Case study

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ABSTRACT

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This thesis was written for a Finnish technology start-up Grainsense, headquartered in Oulu, Finland. The company operates in the field of smart farming. The company is selling handheld measurement devices and the measurement data can then be used to make educated decisions concerning agricultural products.

Grainsense is currently planning to shift more efforts towards expansion to B2B markets and the goal of this research was to provide the company with insights of which areas need to be developed and what factors considered to make the expansion successful and as smooth as possible.

The research was conducted as a case study by reviewing relevant literature on strategy, effects of business environment on strategy and how businesses can organize their operations around strategy to implement the efficiently. After gaining better understanding of these topics and their relationships, the information was applied to a case study, combining it with information gained through discussions with various people working for Grainsense.

The main points of development were identified and the most important points to develop in order to succeed in B2B markets, were connected to the internal environment of the organization and how tasks are carried out in practice. The internal communications and workflows need to be streamlined and defined more clearly to efficiently manage operations as the business scales up and grows.

The main conclusion that can be drawn from this research, is that it is always necessary to consider the effects of new strategies on all the departments of an organization. Implementation of new strategies can radically change the nature of work employees are required to do and therefore this change has to be managed carefully to avoid possible crisis within the organization and to ensure efficient implementation of new strategies.

Keywords: Strategy, strategy development, B2B, organizational design, business environment

CONTENTS

1 INTRODUCTION

Today's business world keeps changing rapidly as new information technologies and removal of trade barriers keep shifting the trends towards global market areas and trends. For smaller start-up companies this trend can be both an opportunity and a threat; Companies can grow rapidly and expand to international markets with relative ease with new and innovative products but it also increases the level of global competition and the need of establish market position quickly in emerging markets.

Many new start-up companies go through growing pains when the business starts to expand and employs more and more people. In these situations, work often needs to be reorganized and formally divided between people across all departments of the organization. Better organization of work allows better implementation of strategies as everyone working for an organization knows their role and can coordinate with other people to achieve a common goal.

This thesis will discuss concepts of strategy and factors in the business environment which shape strategies and ways they can be implemented. Understanding these concepts can aid managers in their decision making when considering expansion to new markets and how to exploit opportunities as well as possible. This is especially important for small businesses as the amount of total resources they have available is limited and maximising the returns for the resources spent is paramount.

So the fundamental goal of this thesis is to provide the commissioner with practical ways of developing their operations by accounting for all the necessary factors and organizing the work as efficiently as possible to maintain control and optimize the resource usage.

1.1 The commissioner and current situation

The commissioner for this thesis is a Finnish company Grainsense Oy headquartered in Oulu, northern Finland. The company was founded in 2014 but there was no operational activity before 2016 when Grainsense got funding to start operations in Finland. From 2016 to 2018 Grainsense was mostly developing their product and software and testing it in small scale only in Finland, and in late 2017 Grainsense started accepting orders and deliveries started in May 2018. Since then the company has grown rapidly and currently employs approx. 25 people, subcontractors included, mostly in Finland but a few working from abroad as well. Internationalization has been quite rapid as well, and currently products are available all across Europe.

The founding members of Grainsense had invented and developed a handheld measurement device for agricultural products, such as wheat grain and oil seeds. The device allows farmers and companies buying and selling agricultural products to measure the quality of their product on the spot without any need for traditional laboratory equipment. The device can measure a few different variables from the sample inserted into the device, protein, oil, moisture and carbs. After the initial measurement, the device is connected to a mobile phone via Bluetooth and it sends the data to a mobile application which can be used to save the measured data to the cloud, which can be accessed and managed anywhere using the same application. This measurement data allows farmers and companies to make educated decisions concerning their product and in many cases these variables affect the sales value of the product as well.

Originally the Grainsense device was directed to farmers and smaller companies who did not have access to these measurements before due to the high price of the laboratory equipment required but recently Grainsense has also started to target customers which have had access to the laboratories. Grainsense has multiple clear advantages over these traditional laboratories. Firstly, the price of one Grainsense device is roughly one tenth of the price of laboratory equipment used in the past for the same measurements. On top of that, the device does not require laboratory technicians due to its simplicity, any person with a modern mobile phone can do the measurements with very small amount of training. Secondly, it is much more convenient than traditional laboratories. The measurements can be done on the field or at any other location. This means there is no need to send the samples over long distances to be analysed and the data is instantly available in whichever location it is needed. This is especially useful for organizations which operate in multiple locations or multiple countries.

Thus far Grainsense has concentrated mostly on selling their products to retailers selling to the end users while having a few B2B customers on the side. Now the company has started to consider expanding to B2B markets offering specialized software packages and services for the specific needs of the business customers.

1.2 Research objectives and methods

The purpose of this thesis is to provide general guidelines for Grainsense when formulating their B2B business strategy and how the implementation should be organized. Even though Grainsense has been selling to some business customers already, it has been in small scale and work and processes have not been organized formally to deal with larger number of business customers. This far, products to B2C customers have been sold through distributors but for B2B customers Grainsense will sell directly which means that more activities need to be carried out in house and work should be properly organized. The research questions are as follows:

1. Which strategical factors should be considered before expanding to B2B markets?
2. How can B2B processes be developed and optimized to be more efficient in terms of work and other resources?

The first question deals with the most important internal and external conditions which need to be accounted for to be ready for deliberate B2B expansion and ensure the success in long term. The second question deals with problems of organizing the work and processes efficiently and according the strategy and strategic goals.

This research will be conducted as a case study as it is most suitable method for this type of research. Case study is a method of conducting qualitative research and is often used when researching and analysing organizations and organizational culture. Case studies are always unique as they are based on real life situations which cannot be standardized and measured exactly. Case studies are generally based on existing theories and literature which provide a basis for results and conclusions drawn from the observations of the research subject (Aaltio-Marjosola, 2014, date of retrieval 25.04.2019.) The literature review of this research deals with relevant literature on strategic analysis and organizational design and their relationship. This knowledge can then be applied to finding better practical solutions for Grainsense when the business scales up and becomes more complicated.

2 BASICS OF STRATEGY AND CREATION PROCESS

In this chapter definitions and main concepts and scope of strategy will be discussed. First subchapter discusses a few different ways of defining strategy and the following subchapters discuss the effects and scope of the strategy on all organizational levels and how strategies are created.

2.1 Definitions of strategy

Strategy and the scope of strategy can be defined in several different ways. One of the best-known definitions of strategy is that of Michael Porter, who defined strategy as the sum of different activities and decisions taken to differentiate the company and its products from its competitors to gain competitive advantage over them (1996, 60). Porters approach to strategy is strictly concerned with differentiation and adding value which differs from most other definitions. For example, a dictionary definition of strategy is “strategy is a plan of action designed to achieve a long-term or overall aim” (Oxford dictionaries, date of retrieval 4.3.2019). Galbraith (2014, 20) defines strategy as the direction in which the company is going to grow, referring to the points of focus which the organization has. A very similar and slightly more comprehensive definition is adopted in this thesis. Strategy is defined as the overall direction of the company or organization in a long term (Johnson, Whittington, Scholes, Angwin, & Regnér, 2015, 2.) All the definitions mentioned have commonalities and the definition of Johnson et al. is adopted because it allows much broader examination of strategy as the main points of previous narrower definitions can be examined under this definition. This long-term direction usually covers the span of several years and it is defined and set by the top-level management of the organization based on overall goals, vision or mission of the organization, for example, a certain amount of revenue or a desired position in the market (Johnson et al. 2015. 22, 5.)

2.2 Levels of strategy

Within an organization strategy can be divided into three main levels according to their scope. The first and broadest level is corporate level strategy which concerns the organization in its entirety and outlines the overall goals of the organization. Corporate level strategy includes e.g. questions concerning all the products and services offered, geographical area of operations, business acquisitions and alliances and how resources are used within the organization (Johnson et al. 2015.

6.) Corporate level strategy tends to be less concrete than other levels of strategy as the main purpose of corporate strategy is to outline the main objectives and mission of the organization rather than the concrete actions necessary to achieve these objectives (Weaver, date of retrieval 5.3.2019).

Second level of strategy is business or competitive strategy. Business level strategy deals with the business operations of a single business unit within an organization and how it should be competing in its market area. Business unit can refer to e.g. a product division of an organization when it has multiple product lines each competing on their own markets. The main goals of business strategy are to add value to the products, e.g. through, marketing, product development and adaptation for an individual market and carry out business operations needed to achieve the goals outlined in corporate level strategy (Johnson et al. 6.) On business level organizations assess the costs and risks of certain business units and markets and how resources should be allocated within the organization to achieve the best possible results (Weaver, date of retrieval 5.3.2019).

Third and last level of strategy is operational strategy, also called functional strategy. Operational strategy is concerned with actions taking place on department level in a business and how they can carry out their individual tasks as effectively as possible and what actions are necessary on department level to achieve the goals outlined in corporate and business level strategies. (Johnson et al 7.) This level is the most concrete of the levels of strategy and covers the day-to-day activities taking place. It is essential that the operations level is aligned with the business and corporate levels, as the concrete actions towards the organizational goals take place on this level (Weaver, date of retrieval 5.3.2019.)

In order to have a successful and functional strategy, these three levels of strategy need to be closely integrated. Having this descending structure helps managers to define and prioritize the correct actions necessary to reach the overall goals of the organization (Johnson et al. 2015, 7.) It is also essential to involve all levels of organization in the strategy creation process to avoid e.g. situations where corporate level goals are set so that it is impossible to reach these goals on operational level due to a lack of resources or right equipment required to complete the tasks (Weaver, date of retrieval 5.3.2019.)

2.3 Developing strategy

According to Johnson et al., (2015, 13-14) there are two different ways of approaching development of strategy, rational-analytic and emergent strategy. The key characteristic of rational-analytic approach is that all aspects of strategy are analysed and planned before the implementation. The creation process usually starts from the top management of the organization and the strategy creation process follows a clear structure and results in a strategic plan to be implemented. First step of the process is the definition of the desired end goals of the organization followed by the analysis of the strategic position of the organization, including the analysis of the external environment and strategic capabilities the organization has. After this situation analysis, the strategic options available will be evaluated and the most suitable approach will be selected followed by a plan of implementation.

Unlike in the rational-analytic approach, emerging strategy is not a result of planning, but is shaped over time by practical experiences and changes in the external environment. In many cases the development starts from the lower levels of the organization. It should be noted that these approaches to strategy are not mutually exclusive, both should be used side by side. The rational-analytic approach is recommended but being inflexible can harm the organization in long term. Strategies should be adapted as new opportunities or threats present themselves (Johnson et al. 2015, 14).

As mentioned before, rational-analytic strategy development process is often conducted by the higher management of an organization but as mentioned in chapter 2.2, it is important to involve lower levels of the organization in the development process. By involving the lower levels, on which the ideas for emergent strategy often evolve, managers gain a wider perspective and can create the strategy with all organizational levels in mind, thus decreasing the need for adjustments and adaptation when implementing strategy.

2.4 Strategy statements

After the initial creation of strategic plan, it should be condensed into a strategy statement which can be used to communicate strategy to all stakeholders. Strategy statement is a clear and concise summary of the strategy of an organization and it should contain three main themes; objective, scope and competitive advantages (Johnson et al. 2015, 7). Having a clear and well-defined strategy statement is helpful for different kinds of organizations, not only for businesses, but also e.g. for universities, sports teams and non-profits. Strategy statements can also be useful on all levels of organization. For example, it guides and focuses the decision making of the managers towards the fundamental objectives of the organization, for employees it brings a sense of purpose and builds trust between them and the organization as they know the direction and mission of the organization, which in turn gives them more knowledge of their own future. A strategy statement also gives useful concise information for the clients and investors of the organization (Johnson et al. 2015. 7, 9.) Most importantly, strategy statement unites all parts of the organization to work towards a singular goal instead of trying to move to different directions and helps everyone involved to understand their role in the strategy (MaRS 2013, date of retrieval 6.3.2019). In other words, it is a short and simple summary which brings together all three levels of strategy discussed in the previous chapter.

First component of the statement is the objective of the organization. This should be precise and measurable and guide the actions of the organization in long term towards the defined objective (Wick, 2015, date of retrieval 5.3.2019). Wick also warns, (2015, date of retrieval 5.3.2019) that the objective should not be confused with the mission, vision or the values of the organization However, according to Johnson et al. (2015, 7) the objective can be measurable e.g. profitability, sales numbers or market share, but it can also be a less concrete mission or vision which refers to the desired state of the organization or the passion of delivering a certain thing to their customers or the world in a broader scale. This may be the case for example with non-profit organizations and scientific institutes as determining exact numerical goals may be difficult or unnecessary due to the nature of the organization.

The scope of an organization consists of three main dimensions; geographical scope, target customer and vertical integration. First dimension refers to the geographical area of operations or market area, second defines the target customer within the geographical area, e.g. retail or B2B or both, and lastly vertical integration refers to the internal actions of an organization, the extent of operations carried out in-house instead of outsourcing them to other organizations. (Johnson et al. 2015, 7.) Clearly outlining these dimensions should help managers to concentrate on right actions and more importantly avoid the actions that should not be done (MaRS 2013, date of retrieval 5.3.2019).

The last part of the statement, and arguably the most important, is competitive advantage which describes the ways of achieving set objectives (Johnson et al. 2015, 7) Outlining the competitive advantages is important as it illustrates the advantages of the organization it has over its competitors and why organization is going to be successful in its ventures. It should clearly state the customer value proposition and define the actions which allow the organization to deliver its value proposition to its customers (MaRS 2013, date of retrieval 5.3.2019.) When managers have a clear understanding of the organizational advantages and strengths, they can guide the organization in such a way that it emphasizes these strengths and minimizes the effect of possible weaknesses the organization has.

3 EXTERNAL ENVIRONMENT ANALYSIS

Understanding the strategic position of the organization is critical when considering the future strategic direction of the organization. In this chapter, the effects of external environment on strategy will be discussed through models developed to facilitate analysis and understanding of larger concepts.

3.1 Layers of external business environment

The external business environment can be divided into smaller components to facilitate the analysis of the entire environment and there are different models illustrating the connection between different components of the environment. Figures 1 and 2 showcase two ways of examining the business environment in its entirety, both using slightly different terminology and basis for division into subgroups, but essentially containing the same core concepts.

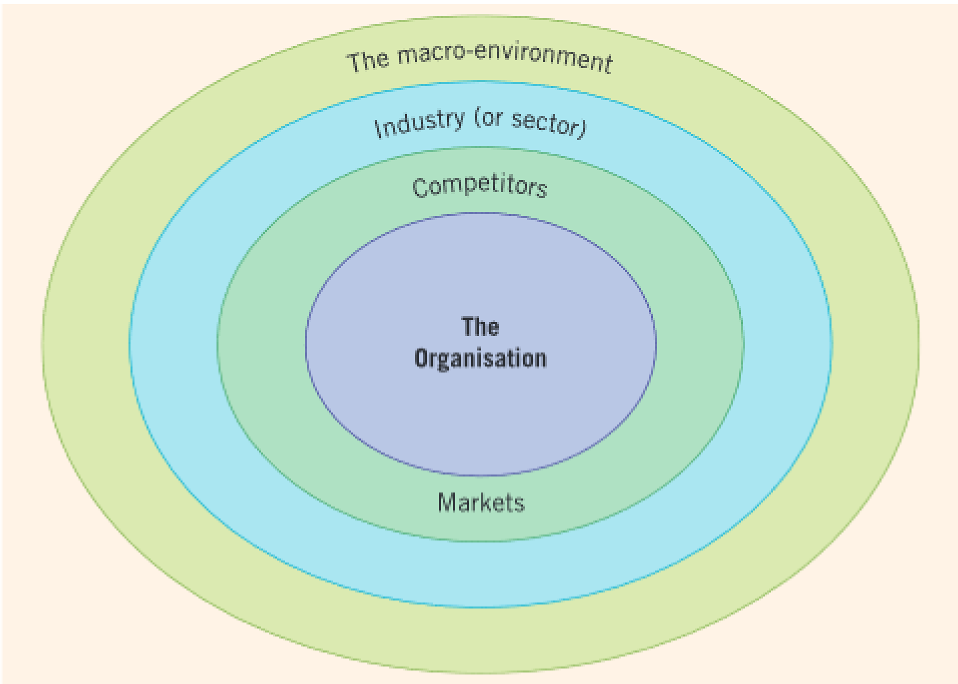

FIGURE 1: Layers of the business environment (Johnson et al. 2015, 21).

FIGURE 2: Constituents of the business environment (Cherumilam 2010, 9).

3.2 The macro-environment analysis

Both illustrations have macro-environment as the outer layer. The macro-environment includes all the variables that are not directly connected to or controlled by the organization but broadly shape the environment in which the organization is operating (Cherumilam 2010, 8.) Analysing and understanding the macro-environment is critical before attempting to implement any strategy or a plan and it is also advisable to conduct a situation analysis periodically after entering a new area of operations to identify possible changes occurring in the business environment (Oxford College of Marketing 2016, date of retrieval 15.3.2019). The macro-environment can be analysed using the PESTEL framework which divides the macro-environment further into six different interconnected environments which greatly affect the overall business environment, *political, economic, social, technological, ecological or environmental and legal* environments. The relevance of each of these environments may vary based on the field where organization is operating in, for example some industries have significantly higher level of regulation than others, e.g. pharmaceutical industry, whereas ecological environment might have little to no importance.

Political environment covers the role of the government and other political organizations influencing the overall political situation in a state. Understanding the politics of the states where organization is acting is essential as it can create significant opportunities as well as pose great risks for the organization if political climate of a state is unstable. Political environment is also strongly interconnected with other components of PESTEL.

Economic environment covers the most important economic figures of a state or area, such as exchange rates and expected economic growth. Having a good understanding of the economy of a state is critical for business managers as it affects the overall profitability and future of the markets Johnson et al. 2015, 23.) Economic environment is also strongly connected to the political environment of a state as changes in government or government policy can change the state of economy rapidly. For example, the trade restrictions set by both European Union and Russia in 2014 due to the crisis in Crimea and Brexit have had a significant impact on overall economy and businesses and organizations operating in these countries.

Social factors refer to e.g. cultural, ethical and demographical factors which can affect organizations. Changing social factors can pose significant challenges for both private and public sector (Johnson et al. 2015, 24.) For example, the changing values of younger generations have forced organizations to make changes, as some factors which were of no importance or acceptable in the past have become controversial and even small controversies can harm organizations significantly due to the fast spreading of information allowed by social media platforms.

Level of technological development has a significant effect on markets and industries operating in a state and new technologies and use of internet and smartphones has transformed some industries completely, such as banking and retail industries. Digital development is often the focus of analysing the technological environment, but including factors of distribution, manufacturing and logistics is important in many cases as well (Oxford College of Marketing 2016, date of retrieval 15.3.2019)

The importance of ecological factors has increased dramatically due to the emerging emphasis on corporate social responsibility (CSR) and overall awareness of climate change and other environmental issues (Oxford College of Marketing 2016, date of retrieval 15.3.2019) The shift towards green businesses has caused some extra costs in certain industries through e.g. emission regulations and restrictions but has also opened new business opportunities e.g. in recycling business and in green energy industries (Johnson et al. 2015, 24.)

Legal factors are also connected with political factors, the difference between these is that political factors are concerned with the overall governmental policies whereas legal factors cover the actual legislation and what is legal in a country and what is illegal. Before entering a market or starting any kind of operations in a country, it is critical to gain an understanding of consumer law, health and safety laws, possible trade regulations and restrictions, employment laws etc. (Oxford College of Marketing 2016, date of retrieval 15.3.2019.) A failure in recognising all relevant laws and regulations can be detrimental for a business as a whole, even when the problem arises in only one area of operations.

Macro-environment analysis with the PESTEL framework can create quite an extensive list of factors affecting the overall environment. It can be useful for managers to simplify the analysis by identifying the key drivers for change, the factors in the overall environment which are the most likely to change the industry and affect the relative success of organizations within. These factors can then be used to predict the direction in which the industry is shifting, and which adaptations might be necessary to stay competitive in the shifting environment (Johnson et al. 2017, 48, 50.)

3.3 Industry level analysis

Examining figures 1 and 2, figure 2 has combined industry and competitor levels from figure 1 under one broad concept of micro-environment. The factors specified under micro-environment in figure 2 are components of the industry level on figure 1 as well, which also distinguishes competitors as its own level within the industry. Micro environment as a whole is affected by forces of macro-environment and consists of factors that are directly connected to the organization through its operations forming the immediate environment of the organization (Cherumilam 2010, 5). According to Johnson et al., (2015, 28) the industry layer can be best analysed and understood by using the five forces framework by Michael Porter illustrated in figure 3. Porter himself (1998, 5) defines industry as a group of companies which produce products or services which are close substitutes of one another, and the five forces model was created illustrate the competitive forces and their relationships within an industry.

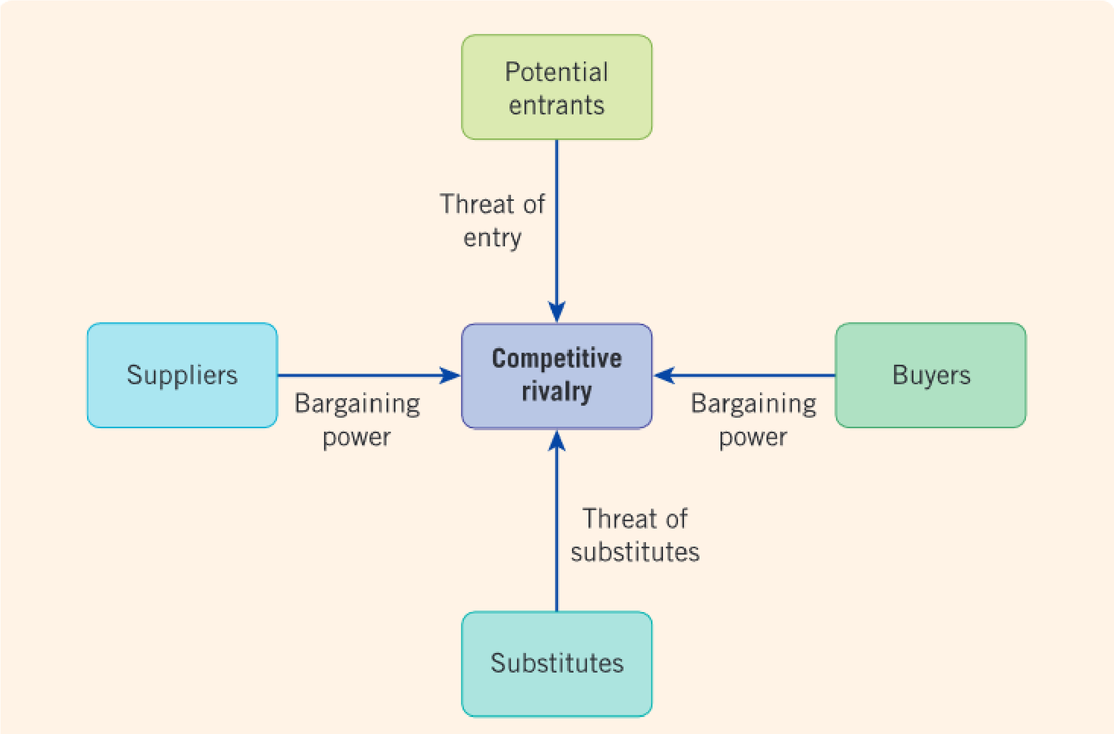

FIGURE 3. The five forces framework (Porter 1998, 4)

Competitive rivalry is at the centre of the five forces model which is affected by the four other forces. Figure 3. also illustrates the fact that competition in an industry has much broader scale than only the companies already established in the industry, all four forces around the rivalry, entrants, substitutes, suppliers and customers, are competitors of the industry (Porter 1998, 6.) The level of rivalry determines how aggressive organizations are in their actions of trying to gain advantage or defend their position within the industry. In industries with high competitive rivalry, it is difficult for new entrants to gain position in the market due to the aggressive defensive actions of organizations already established in the industry. There are five main forces that determine the level of rivalry; competitor balance, referring the relative size of organizations within an industry, growth rate of industry, level of fixed costs, level of exit barriers and level of differentiation within the industry (Johnson et al. 2015, 28, 30-31.)

Threat of new entrants into an industry is determined by the barriers of entry which new organizations must overcome to enter the industry. Porter (1998, 7) distinguishes six types of barriers. First barrier is economies of scale. In scale economies the industry is dominated by large organizations which have driven down the costs of production by mass production, forcing new entrants either to enter in a large scale, therefore increasing the risk and initial costs, or accept the cost disadvantage when entering in a smaller scale. Porter (1998, 11) also points out that cost disadvantage can be caused by other factors other than economies of scale, such as established organizations having favourable location or favourable access to raw materials.

Other barriers are unrelated to direct production costs but often cause additional costs related to e.g. gaining market position or finding suitable distribution channels. These barriers can be categorized into product differentiation, governmental policy, access to supply or distribution and expected retaliation of already established organizations (Johnson et al. 2015, 31.)

Substitutes are products or services which have similar value proposition to customers as current industry products or services but differ in nature, for example a tablet computer can be a substitute for a laptop. In many cases managers concentrate entirely on their direct competition within the industry and ignore the possible threat of substitution. The extent of the threat can also vary widely, in some industries it can limit the prices companies are able to charge their customer and in some cases a substitute can completely replace its predecessor (Johnson et al. 2015, 32.) For example, modern smartphones have practically replaced a variety of products, such as small pocket cameras, GPS, calculators and mp3 players, whereas in transportation industry, trains, buses and planes have all kept their relevancy.

The power of buyers or customers can have a significant effect on the strategy of an organization. The buyer has significantly more power in concentrated industries where a small number of buyers constitute a large portion of the market. The level of switching costs is also an important determiner of buyer power. In cases where switching costs are low, the customer has more negotiation power over the supplier and this is further emphasized in industries with high level of competition (Johnson et al 2015, 32.)

The power relations between an organization and a supplier is very similar in nature to power relations between the organization and its buyers. The supplier has more power in cases where the switching costs are high or the process of switching is complicated due to other factor included in the process of switching. And as with buyers, concentrated supply gives more power to the suppliers as they are able to dictate the terms of supply and are able to select their customers if supply is limited in general (Johnson et al. 2015, 33.)

Johnson, Whittington, Scholes, Angwin & Regnér (2017, 69-70) also note that in some industries a sixth force is needed which is concerned with complementors rather than competitors.

Complementor are organizations which make the business of other organizations more attractive either to customers or business partners. For example, application developers are complementors of companies competing in the hardware and/or operation system business. Companies such as Microsoft, Apple and Google can make their own hardware and platforms more appealing to customers by having a wide variety of software available, thus they need to take developers into account while developing their own products.

3.4 Competition analysis

According to Johnson et al., (2015, 37) in many industries, industry level analysis is too unspecific as there can be organizations within the industry which are not directly competing against one another, for example in automotive industry, companies specializing in inexpensive cars for families are not direct competitors of sports car manufacturers. Cherumilam (2010, 6) also points out that organization's competitors can also operate in completely different industry, when companies in different industries are competing for the spare income potential customers may have.

Organizations which share similar strategic characteristics in an industry are called strategic groups (Johnson et al. 2015, 37). Continuing with the example of automotive industry used above, the two companies described are in different strategic groups based on their organizational characteristics and different target customer groups or segments discussed in the next chapter. For organizations it can be more useful to analyse the competitors within the same strategic group rather than focusing on the whole industry.

Analysing the strategic group has several benefits for organizations. Firstly, it can help managers to identify the key success factors within the strategic group by looking for common characteristics shared by successful organizations which less successful organizations are lacking. Managers can then use this information to develop their own strategies and organization towards meeting the success factors. Analysing the strategic group can also reveal *strategic spaces.* Placing organizations in a strategic group into a two-dimensional map, based on e.g. extent of product line and research & development spending, can reveal strategic spaces in the industry unoccupied by other organizations. These spaces can be then analysed further to learn whether these spaces have potential and can be exploited (Johnson et al. 2014, 38.)

3.5 Market segmentation

The process of breaking the total potential market of a business down into smaller customer groups called customer segments is called market segmentation. In each customer segment all the customers have similar characteristics, such as income level, demographics or the specific needs of the customers which distinguishes the segment from other such segments (Cavusgil, Knight & Riesenberger 2016, 466). The characteristics defining the customer segment are naturally different for doing B2B business compared to B2C retail business. The segmentation for B2B business can be based on e.g. the size of the business, field of business or geographical location of the business (Rope, 2004, 66).

Market segmentation is one of the most important components of a successful strategy as it forms the basis for marketing and product strategy and allows a business to identify the most profitable customer groups from total potential market of a business. Based on the conducted segmentation a business can direct its resources to the right and most profitable business operations (Rope, 2004, 56-57.)

According to Cavusgil et al., (2016, 467) companies in international business often base their customer segments on macro-level factors and these broad segments are called global market segments. Global segmentation can be based on e.g. similar cultural factors or economical state of the country and it is not limited by national borders, targeting similar customers in several countries instead of having defined narrower customer segments in each country. This kind of segmentation can work in an industry where the overall needs of the customers and customer profiles are similar and little product adaptation or specialized marketing is needed. Globalization and removal of trade barriers in free-trade areas have enabled global segmentation and product standardization as an option for companies and it can provide several benefits. Firstly, it can reduce costs of doing business due to the reduced need for product adaptation and being able to use similar marketing strategies across larger market areas is more cost-effective than specialized marketing for smaller market areas. This also reduces the amount of planning required and standardized product and marketing is easier to control due to smaller number of variables. Lastly, standardization also creates a consistent international product image and brand (Cavusgil et al. 2016, 469-470.)

However, Rope (2004, 57) points out that focusing on a smaller more specific segment usually leads to better results than targeting the total possible market at once. According to Rope, (2004, 57) having a more specific focus creates better results for each segment as the business can target the most profitable customers first and establish market position before expanding and shifting the focus to other, possibly less profitable, customer segments as well. It is also pointed out that the importance of segmentation is even greater in B2B markets than it is in B2C markets due to more limited number of potential customers. In order to succeed in B2B markets, specialized products, marketing and excellent product support are essential (Rope, 2004, 58.)

Both broad and very specific segmentation are viable options in general and the type and the criteria on which the segmentation is based on should be chosen according to the field of business. Global segmentation is more viable when the product is fulfilling a basic set of needs for the customer, for example in food or clothing industry whereas for a company designing production equipment for manufacturing businesses, very specific segmentation is needed. Rope (2004, 59) also points out that in some cases each customer could for a single segment, for example for a business building cruise ships.

According to Rope (2004, 58-59), successful segmentation fulfils three main criteria. Firstly, it must be *relevant*. Relevancy of a customer segment refers to its size and profitability. Each segment should have enough potential to justify spending resources on it, simply the expected profits should be higher than the value of resources directed to a segment. Secondly, the classification criteria used to distinguish segments from one another must be *measurable*, each customer within a segment should have concrete characteristics which distinguish it from those of another segment. Lastly, a segment must be *accessible*. This refers to the extent in which a business is able to serve the specific needs of only one segment with specialized products and marketing.

4 INTERNAL ANALYSIS

In the previous chapters the main concepts and layers of external environment were discussed and in this chapter the centre of models described in chapter 2.1 will be examined. Understanding the inner functions and what organization is able to do in practice is critical for new strategy development and successful implementation. It is especially useful to identify the factors which contribute to the competitive advantage of the organization and which functions create the most value for customers as strategies should be centred around these strengths of the organization. Lastly, chapter 4.5 will discuss the evaluation of a proposed strategy using a SAFe framework, which uses information gathered both for the external and internal analyses.

4.1 Strategic capabilities

When creating and implementing strategy it is critical to understand the strategic capabilities of the organization. Strategic capability refers to the resources organization has available when required and competences which are the means of deploying the resources as efficiently as possible. These two, resources and competences, are strongly connected as the other is usually of no value if the other does not exist. The effectiveness of the resources, e.g. people, technical equipment or software, is dependent on competences as they can be useless if organization is unable to deploy them correctly (Johnson et al. 2015, 69.) The nature and connection of resources and competences is illustrated in table 1. below.

TABLE 1: Components of strategic capabilities (Johnson et al. 2015, 51)

<table>
<tr><th colspan="6">Strategic capability</th></tr>
<tr><td colspan="3">Resources: What we have (nouns) e.g.</td><td colspan="3">Competences: What we do well (verbs) e.g.</td></tr>
<tr><td colspan="2">Machines, buildings, raw materials, products, patents, databases, computer systems</td><td colspan="2">Physical</td><td colspan="2">Ways of achieving utilization of plant, , efficiency, flexibility, marketing, productivity</td></tr>
<tr><td colspan="2">Balance sheet, cash flow, suppliers of funds</td><td colspan="2">Financial</td><td colspan="2">Ability to raise funds and manage cash flows, creditors, debtors etc.</td></tr>
</table>

Managers, employees, partners, suppliers, customers	Human	How people gain and use experience, skills, build relationships, motivate others and innovate.
Long-term survival and competitive advantage		

4.2 Threshold capabilities

A distinction can be made between types of strategic capabilities; threshold and distinctive capabilities. Threshold capabilities are the minimum capabilities required which allow an organization to function or business to survive in the marketplace, but do not create competitive advantage. Therefore, the threshold capabilities are the minimum requirements for organizational survival and it should be noted that these requirements may change over time due to the changes occurring in the external environment. Due to these changes, organizations have to adapt their threshold capabilities according to the environment in order to survive (Johnson et al. 2015, 53-54.) For example, the increase in the use of internet and smartphones have increased the customer demand for functioning mobile applications and online services. In the past these could have been categorized under distinctive capabilities but over time they have gradually become threshold capabilities without which organizations are struggling to survive.

4.3 Distinctive capabilities

Threshold capabilities for the basis for organizational survival and distinctive capabilities create competitive advantage and/or superior performance distinguishing the organization from its competition and ensure its success in the long term. These capabilities are unique and other organizations are unable to or it is extremely difficult or expensive for them to copy or mimic these capabilities. When organizations possess these capabilities and they are deployed correctly, they critically increase the value of a product or service creating the advantage over the competition (Johnson et al. 2015, 53-54.) Identifying organization's distinctive capabilities is critical in the strategy creation process as they essentially create the baseline for the strategy on all levels because they are the factors that allow an organization to succeed in the long term and reach their fundamental goals (Institute for Manufacturing, date of retrieval 7.3.2019).

Johnson et al. (2015, 54) introduce four main criteria based on which capabilities can provide competitive advantage to the organization; value, rarity, inimitability and organizational support. When a capability fulfils all four criteria it can be a basis for sustained competitive advantage.

Assessing the capabilities based on the value they bring to the organization is important since it helps managers to identify the resources and activities which are the most important for the organization as well as those that bring little or no value. The value of a capability can be based on it lowering the operational costs of the organization or it resulting in higher revenue for the organization through creating new opportunities for the organization or higher customer value (Johnson et al. 2015, 55.)

Capability, which only fulfils the criteria of being valuable, is unlikely to provide organization with competitive advantage in long term. Capabilities need to be rare. When capability is valuable but competing organizations possess comparable capabilities or can easily obtain them, they are able to react and adapt quickly to actions of their competitors. Relatively rare and valuable capabilities can provide organizations with competitive advantage, but in order to create sustainable advantage, capabilities must be inimitable. There are several reasons why capability may be inimitable. Firstly, it can be a result of its complexity which makes it difficult or expensive to imitate. Another reason can be the causal ambiguity of a capability, meaning that it is difficult for competing organizations to identify the causes of an advantage another organization possesses. Inimitability can also be caused by organizational culture or history, which has over time resulted in a special way of conducting business or unique workflows within the organization (Johnson et al. 2015, 56-59.)

Lastly, organizational support refers to the organization's ability to support its core capabilities. As mentioned in chapter 4.1, a capability may be useless for the organization when it is unable to deploy it effectively. In order to take full advantage of possessed strategic capabilities, organizational structure, management systems and processes taking place need to be organized in a way that allows the full exploitation of the capabilities (Johnson et al. 2015, 59.)

4.4 Value chains

Identifying the processes in an organization which are creating value for customers and which are not is important for managers when developing strategy and making strategic choices as this information can be used to develop the value generating activities in the organization (Johnson et al. 2015, 60). A value chain can be used to examine different activities of an organization determining their contribution in creating competitive advantage through capabilities (Porter 1985, 33.) An illustration of a value chain and its components developed by Porter can be seen in figure 4. below. All activities described in the value chain are called value activities and together they should provide enough value to customers to result in revenues high enough to make the organization profitable (Porter 1985, 38).

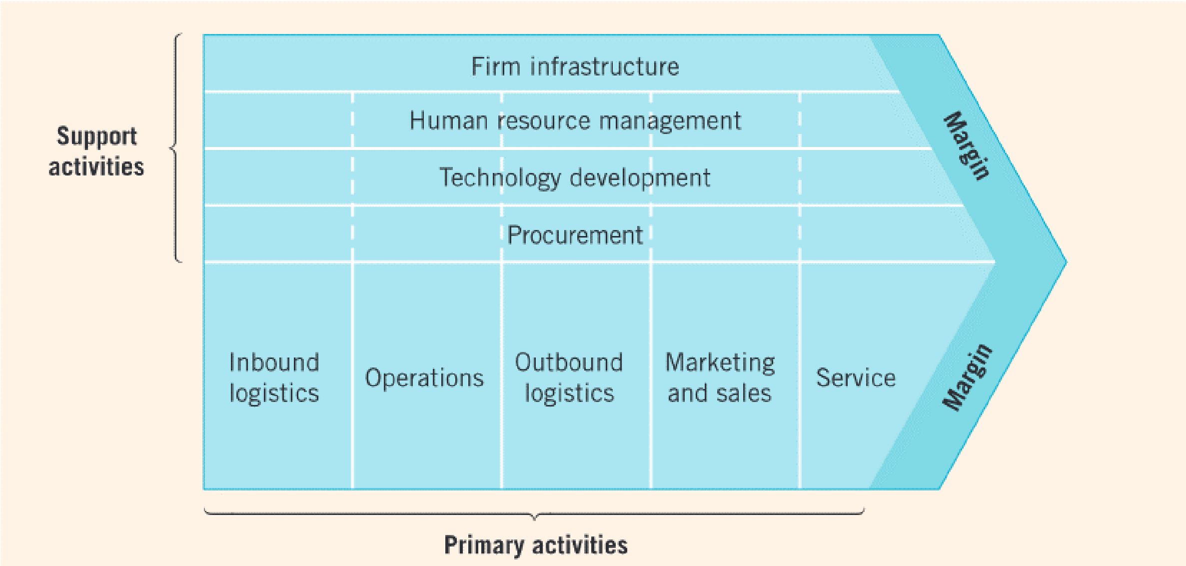

FIGURE 4. Value chain within an organization (Porter 1985, 37).

A value chain of an organization is a part of larger value system which includes factors outside the organization which may contribute to the value delivered to customers. The value system is comprised of individual value chains of suppliers, organization, distributors and buyers (Porter 1985, 34.)

Value chains of organizations operating in the same industry can have significant differences based on e.g. competitive scope, target segments and overall strategy of an organization. Even though value chains vary, value activities can be generally divided into two different categories, primary and supporting activities (Porter 1985, 34, 38.)

Primary activities are those that directly contribute to the process of creating a product or a service and delivering it to the customer (Porter 1985, 38). According to Porter, (1985, 40) all five primary activities are present in all organizations regardless of the industry but the importance of each activity varies greatly between industries. For example, in retail the role of outbound logistics is minimal, whereas in wholesale it is a vital part of the operations.

Supporting activities are connected to primary activities and each other and their function is to enhance the performance of other activities thus contributing to the total value created. Importance of supporting activities should not be understated as they have an impact on the organization as a whole, for example procurement activity is responsible for obtaining the equipment required to perform all other activities in an organization. As with primary activities, all four supporting activities are present in all industries and their significance varies depending on the industry (Porter 1985, 38, 40-41.)

In the previous chapter, distinctive capabilities and criteria for creating sustainable competitive advantage were discussed and using a value chain to understand the organization in terms of value creating activities can help managers in recognizing which activities contribute most to the capabilities in terms of value, rarity, inimitability and support. With this information, organization can concentrate on the right activities and detect possible development points on the chain of activities (Johnson et al. 2015, 62.)

4.5 Evaluation of strategy

Before implementing the planned strategy, it is important to conduct a systematic evaluation of proposed strategies which is strongly connected to understanding the strategic position of the organization. To evaluate a proposed strategy a SAFe evaluation criteria can be used which covers suitability, acceptability and feasibility of the strategy (Johnson et al. 2017, 380.)

4.5.1 Suitability

Analysing the suitability of a strategy is mostly concerned with understanding the strategic position of the organization. It addresses issues such as the extent in which the strategy would exploit the key opportunities in the marketplace while avoiding the threats and does the strategy promote the strengths of the organization and minimizes the effect of organizational weaknesses. When assessing the suitability of the strategy it is recommended to keep the analysis on a general level as going into too much detail here can lead to indecision and concentration on unimportant small details. A simple way to conduct suitability assessment is to place proposed strategies and key environmental factors on a table to identify which strategy best addresses environmental conditions and opportunities. (Johnson et al. 2017, 380, 383-384.)

4.5.2 Acceptability

Strategy being suitable, matching external and internal environments, is only one component of a successful strategy. For a strategy to be implementable, it must meet stakeholder expectations. The acceptability component of SAFe framework consists of three Rs, risk, return and stakeholder reaction (Johnson et al. 2017, 387).

All strategies and new ventures have some risks level of uncertainty and it is important for organizations to determine the level of risk they are comfortable with, how much of the existing business they are willing to risk when implementing new strategies. Possible risks and return of strategies are usually connected as lower risk strategies often have lower overall returns whereas high risk strategies can yield much higher returns. Some organization may be willing to enter a completely new market with a new product risking the whole business on the attempt and some organizations prefer having more diverse product line in “lower stakes” markets. In many cases, risk analysis concentrates only on the financial risk of implementing strategy but it is necessary to consider possible risks for brand and corporate image as well. These risks can have much more significant and far reaching effects on the organization than a financial failure in a single market area (Johnson et al. 2017, 388.)

With risk analysis, it is useful to assess the risk to brand and corporate image but in most cases analysing the returns is centred around the financial return potential of the strategy. There are multiple approaches to calculating the financial potential of an implemented strategy. First basis for assessment is calculating the returns on capital employed (ROCE): which examines the relative amount of returns to capital invested over a specific period of time after the strategy has been implemented. Second popular way of calculating the potential is to try to determine the payback period which is the point of time when cash flows resulting from the implemented strategy become positive. This is one of the simplest ways of calculating potential return and is often used with high risk situations as they usually involve high degree of uncertainty which may prohibit the use of more complex and possibly more accurate modes of calculating possible returns (Johnson et al. 2017, 390.)

Discounted cash flow (DCF) is one of the most common ways of determining the returns of strategies. It uses common methods of forecasting the cash flow but discounts a certain increasing percentage of the predicted cash flow over time. The discounted percentage is higher the further away in the future the predicted cash flow is actualized. The result of the calculation is net present worth (NPV) of the project or strategy and in general, the strategy with the highest NPV should be chosen. DCF is often chosen over ROCE as it considers the timing of the expected cash flow. The increasing discount percentage of returns reflects the higher value of cash earned early. The discount percentage is chosen according to the expected risk, higher the risks, higher the discount percentage and the effects of inflation can also be accounted for in the percentage (Johnson et al. 2017, 390-391) An example of DCF calculation for seven-year project with increasing yearly discount percentage of 10 can be seen in figure 5.

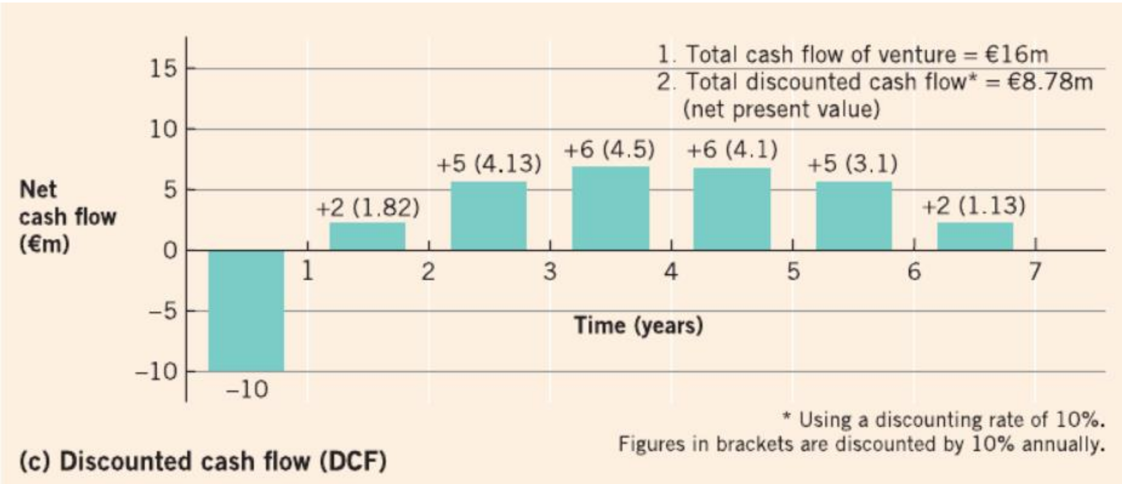

FIGURE 5. An example of DCF (Johnson et al. 2017, 392).

Regardless of which approach is used to assess the profitability of strategies, there are always certain problems which should be kept in mind while evaluating strategies. First of all, the results each approach gives are based on estimations and assumptions used for the calculations, not factual information and therefore there is always a certain level of uncertainty involved. Secondly, it may be difficult to calculate the specific effects of each new strategy as they can be strongly interconnected to the other operations and cash flows of the organization. A new strategy may also have positive or negative effects on already ongoing projects which are difficult to predict and isolate. Thirdly, these models do not allow the possibility of further opportunities and their value opening up when implementing a strategy. For example, a research required for a strategy may lead to additional benefits later. To get better estimation of the real value of a project, it may be useful to outline a roadmap with possible new opportunities listed. For example, successful strategy implementation may open new distribution channels or options to diversify the product line or expand further to international markets (Johnson et al. 2017, 392, 396.)

The last part of acceptability analysis consists of considerations how stakeholders will react to the strategy and what are its implications for them. For some groups, such as owners, banks and other investors, the interest may be purely financial but many groups are affected by factors not directly related to the monetary impacts of the strategy. For example, regulators, government officials and people in local communities may have negative reactions if the operations of the organization have negative effects on the environment in which it is operating. Naturally the reaction may also be positive, for example when the organization creates new jobs or has other positive impacts on its environment (Johnson et al 2017, 398.) The importance of social effects a strategy may have should not be understated as modern information technologies, such as different social media platforms, allow fast spreading of information which can be detrimental for organizations when the spreading information is negative.

4.5.3 Feasibility

The last part of the evaluation is the feasibility of strategy. The key question here is whether or not the organization possesses the resources and competences required to execute strategies effectively and if not, can they be acquired. There are two main factors which should be considered, financial feasibility and people & skills (Johnson et al. 2017, 399.)

When assessing the financial feasibility of a strategy, it is essential to consider the funding needs and its possible sources for all stages of the strategy (Johnson et al. 2017, 399). For example, if a new product has a long R&D cycle before it can be pushed into the marketplace, managers need to consider the funding for the initial development of the product as well as the costs occurring later due to e.g. manufacturing, marketing distribution etc.

It could be argued that the most important component of strategy implementation are the people involved in the implementation. Without people and their skills and competences, even the best strategies will fail. There are three key issues to consider connected to people. Firstly, do the people currently working for the organization have the competences needed for strategy implementation, are organizational systems supporting these people to enable them and if not can the competences and systems be acquired (Johnson et al. 2017, 400.) For example, if a company is developing a product which has a software component, the organization must employ a software developer to be able to implement the strategy and also provide the developer with the necessary tools required in the software development process.

When the organization has the required resources and competences in terms of people, there are further points which need to be considered connected to the processes taking place. For example, does the new strategy have an effect on the way responsibilities are currently divided among people and if there is a shift in responsibilities, is there a need for further training of employees? Depending on the nature of the responsibilities, it may also be necessary to consider the reward systems organization has in place to incite towards better performance (Johnson et al. 2017, 401.)

In conclusion, using the SAFe framework is a three-step process. The first step of evaluation is to determine whether the proposed strategy is compatible with external and internal environment and then evaluate whether risks, returns and other effects of the strategy on the environment make it acceptable. And the last step is to consider whether the implementation of strategy is possible in practice and if not, which factors in the organization need to change to make the strategy achievable.

5 STRATEGY AND ORGANIZATIONAL DESIGN

In this chapter, main elements of organizational design and their relation to strategy and strategy implementation will be discussed. To be able to successfully implement strategy, organization needs to be functioning accordingly. There are multiple ways of approaching organizational design. Different models often include the same components but importance and focus of different components differ between approaches. Johnson et al. (2017, 439) argue that strategy, organizational structure and organizational systems are the fundamental elements of organizational design. These three elements should all be supporting each other to create an efficiently functioning organization. As they are connected and supporting each other, they can also shape each other. Organizational structure and systems can be designed specifically to allow strategy implementation but in many cases structure and systems shape the strategy over time. Galbraith (2014, 17) has introduced a star model as an approach to organizational design, illustrated in figure 6 below. As illustrated, the star model includes five components, highlighting the importance of strategy placing it on the top as the entire design should be built around it. Johnson et al. have included people, rewards and processes under the broader term of systems whereas the star model highlights them as individual components promoting their role in the overall design of organizations.

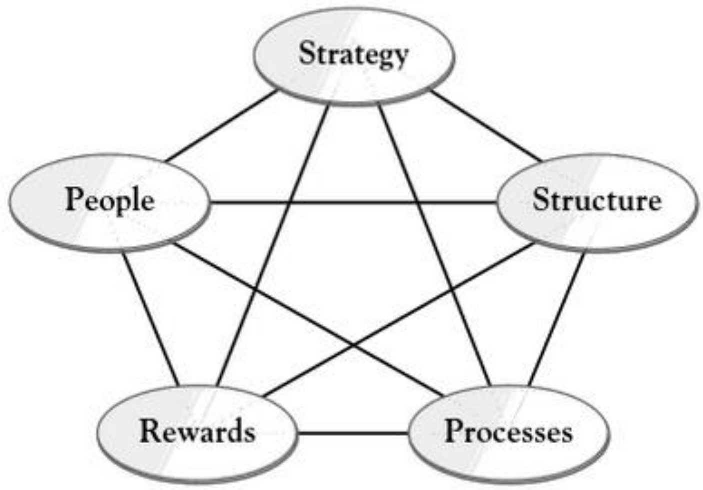

FIGURE 6. The star model (Galbraith 2014, 17).

There are three main types of organizational structure, functional, divisional and matrix structures. The following subchapters will briefly explain the main characteristics, advantages and disadvantages of each structural type and what kind of strategies are compatible with these structures.

5.1 Organizational structure

Organizational structure describes organization in terms of allocation of responsibilities, lines of reporting and formal roles of people within the organization. Structure is often illustrated by drawing an organizational chart showing the different functions of the organization in relation to each other (Johnson et al. 2017, 439-440.)

There are three main factors guiding organizational design in terms of organizational structure. Firstly, the diversity and variety of units needed for carrying out business processes. Secondly, the degree of interdependence of these defined units. In the past different units were often independent of each other and business processes were carried out sequentially but today higher degree of interdependence and cooperation between functions is needed to get products into market faster. The last factor is dynamics of change. In an environment where change is rapid and unpredictable, organizations need to be designed in a way which allows flexibility and fast adaptation to new environmental circumstances, whereas in a stable environment need for change decreases and structural design can be based on, for example, functional efficiency to save in operational costs. Designing organization based on these ensures that organization is internally efficient and properly adapted to the environment in which it is operating (Galbraith 2014, 7-12.)

5.1.1 Functional structure

Functional structure is the most common structure among organizations and is usually the starting point of all organizations. The structure is based on simple division of responsibilities among people within the organization and usually managed by general management in charge of all functions. Figure 7. illustrates a basic functional structure (Johnson et al. 2017, 440.) It should be noted that functional structure can be adapted and modified to reflect the strategy of the organization. For example, when organization moves away from vertical integration and forms a network organization in which only the core functions, such as product design and brand management, are carried out in house, the organization as a whole functions in a completely different way compared to its vertically integrated competitor operating in the same industry (Galbraith 2014, 149. 151-152).

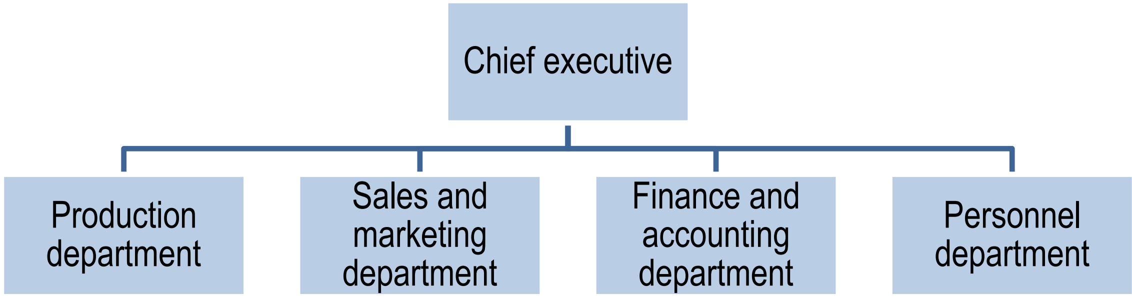

FIGURE 7. An example of functional structure (Johnson et al. 2017, 442).

Functional organizations are the most common among small businesses and larger businesses which have relatively narrow product range. Functional structure has several benefits; Firstly, roles of each function are clearly defined and they can specialize and excel on their particular field. This makes it easy for management to measure the performance of each function and in general this structure also allows central control and efficient decision making of managers. However, most disadvantages of this structure are also connected to the management. As the organizations grow and become more diverse in terms of products offered, central management can have difficulties in directing all functions efficiently towards the strategic goals of the organization (Johnson et al. 2014, 442.) Galbraith (2014, 65-66) also mentions slow product development process as a potential problem due to barriers between functions which can prevent cross-functional processes required in efficient product development. This becomes a problem when product development requires inputs from multiple functions and the development is carried out sequentially, one function at a time, instead of people from all functional departments included in the development process simultaneously.

Lateral processes between functions can offer better manoeuvrability and decentralized leadership to relieve pressure from the top management. Lateral processes are information and decision-making processes involving people from multiple functions which are connected to the issue at hand. Allowing middle management of functions to share information and participate in, for example, a product development process is much more efficient than top management coordinating all functions separately or carrying out the development process as sequential process, one function contributing at one time (Galbraith 2014, 66, 71.)

5.1.2 Divisional structure

When organizations grow larger and diversify their product lines, functional organization, even with lateral processes, becomes too inefficient and difficult to manage. Divisional structure is usually the next logical step for organizations which started with a functional structure. Divisional structure consists of separate business units, each carrying out their own functions. The division can be made based on e.g. product lines or services, geographical location or a customer segment. This allows each division to specialize and concentrate on their own specific field of operations under divisional management (Galbraith 2014, 27.)

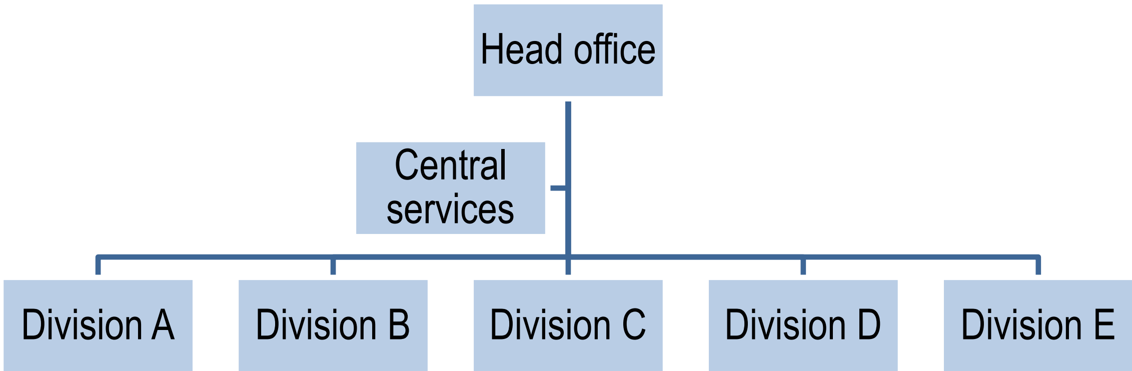

FIGURE 8. An example of divisional structure (Johnson et al. 2017, 443).

Divisional structure has its advantages and disadvantages as well. Perhaps the most important advantage is its adaptability. Top management of the organization is able to adapt to changing environmental situations by adding, merging or removing divisions without having to reorganize the entire corporate structure. As divisions ae separate units with their own functions, the top management can concentrate on monitoring the performance of the business units with no involvement in day-to-day operations and only intervene if divisional performance does not meet the set performance requirements. Each division can also concentrate and adapt their own strategies according to the circumstances independent of the top management (Johnson et al. 2017, 442.)

As mentioned, divisional structure also has its disadvantages. Firstly, as the divisional strategies develop, a division may become its separate independent business duplicating the functions of the head office. In these cases, splitting the corporation into separate businesses may be the best option (Johnson et al. 2017, 442.) This may be necessary, for example, when a division has entered entirely different field of business and its requirements are vastly different than those of the other divisions under the same head office. In a case such as this, it may be a beneficial to have central services which specialize in the new field of business and this is achieved by separating the division from the rest of the corporation. As the divisions execute their individual strategies, companies may develop towards holding companies, where the parent corporation owns and holds the business units or divisions which are operating autonomously in a larger financial sense (Johnson et al. 2017. 442-443).

Divisional structure may also lead to poor cooperation and information sharing between divisions. This splits the overall talent pool into separate groups and as divisions are often managed on the basis of divisional performance, the structure does not support and encourage cooperation between divisions (Johnson et al. 2017, 442.)

5.1.3 Matrix structure

In the previous chapter it was mentioned that with the divisional structure can be based on variety of factors, e.g. geographical location or product line. Matrix structure combines these into multidimensional organizational structure where operations are managed according to both dimensions. An example of multidimensional management structure can be seen in figure 9.

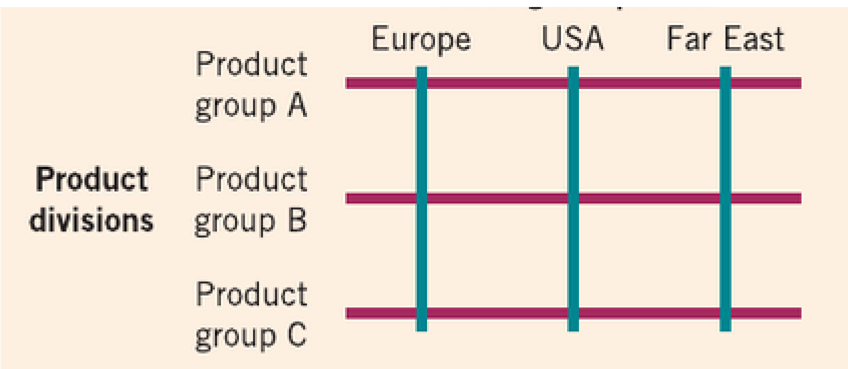

FIGURE 9. An example of a matrix organization (Johnson et al. 2017, 444).

Matrix structure can solve one of the problems of the divisional structure. Managing according to multiple dimensions allows the integration of knowledge across the different dimensions of the organization. This is especially useful for companies operating in a global scale, as it allows centralized global product development and manufacturing as well as local specialization to each geographical area of operations (Johnson et al. 2017, 444.)

Even though matrix structure can bring advantages to the organization, it is incredibly difficult to manage. Matrix structure breaks the single line of authority which can result in confusion with reporting and responsibilities. Matrix structure also tends to lengthen the decision-making time as decision making process involves managers from multiple dimensions and can also lead to conflicts as managers may have different priorities (Johnson et al. 2017, 445.)

5.2 Systems and processes

Structure is often referred to as the skeleton of the organization as it outlines the hierarchical structure and responsibilities of different parts of the organization and in order to function it needs muscles which are the systems and processes in place to carry out the operations in practice. Galbraith (2014, 37-38) has distinguished three kinds of information and decision processes which take place inside organizations: Informal or voluntary processes, generic business processes and management processes.

Informal or voluntary processes are often also called self-organizing processes, and these are processes that people perform voluntarily to carry out their tasks and are not formally planned. These are often bottom-up processes where people communicate face to face or online using different social platforms or email and work together to solve a specific set of issues without any formal supervision from the management. These processes tend to be more efficient in organizations where people have worked together for a longer period of time and each member of a team can carry out their tasks individually. In these cases, the informal processes are taken for granted ways of operating. (Galbraith 2014, 38.) These processes are often deeply embedded into the organizational culture and managers may find it difficult to change the culture to enhance the performance in a certain area, as employees may resist changes when they are used to carrying out their tasks in a certain way. There are several ways in which managers can affect the culture indirectly. Firstly, culture is shaped by people belonging into it so managers may look for certain personal characteristics in people they place in a certain team to enhance its performance or shift the way it is working. Secondly, socialization in teams may change the organizational culture. This can be achieved by formally organizing training and mentoring programs but also by organizing activities for teams outside the workplace where they can freely learn to know each other better and create better relationships. Lastly, culture and way people are acting can be changed via reward systems. By rewarding certain ways of acting via monetary bonuses, promotions, public recognition etc. managers can encourage these ways of acting shifting the culture to the desired direction (Johnson et al. 2017, 453-454.)

Generic business processes are processes that are planned for, predictable and are performed on a regular basis. In many cases these processes are completely automated and performed online. For example, online stores have a completely automated order-to-cast process where the customer selects the products and completes the order and payment without any manual interaction by the organization running the store (Galbraith 2014, 39-40.)

Lastly, the management processes are the means of executing strategy. These processes manage the resource allocation of the organization based on the opportunities in the business environment thus determining the way it executes its strategies. Successful resource allocation is required for a strategy to be successful; managers need to define the priorities for resources and clearly define the goals it wants to achieve and also make sure goals and priorities are aligned on all levels of the organization. (Galbraith 2014, 40, 42-43.) According to Johnson et al. (2017, 452-453), the level of control in management processes, they use term planning systems, varies between different approaches. In some organizations the top management prefers to have a strict control over resources and the way they are used as others prefer to give middle management and business unit management more freedom and monitor their results rather than the way allocated resources are used.

5.3 Business process development

In the previous chapter, different kinds of processes were introduced and in this chapter one system of deliberate business process development will be introduced to explain the thought process and steps required to implement a process. Breaking the development process into phases helps management to match a process with the strategy and intended goals.

The first step in the model introduced by Paul Harmon (2014, 54) is understanding the business context. Basically, this phase consists of gaining an understanding of the strategic position of the organization which was discussed in chapters 3 and 4 and understanding organization’s strategy and fundamental goals as a whole. This knowledge is necessary for the process design as it allows the optimization of overall process structure and alignment with the strategic goals organization has outlined.

Next phase is defining a business process architecture for a specific value chain. This is done by identifying all the core processes and subprocesses taking place throughout the value chain. The concept of value chain defines the activities required and here it is important to define all the individual processes taking place e.g. under the primary activity of operations and how they link together with other processes forming a process flow (Harmon 2014, 55.)

After defining the overall process structure, the next questions to be answered are how can these processes be monitored and measured and how should individual processes be managed.
At this point, the metrics based on which the performance is measured should be chosen and the hierarchical management structure and reporting lines between employees and all levels of management should be established. At this point, it is also important to consider the allocation of resources between all necessary processes. For companies which have relatively little resources, such as start-ups, it is critical to prioritize and optimize the use of resources to gain maximum results for all available resources (Harmon 2014, 55.)

After these initial planning phases, strategies are executed and processes carried out. During the execution, processes need to be managed and monitored and processes might have to be adjusted or redesigned if the need arises. There are multiple possible reasons why some processes might have to be redesigned. The need for redesign may arise due to the changes happening in external environment forcing adjustments or internal development, such as new IT systems or hiring of new talented employees, which calls for redesign to maximize the efficiency of acquired capabilities (Harmon 2014, 53.)

6 CASE STUDY

Before discussing the case study, this chapter will give a brief introduction to structure and operations of Grainsense to facilitate the understanding of key issues discussed in later subchapters. The current organizational structure is illustrated in figure 10.

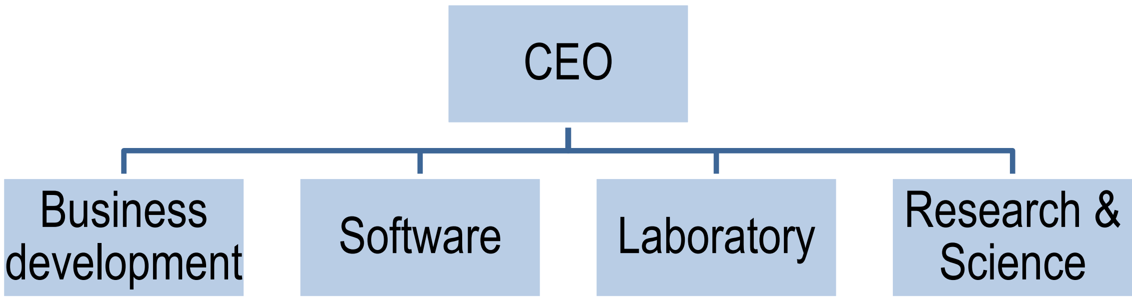

FIGURE 10. Organizational structure of Grainsense

As can be seen in the illustration, Grainsense has a typical functional structure which is most common among start-ups and companies with a narrow product line. The CEO is overseeing the four main in-house functions, assembly being the only one which is completely outsourced to another company. Business development team (BD) is working closely with the CEO and is responsible for the day-to-day business activities of the organization, e.g. managing the relationships with distributors and other partners, training of sales personnel of distributors and generic business operations. Their work is also strongly interconnected to the other functions as working with customers from different countries requires inputs from the other teams as well.

The software team (SW) is naturally responsible for the application and cloud services offered to customers which form the core of the service component of the product. BD and SW teams and their operations are in the centre of the case presented later as expansion to B2B markets would mostly concern these two teams, the work of laboratory and research teams would stay largely unaffected by the expansion.

These last two teams are also interconnected. Research team is working on the actual innovation and the science behind the physical device and laboratory team is dealing with all the grain samples and calibrations of the devices. All the devices need to be calibrated for specific species of crops and the measurements standardized with the measurement methods used in each individual country where devices are available.

6.1 Software

In order to succeed in B2B markets, maintain high customer satisfaction and establish positive brand image, possible problems and threats connected to the software component of the product need to be dealt with. The importance of software for customer experience cannot be understated; It essentially forms the entire service component of the package offered by Grainsense. After the initial measurement with the physical device, all customer interactions require functional software as all the data management is done in the application which forms the links to the device and cloud where all measurement data is stored.

Currently the SW team is continuously updating the base software and developing new features to bring further value to the customers which naturally is necessary to stay competitive and also provide continuous support and development for current business customers based on their individual needs. The problem here is that when the number of business customers increases in the future and each customer may have slightly different requirements for the software and data management tools, the resources of the SW team will be spread too thin. This may slow down the overall development of the software and more importantly, cause problems with quality as the team may be unable to deliver stable and fully functional software under the increasing workload.

These problems can be solved or their effects minimized in a few different ways. The most obvious one is hiring more software developers to deal with the increasing workload. This would also make it easier to provide better and faster support if some customers are having problems with the software and problems need to be solved quickly. The current team is small and every member has their own area of expertise and if this one person is absent, on holidays or on a sick leave for example, there is no backup with the right expertise at hand to take care of the problem. This is especially problematic as most customers use Grainsense during the summer months when agricultural products are grown and this is the holiday season for most other people. Having more people in the SW team will be required later in any case, as the current team will likely be unable to cope with significant increases in their responsibilities.

Second way of dealing with software problems is better management and prioritization of current resources the SW team has. This would be beneficial in several ways; It would likely result in better quality software and allow better planning and scheduling of projects and they will ensure higher customer satisfaction and service level. Poorly prioritized and planned work may cause quality issues with the software if developers have multiple projects to work on simultaneously and insufficient amount of time is spent dealing with each project. This may be detrimental for the business as the fundamental value delivered to the customer is the measurement data and if there are too many issues with the software in terms of functionality and stability, the customer is not receiving the value properly which leads to lower customer satisfaction and worse brand image. It should be kept in mind that the physical device is not the main product, it is the data which becomes available to the customer by using the device. To avoid these issues, the first step is correct prioritization of tasks. Projects dealing with the overall functionality and quality of the service must be prioritized over development of additional features. Of course, new features and development are essential for staying competitive in the future but the delivery of base value must be ensured first.

When the priorities are in order, each project also needs to be properly planned and scheduled. When it comes to software and B2B customers, the specialization requirements for the software a potential customer has, have to be specified carefully before entering a long-term business relationship. Specifying the requirements would allow more accurate assessments of how much resources each customer requires and thus facilitate planning and scheduling of other projects around them. Accurate assessments would also ensure that deadlines set for delivering specialization are met and the quality of the delivered software solution is high which in turn would reduce the resources needed for later updates in terms of bug fixes and stability improvements.

6.2 Internal communication

Another point of development required for success in B2B market is better internal communication. In general, good internal communication is one of the most important components of well-functioning organization as it allows efficient workflows, alignment of goals and overall better employee satisfaction. Good communication between employees and managers is also critical for strategic planning and practical implementation of strategies. As already stated in chapter 2.4 about strategy statements, communicating strategy and mission of the organization to employees builds trust and relationships between management and employees while also creating greater sense of purpose for each individual in the organization. Insufficient communication on the other hand may lead to several problems, such as misuse of resources and difficulties in coordination across different functions of the organization.

To some extent, the problems with software outlined in the previous chapter are a result of poor communication between managers and employees, especially cross-functional communication. This has led to misalignment of goals and poor coordination between teams. As Grainsense is selling directly to business customers, good communications between the CEO and BD, who are participating in the initial negotiations and planning, and SW teams are required. Establishing good communications between them ensures that all factors are planned for in advance and the terms of the business agreement are achievable within the set time limits. Up to this point, people directly involved in negotiating and delivering products have not established proper systems for tracking and planning processes which is required to avoid human mistakes caused by forgetfulness when B2B operations scale up.

Other than face to face conversations, the most used communication tools within and between teams have been WhatsApp messenger and email and online cloud services have been used for sharing and editing documents. To streamline the communications and separate it from the platforms also used for private messaging highlighting its importance, the use of a more professional platform, such as Slack is recommended in all teams. Slack combines the tools previously used to one place while also bringing additional benefits as it is directed for professional use rather than WhatsApp. Firstly, open messaging channels can be used to share important information and updates to the whole organization keeping employees up to date of what is happening overall. This would also keep people involved and allow new ideas to be presented easily by anyone in the organization and these ideas can be discussed further to develop the organization and operations. Closed channels and private messaging can then be used to communicate within teams and also create cross-functional communication channels when coordination between teams is required. Private and group calls are also available in Slack when issues need to be discussed in more length. Slack also allows integration of other online tools, such as Google Drive, calendar, OneDrive etc. into the same platform bringing communications, planning tools and files together to one platform and reducing the number of individual platforms used. Slack conversations are also searchable, which allows quick retrieval of shared files and other information later.

Grainsense has also been considering the use of process/order tracking tools to make sure all necessary steps are taken in time when serving customers. The deployment of such a system is also recommended, both for B2C and B2B as the number of customer orders increases.

No matter which system Grainsense decides to adopt, it is important to have leadership support behind the changes and inform all individuals working for the organization about the reasons behind the change, as employees may resist change and be reluctant to adopt new systems. To further encourage voluntary communication inside the organization, external events and activities may create better relationships across teams which makes people more likely to communicate better at work as well as outside creating informal cross-functional processes.

TABLE 2. Benefits of good communication.

Benefits of good communication	
Organization	• Alignment of goals. • Better overall efficiency. • Better adaptability. • Less conflicts. • Ability to deal with conflicts.
Managers	• Better decision making. • Ability to manage resources properly. • Better planning & coordination with other teams. • Better relationships up and down the chain of command.
Employees	• Higher trust on the organization and managers. • Higher job satisfaction. • Better motivation and loyalty. • Able to express opinions and development ideas.

6.3 Organization of B2B processes

In this chapter, main phases of conducting business with new B2B customers will be analysed and suggestions given on how the processes could be carried out efficiently. The process starts with identifying potential customers and having the initial contact with new customers. Currently Grainsense has a dedicated person to do this initial market research and contacting and after the contact has been established with an interested customer, the CEO is in charge of negotiating the details of the agreement. At this point, inputs from BD and SW are needed to plan out the delivery of the final product and organizing all activities necessary to deploy a Grainsense solution for the specific needs of the customer. This is essential to ensure that the scheduling is realistic and a complete product can be delivered as agreed. Outlining the plans with all teams participating in delivering a specialized solution ensures that all necessary factors have been considered, which results in less corrective actions later. This means that less resources have to be spent in a long term with a customer, freeing these resources for other projects and allows Grainsense to stay in control with less emerging surprises from current customers.

After the negotiation is done and deal closed, SW team has to do the necessary specializations to the software and cloud services. As mentioned before, these projects should be well defined and scheduled in advance,. The needs of customers may vary widely, as some customers are looking to replace their old laboratory equipment with Grainsense and some might consider Grainsense to gain access to the data for the first time. This variation in customer needs can make it difficult to create a standardized product package for business customers which requires more work from the SW team, further highlighting the need for proper planning and time management.

Before Grainsense system can be implemented, people need to be trained to use it. An expert training is the most sensible approach to training. In this case, members of the BD team would traing a few key people from the customer organization and provide them with proper training material they can use to train other personnel who will be using the product. This way Grainsense representatives have no need to travel to each location for training sessions where devices will be used.

When it comes to the actual delivery of the devices, some sort of tracking system should be in place, as already mentioned in previous chapter. In a case where there is no dedicated system for it, it is also possible to create an online document where people involved can track the progress and make sure all the necessary steps are completed before the delivery of the devices. This is, to make sure that all the devices are correctly calibrated for the target market and registered to right cloud servers if customers have requested a dedicated database for them.

After all these initial stages are completed, customer service, follow-up orders and software updates still have to be managed. To better manage customer relationships and actions necessary to service both B2C and B2B customers, having a dedicated member of BD team to manage customer relations is recommended. This would facilitate the coordination with other teams as all the feedback and requests from customers are concentrated on a single infrormation stream, and the person responsible can then forward the requests and feedback to right personnel to be taken care of. This would build clear relationships and communication lines inside the organization instead of, for example, SW team receiving requests from all members of BD team making it more difficutl to manage resources and service customers efficiently.

6.4 General remarks and suggestions

One of the greatest challenges of B2B business is the difficulty of customer segmentation and thus standardizing a product package directed to businesses. Large businesses likely require some product adaptations as the product has to fit with their existing business structure and operations which are widely different between companies operating in different sectors and countries. The total number of such customers is very limited and each can be considered to form their own segment requiring special attention and adaptation. When it comes to smaller businesses which have had no access to this date before due to the high price and expertise needed to gain it, it is possible they will be content with the basic package already offered as their own operations are less complex.

The value proposition for all B2B customers should be centred around the data component of the product. The basic value proposition for B2C customers is that the data allows them to make educated decisions concerning their products and activities. This is the basic value delivered to business customers as well, and the data is accompanied with better data management tools using the cloud services than traditional systems of measuring have offered. The data is instantly accessible anywhere it is needed allowing customers to make decisions based on data faster than before, making their operations more efficient which will likely lead to cost savings and/or higher profits in long term as well.

7 CONCLUSIONS

The main objectives of this thesis were to find out the most important factors to consider before shifting more efforts to B2B markets and how could B2B operations be carried out as efficiently as possible. This thesis was to be conducted by reviewing literature on analysing the business environment and its effects on strategy and how strategy affects how organizations are, and should, be organized. This knowledge was then to be applied to practical case of Grainsense to find ways for them to better prepare for B2B market expansion.

The literature review consists of four main chapters. In the first chapter, the basic concepts of strategy and strategy creation were established to provide background for the following chapters. The following two chapters continued by explaining different layers of business environment and how each layer could be analysed in more detail to gain a comprehensive understanding of the environment in which the organization is operating. This information could then be used to develop strategies further in order to stay competitive and exploit opportunities arising in the environment. The last chapter of literature review was concerned with organizational design and its relationship to strategy.

The practical information required to find answers to the research questions was gained from discussions with various people working for the client organization. Discussions concentrated on how the client organization currently conducts their operations and which points they have already considered when working with the few business customers they have had this far.

The key findings and development points found were mostly connected to internal environment and organization of work. The business development team of the client consists of some long-term professionals and they had accounted for most factors in the external environment already. The issues found in the internal environment are strongly connected to insufficient communication, which leads to difficulties in planning and coordination across teams. These issues need to be resolved to allow the business to grow further and carry out its operations more efficiently, performing up to its total potential.

Good communication and well-built relationships are key components of well-functioning organization and by resolving the communication issues, the client organization can concentrate on developing the business further instead of having to commit resources to problems caused to some extent by poor planning and insufficient communication across different teams.

8 DISCUSSION

The main purpose of this thesis was to aid the commissioner in planning their expansion to B2B markets. This was to be achieved by reviewing relevant literature to gain better perspective on all the relevant factors affecting strategy development and organizing the work efficiently to achieve the fundamental goals set for the organization.

The main points of development identified during this research are concentrated on the internal environment of the organization as it seems that the people coordinating the business operations are experienced in operating in international markets and there is little need for development when it comes to accounting for external factors in the environment.

The research itself was difficult to define as the development task was quite abstract making it difficult to identify the points which needed to be studied more in depth and choosing a research method which would provide clearly measurable results. The conditions inside the client organization were also continuously developing during the process of writing this thesis. During the discussions had with the people working in the organization, it was found out that many factors and initial development ideas considered at the beginning of the research process were already accounted for and implemented. Even though many positive changes were made in the organization, there are still many points to develop to make the organization and people within to perform up to their maximum potential.

In terms of scheduling, the research was completed within the deadlines set during the initial planning of the work. The personal learning objectives were also met during this research. It is extremely important to have a better understanding of the relationship between practical business operations and initial planned strategy. Practical projects completed during the studies before completing this thesis usually examined a particular problem from a very narrow standpoint of e.g. marketing or cultural factors in international business and this work has taught many skills required to understand complex issues in broader sense accounting for more variables.

In terms of further research and development of this area, it is always necessary to consider the effects of new strategies on all functions of the business in terms of allocation of work, information sharing and coordination of teams and people within.

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