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STUDY OF CUSTOMER MOTIVATION IN LARGE PROJECTS TO PURCHASE POWER SUPPLIES FROM AN E-SHOP – CASE OF ELCON SOLUTIONS OY



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Title: Study Of Customer Motivation In Large Projects To Purchase Power Supplies From An E-Shop – Case Of Elcon Solutions Oy

The objective of this thesis is to study how much potential exist for the case company by offering their products via e-shop; opportunities for the organizational buying electronic components. To achieve this; e-commerce concept, business marketing, organizational buyer behavior and internet history was studied. Literature on how internet started to evolve to one of the biggest marketing medium nowadays and what are the basic buyer stages company marketing has to take notice with online shopping.

Business buyer behavior normally concentrates more on customer relations and long lasting business partnerships. Business market is more price-driven than brand driven and market tends to be more volatile to competition. Business buying is also more professional, more people is influenced on the decision making process, more time is used on buying process and size of purchases are larger than in consumer market. Marketing time of promotional effort needed to reach a customer is more focused in business buying.

Internet is for organizational marketing an evolving possibility or a misfortune. E-shopping is becoming increasingly popular and website is considered a must. In order for company to benefit from an e-shop the following dimentions must be studied carefully; the company's capabilities, existing competition, market and possible technologies to use. If principles are applied correctly, e-shop can be a successful marketing tool and a sales force to a company. If the work is not done correctly and customers won't use the service, it will only be useless money-waste with no beneficial results. With easy access to product, price and delivery information, customer can search suitable product or browse ideas by him/herself. To find an answer to the study objectives, a case study was conducted with Elcon Solutions Oy. Electronic component competition in Finland and customer interest was studied. Result of this is presented on this thesis with suggested methods to proceed for the case company.

KEYWORDS:

E-shop, buyer behavior, decision making, power supplies

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Nimi: Study Of Customer Motivation In Large Projects To Purchase Power Supplies From An E-Shop – Case Of Elcon Solutions Oy

Tämän opinnäytetyön tarkoituksena on tutkia yritysten kiinnostusta ostaa tuotteita sähköisesti internetissä, kun kyseessä on teollisuuden sähkökomponentit. Tutkimuksessa on keskitytty sähköiseen kaupankäyntiin, yritysmarkkinointiin ja yritysten ostokäyttäytymiseen.

Tutkimuksessa on keskitytty Elcon Solutions Oy:öön, joka välittää Suomeen erilaisia sähkökomponentteja pääosin Aasiasta ja Euroopasta. Tutkimuksen tarkoitus on kartoittaa yrityksen tämän hetkinen markkinatilanne, kilpailijoiden Internet-kaupan laajuus ja asiakkaiden halukkuus ostaa tuotteita sähköisesti.

Työssä on tutkittu ensin yrityksen ostokäyttäytymistä, yritysmarkkinatilannetta sekä Internetin kehitystä tämän päivän merkittäväksi markkinapaikaksi. Lisäksi on tutkittu eri vaiheita, joita yritys käy läpi ostamistilanteessa punnitessaan sähköisiä ostamismahdollisuuksia. Yrityksen ostotoiminta käsittää yleensä aktiivista kanssakäymistä myyjän kanssa ja pitkäkestoista yhteistyötä yritysten välillä. Yritysmarkkinat ovat yleisesti hintakilpailuherkkiä ja kilpailu asiakkaista on kovaa. Ostajat ovat usein tietoisempia tarpeistaan kuin kuluttajamarkkinoilla, ja ostomäärät ovat isompia kuin kuluttajakaupankäynnissä. Oikeanlaisten tuotteiden löytämiseen käytetään enemmän aikaa ja yritysten kanssa yritetään luoda pitkiä ostosuhteita. Koska kilpailu asiakkaista on kovaa, yrityksen on erotuttava joukosta. Internet voi olla yritykselle helppo, positiivinen mahdollisuus tai vastaavasti aikaasyyvä, turha valinta. Internetistä ostaminen tulee koko ajan suosittumaksi ja kotisivut ovat modernin yrityksen vähimmäisvaatimus. Yhä enemmän aikaa ja rahaa käytetään yrityksen kotisivujen ylläpitoon, hakusanojen toimivuuteen ja tiedon löytämisen helppouteen. Jotta yritys pystyy hyötymään nettikaupasta, on ensin tutkittava asiakkaiden ostokiinnostusta ja yrityksen mahdollisuutta sen perustamiseen.

Tutkimuskohteena olevan yrityksen johto on ilmaissut kiinnostuksen perustaa sähköinen kaupankäyntikanava, jonka avulla asiakkaat voivat ostaa komponentteja vaivatta. Taustalla on halu erottua positiivisesti kyseisillä yritysmarkkinoilla. Tutkimus vastaa kohdeyrityksen kysymykseen keskittyen idean kannattavuuteen kyseisellä markkinasektorilla.

ASIASANAT:

sähköinen kaupankäynti, ostokäyttäytyminen, yritysmarkkinat, sähköiset teollisuuskomponentit

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1. INTRODUCTION

The motivation for this thesis came from my current position as a member of Elcon Solutions sales team. Management was thinking about creating an e-shop for trading products to increase sales, and they saw it as a benefit to customer by making shopping easier for them. Based on my six years of work experience on the company, provides me overall knowledge of the market, customers and projects. I see from my personal research perspective that it is not beneficial to the company in the end. Interest is to study the key account customers who have the bigger, more profitable projects that keep the company afloat. **To see if they see, that they would have interest to find the right suitable product from an e-shop without sales person assistance. Will customers trust their own judgment of making the right choice? The market of electronic components is so vast, and without professional knowledge about each independent product; to determine what do purchase from the customer's personal experience alone could take days to find right kind of product and several sample testing. The main interest is to know if the customers are willing to order also larger amounts and what is the biggest motivation if there is any to order them online?**

Elcon Solutions is a small size company in Kaarina, South West Finland. There are approximately ten people working full-time. Half of this is sales and administrations and other half is R & D, manufacture and after sales. The business idea is to develop custom made power solutions and be a Finnish supplier for power supplies, UPS, batteries to industry segment. The main focus business areas are telecom, energy, transport and process automation. Company turnover is approximately a million Euros year 2010. Two thirds of this comes from company's own manufacturing DC-battery solution systems and one third from the sales of straight retail products.

Co-operation with schools is important for the company as. Elcon Solutions has offered from the beginning a study base for several students. The exchange of knowledge is beneficial to the school, the student and the company. There have been several cases where developing old products further with customers or creating new product as directed by the market need, with this kind of networking. Also the possibility to widen market from Finland to other Scandinavian and Baltic countries has been a study subject. There are several students that have stayed in the company after graduation. I myself started working in the company year 2005 as part-time sales assistant. And job description over the years has moved to taking care of the power supply key accounts.

The Elcon Solutions Oy product portfolio is wide. For example the products can differ in ways it is connected inside; to a rack into cabinets or molded on to a circuit board and also can be used as external adapters with a wall plug. In all of these various different looking product families there is still a wide size range of power (W) that comes from the equality of the basic law of electricity; voltage (V) times current (A) will define the power (W). Elcon Solutions has a large product range of electronic power supplies. The sizes already vary from 1W to more than 10.000W power range for medical, industry, military, lighting and telecom business. The range of retail power supplies the company has is from basic AC/DC, DC/DC converters, DC/AC inverters and from small size office UPS to larger back-up power UPS to industry.

Extensive studies was carried out in electric component domestic companies' websites in Finland. Online shopping was not commonly used on power supply business. Only larger companies use this opportunity e.g. Farnell Ltd but not the small size companies as the case study company is. Some of the equivalent companies are for example Coolpower Solutions (www.cps.fi) only have product information available, not online shopping. It is seen by the Elcon Solutions management as an attractive marketing tool and easy way for customers to purchase power supply components for their projects. The management team

sees that e-shop could be profitable benefit to the company. That it would work as a tool for the customers and take some load of from the sales force and easy access to information for the customers and sales team. It could also attract new customers as elements of distance and time are eliminated. The author of this thesis tend to disagree on some of the opinions with the management that customer would use e-shop and company would have

capabilities to make it work. This is the reason where the want to do a study on this case company came from. In order to get a bigger picture research was made of B-2-B market, e-shopping, competition and the customers along with the case company situation to see if it actually is a good idea for Elcon Solutions Oy to start an online shop with trading products.

1.1 Concept of this thesis

This thesis is divided to categories; the literature review, methodology, theoretical framework, case company study and conclusion of the results. The literature review was started with internet marketing research to understand B-2-B marketing, internet purchasing and buyer behavior. What stages the buyer will go through in different kind of buying situations. Internet development into a worldwide commerce and e-shopping was studied because the case company problem is how used an e-shop is on the market. What are the problems and benefits of an e-shop and also how it could be build up in Finland.

To find an answer to the thesis question which is to examine if the customers are interested in purchasing power supplies from an e-shop, first we have to understand the best solution to study the case company, the possibilities of research methods was studied and empirical analysis was done with a mixed methodology to get a full review of the company situation, customers and competition. The company is introduced first and the study starts with management interview. Company, customers and competition was studied to

get a full picture of the current situation. In the end there is a result of the study, which was to see if the e-shop was beneficial to the company in the end. After the result is the personal opinion and suggested methods to pursue for the case company.

1.2 To learn from the books

First part of literature review was to study business marketing and business to business buyer behavior in order to understand what factors makes a successful B-2-B company, and who are the key players in a company to influence on business buying. Literature of marketing mix and marketing positioning was also studied, key points to have a better understanding on competition, product placement and customer market segmentation in Finland. The idea was to understand power supply competition in Finland, compare it to the case study company marketing positioning and how customers seem to choose one provider or purchase method over another. This is to get a full picture which matters influence the most when customers make business buying decisions.

1.3 Internet history

Section three is about internet history study and the general use of internet on business purchase between companies today. How internet is used and how has B-2-B e-shopping grown in the last decade. Before it can proven that e-commerce will be profitable for a business, must first study that which methods can be used successfully in business marketing and sales purposes and also are the customers even at all interested to use the service.

1.4 implementing the case company

Section four is about trying to understand the business market and how e-shopping can be implemented easier to help company sales and customers. The correct questions must be asked to be able to review the results and make the right assumptions. First the company management was interviewed in order to understand their need and ideas. Also a questionnaire was sent to the customers, in order to get a general view of the customer purchase environment. What are the decision making methods used by the key customers of the case company in the electric components business? There was also interest to see if the case company plan and the customers buying process and interest of an e-shop use would collide.

2. RESEARCH OBJECTIVES

2.1 Thesis objective

Motivation for the thesis came from a current work role in the company and this thesis was based on case study approach. Study started with a management interview, in order to understand the case company's current situation and their plans for the future. After interview better author had a better understanding of the company need as a whole and to understand that the management did find an e-shop a possible benefit to the company. The interest to do this study on this subject was because the company management has for a longer period of time wondered about the possibility of starting to sell retail products through the Internet to save sales time. The idea was to see if an e-shop in the end is a profitable and useful solution for the company.

2.2 Research objective

Research aim was based on identifying whether the customers would be interested in using Elcon Solutions website to purchase electronic products.

- Do the customers see it as an alternative to current method of buying products on their on-going projects as well as new upcoming projects?
- Do the customers trust their own knowledge to find a suitable product or would they still prefer a professional help from the supplier.
- Is sales person contact and knowledge still needed and valued among customers?

The objective of this thesis is to find out what kind of products and with what volume the customers would purchase using an e-shop only. The end result would be to advise the case company if the e-shop would be profitable. In order to get an answer to this, first must understand do the customers even prefer internet on-line service over a real life sales person.

2.3 Research Approach

To reach the objectives, an important part of this thesis was to study business buyer behavior; in order to get a wholistic picture on types of decisions customers go through in a normal business buying situation. To compare how this is changed when on-line shopping is used. With a questionnaire the idea was to find out if the customers see the benefit of an e-shop over the risk that they would have to make the decision by themselves. To evaluate the risks of the purchase process within online shop when there is no sales person to assist and the whole responsibility of buying a suitable product is on the customer. And what they see as the negative and positive points if there is any. Do the customers see online shopping suitable and sustainable alternative to current purchase framework.

3. LITERATURE REVIEW

3.1 Business Market

Market research is critical when developing an effective business marketing program. Research used properly helps marketers to identify and solve problems. While consumer research focuses mostly on advertising and packaging, business research is more often focused on developing market potential. Consumer research deals with large numbers of consumers, each of whom is generally looked upon as equal, while business research generally deals with very small population where a few respondents affect the largest portion of sales volume. Key-account selling accounts for a significant proportion of the firm's overall sales. This means that the supplying firms are in a vulnerable position if the customer goes elsewhere. This in turn means that the supplier may be expected to negotiate significant changes in its methods, products and business practices, in order to fit in with the customer's business practices and needs. (Blythe & Zimmerman, 2005)

A company should identify their consumer buyer behavior in order to understand the purpose of the purchase, what products is needed and the buying situation to make it as simple for the customer as possible. As much information and understanding of the customers, the company will gain a better market position to target its products and services. It is important to understand the relevance of the needs of the customers and buyer behavior. To understand business buyer behavior, one has to analyze the customer reaction to the marketing mix. As described by Cohen (2004) and Kotler (2005) the importance of marketing mix includes of four P's; Price, Product, Promotion and Product. With competitive price, right kind of product, good customers and targeted promotion to get the products known. This provides a clearer opportunities in order to gain strategic and competitive advantage. The customer will make the

decisions on the clear inputs of marketing mix. Each individual considers the possibilities and decisions of product and service by their own experiences, culture, attitude and personal perception.

3.2 Market positioning

Strategic Condition Matrix (Little 1974) offers perspective of marketing positioning. It has two main dimensions - competitive position and industry maturity;

Competitive position is driven by the sectors or segments in which a business operates. The product or service on the market accessed has to have geographically value what makes up an organization's competitive position i.e. product and place. Competitive position's five main categories divide the companies by its strength on the market. *Dominant* - is normally associated with monopoly, *strong* - have a lot of freedom since position in an industry is powerful, *favorable* - tend to have competitive strengths in market place. No single global player controls all segments, *tenable* - face stronger competitors that have a favorable, strong or competitive position. It is difficult for them to compete since they do not have a sustainable competitive advantage and in the *weak* marketing position opportunities can grow the marketing position. *Industry maturity* is the product life cycle. How fast can the product enter the market and when is another one needed. Of course not only industries could be considered here but also segments. (Little, 1974)

It is the combination of these two Matrixes, which could be help with marketing decision-making with the competition. Elcon Solutions is now in a favorable competition position on the power supply market. There is no single leading company, some have bigger and others smaller piece of the market share. But all of them have a clear chance and it's more about having few big customers. In order to get these customers, it's important to advertise and contact

customers and to be seen more than competition. The company management sees that on-line shopping possibility will give them an edge towards customers and to be a positive advertisement.

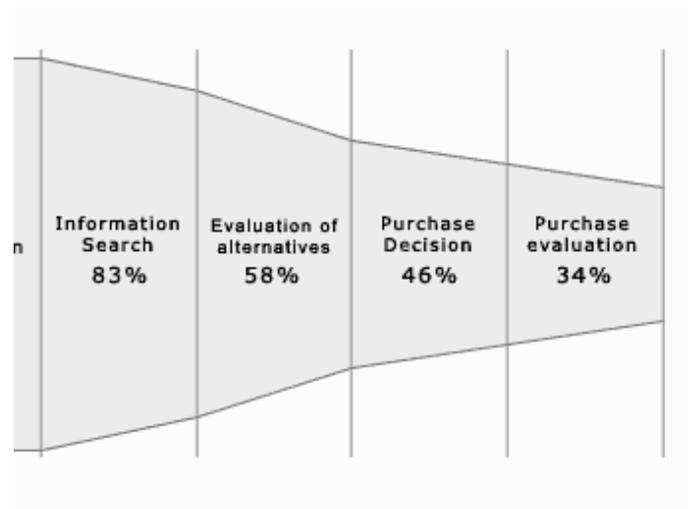
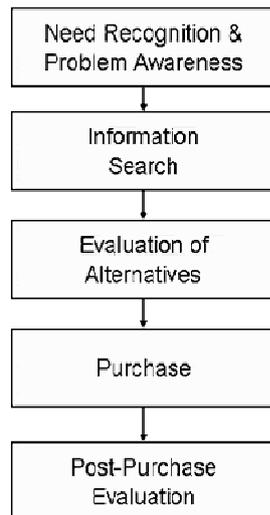
3.2.1 Buyer Behavior

Early attempts to model buyer behavior in business markets started with models developed for consumer buying behavior and tried to adapt the models for the study of organizational buying behavior. To understand industrial buyer behavior by modeling it as a joint decision involving conflict resolution that takes into account the background of individual members, product-specific, company-specific and situational factors. Organizational buyer behavior tends to focus on the joint decisions in terms of resolving the conflict among the members of the group. Model of buy decision as the result of four sets of factors: environmental determinant, organizational determinants, group interactions and individual participants. (Sashi, 2009, p. 130)

Models of buyer behavior are developed in order to formulate marketing strategy by examining how buyers satisfied their needs by purchasing products. The process of recognizing a need, searching for possible solutions, and making a choice after evaluating the alternatives has to be understood and modeled in order to implement the marketing concept by selecting markets and planning products. (Sashi, 2009 p. 130)

3.2.2 5- Stages process

In business situation there are five-stage process that customers go through, in process of a regular purchase. This is summarized in the diagrams below:



The phases in the purchase decision and search will be highest in the new task buy situation, moderate in the modified re-buy situation and least in the straight re-buy situation. Extensivity, lateral involvement and vertical involvement will be highest in new task buy situations, intermediate in modified re-buy situations. In many straight re-buy situations, the decisions on what buy may be autonomous. (Sashi, 2009, p.137)

These models are important for anyone making marketing decisions. It forces the marketer to consider the whole buying process from the beginning rather than just the product decision when it may be too late for a business to influence the choice. Models imply that customers pass through the same stages however, in more routine purchases like straight re-buy; customers often skip or reverse some of the stages.

4. STUDY OF INTERNET MARKETING AND E-SHOPPING

4.1 How internet started to evolve

The Internet is a result of visionary thinking by people in the early 1960s that saw a great potential value in allowing computers to share information on research and development in scientific and military field. Originally, e-shopping meant the facilitation of commercial transactions electronically, using technology such as Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT). These were both introduced in the late 1970s, allowing businesses to send commercial documents like purchase orders or invoices electronically which was fast and revolutionary. The growth and acceptance of credit cards, automated teller machines (ATM) and telephone banking in the 1980s were also forms of electronic commerce. (Jank & Shmueli, 2008)

Commercial enterprise on the Internet was strictly prohibited until 1991. Although the Internet became popular worldwide around 1994 when the first internet online shopping started, it took about five years to introduce security protocols and DSL allowing continual connection to the Internet. By the end of 2000, many European and American business companies offered their services through the World Wide Web. Now it's almost mandatory for business to have an own homepage. (Laudon, 2007)

4.2 Internet, E-mail and CRM to connect with customers

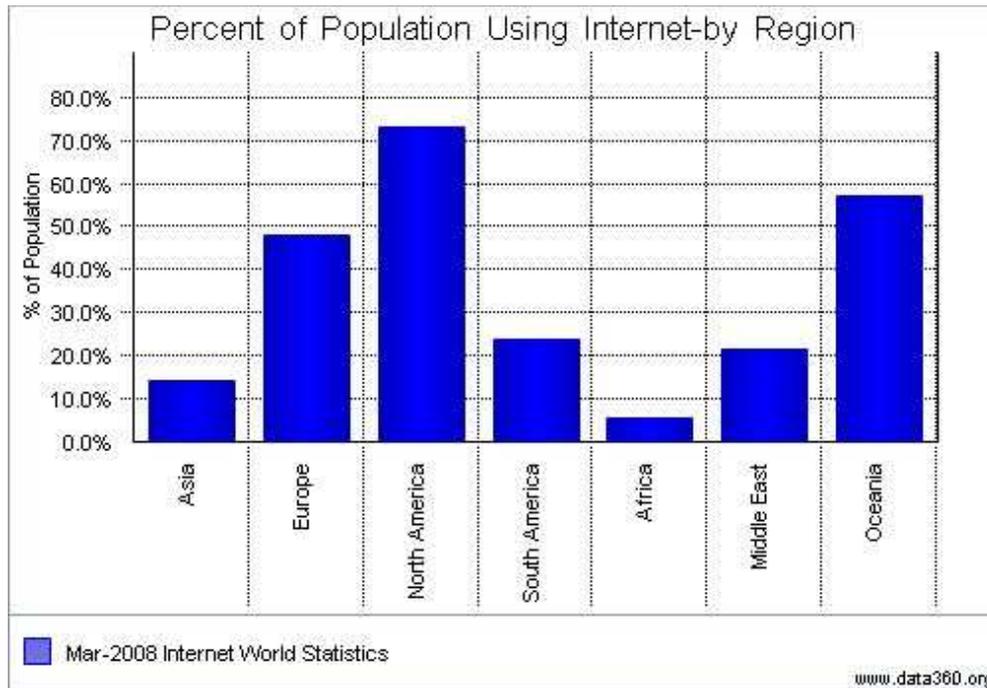
The internet is well suited for the evolution towards an individualized value proposition. It offers addressability, two-way continuous interactivity, customization capabilities, on-demand availability and seamless transactions. Marketers can leverage interactive media to identify selfselected users,

enhance loyalty by providing value-added services. E-mail communication with customers is more personal and intimate than the traditional letter with glossy brochure. (De Pelsmacker, Geuens & Van den Berght, 2007)

An increasing proportion CRM focuses on the relationship with customers and allows marketers to deliver cheaper and faster CRM (customer relationship marketing). The essence of CRM is to have a single comprehensive database with a complete history of the prospect or customer that can be accessed from any of the customer touch points (sales, call centre, personalized website and customer service). (De Pelsmacker, Geuens & Van den Berght, 2007)

4.3 The worldwide commerce

In business the internet is a growing marketing tool and a market. To have an example how important it is for getting information; world total users of internet is 25,6% and in the Top penetration rate countries is 70,9% Only countries with a Penetration Rate higher than 50% qualify for this list. At present only 49 countries or territories meet this condition, out of the 273 countries and territories logged by Internet. Most internet users is in North America, Europe and Oceania. Although in Asia and Africa there is more people, internet is not very used in the percentage of the whole population. (Internet World Stats, 2009)



4.4 E-shopping today

An online shop, e-shop, e-store, internet shop, web shop, web store, online store, or virtual store changes the physical presence on buying products or services. Shopping can be done from home or office without customers meeting sales people or even going to the shop. Electronic shopping that is conducted between businesses is referred to as business-to-business (B2B) compared to business-to-consumer (B2C) which is the type of electronic commerce conducted by companies to consumers e.g. www.Amazon.com. (Kotler, 2000)

Success is based on proper planning and without planning you cannot survive in this present competitive market. Companies should always remember that there are certain things, such as understanding the customer want and need, keeping the web pages, products, and customers up dated. It is not only about having a good looking website, it has to give the desired benefit to the customer

with easy access and saving time and money for both, customer and the company. (Kotler, 2000)

E-shopping is buying and selling of products or services over the Internet and other computer networks. The amount of electronic trade business has grown exponentially with widespread Internet usage. The use of commerce is conducted as following, market for innovations, supply chain management, Internet marketing, online transaction processing, electronic data inter phase, inventory management systems, and automated data collection systems. (Laudon, 2007)

Electronic commerce also consists of the exchange of data to facilitate the financing and payment aspects of the business transactions; and the boom that has taken over last few years; a huge market is expressed on credit load with high interest. Quick loans sold for those in need, easy access and available to anybody via internet. (Jank & Shmueli, 2008)

First the consumer has a need. If the person does not know directly where to find the needed item, he/she will most likely look via search engine for example Google on the internet. This makes the search words and internet marketing important so the right product is easily available. Or the person already knows a suitable product in mind and will search from a retailer's web page. Once a particular product has been found on the web site of the seller, buying is made easier mostly by online retailers using shopping cart software to allow the consumer to accumulate multiple items. To adjust quantities is done by filling a physical shopping cart or basket in a conventional store. A checkout process follows (continuing the physical-store analogy) in which payment and delivery information is collected. (Lauden, 2007)

4.5 Internet advertising

Internet advertising is a multi-billion-dollar industry, as is evident from the phenomenal success of companies like Google, Yahoo, and Microsoft, which continues to grow at a rapid rate. With broadband access becoming ubiquitous, Internet traffic continues to grow in both volume and diversity, providing a rich supply of inventory to be monetized. Fortunately, the surge in supply has been accompanied by an increase in demand, with more money being diverted to Internet advertising relative to traditional advertising media like television, radio, and newspapers. (Jank & Shmueli, 2008)

Marketplace designs that maximize revenue by exploiting billions of advertising opportunities through efficient allocation of available inventory are the key to success in this scenario. Due to the massive scale of the problem, an attractive way to accomplish this is by learning the statistical behavior of the environment through the huge amounts of data constantly flowing into the system. (Jank & Shmueli, 2008)

Search engine optimization is the process of improving the web page visibility or web page in search engines un-paid search results. Other form is search engine marketing target paid listings. In general, the earlier or higher on the page and more a site appears in the search results list, the more visitors it will receive from the search engine and increases the likeness of being visited by an interested customer. (www.google.com/support/websearch)

E-shopping is global and constantly changing. It is competitive and anything where there is the potential for profit is a necessity of competition. E-shopping is fairly safe with proper tools and security methods in use. The fears that many people continue to harbor in regards to the security of their information are unfounded in the majority of cases. (Finnila, 2010)

4.5.1 On-line business

Creating online advertising, internet marketing online businesses requires time and dedication and one must make sure that the time spent is well invested and the online shopping done properly and easy to use. Otherwise it won't be used by customers and be a waste of time and money. When dealing with multiple advertising online services, business must be as efficient as possible to ensure that each advertising internet marketing online business is well-tended. If spent a large amount of time on one venture and that doesn't pay off as planned, this can hurt the other ventures due to neglect and the lesser amount of time you are spending on them. To utilize automation tools to increase sales of online Internet business – This Automated technique saves valuable time as well as can easier concentrate on other potential business internet money online opportunity. (Jank & Shmueli, 2008)

4.5.2 Benefits and problems to the customer of an e-shop

The benefit for the customer is not to have any check-out queues, price is normally reduced to minimum because of low fixed cost, shopping is made possible anywhere in the world and at any time of the day. And for the selling company, e-shop is an easy possibility to have a wide selection of consumers worldwide with minimum sales force needed. (Laudon, 2007)

Problems for customers might be that they are unable to examine the item personally, not everybody is connected to the internet or have the skills to use e-shop, although internet addiction and e-shopping addiction is a growing problem. E-shopping creates a possibility for a credit card theft. For a customer's point of view a fast delivery is normally awaited which creates stocking problems and stocking is capital invested and standing. (Laudon, 2007)

4.5.3 E-shopping software

As e-shopping has evolved over the years and so too have the tools available to build an online presence. The sophistication of modern e-shop solutions is such that setting them up requires at most a few clicks and some back-end data entry; usually the software can do everything else for you. This easy to use is meant for small and medium-sized merchants, many of who are entering the online marketplace for the first time, and are looking for a simple system that allow them to set up and run an online store with minimal fuss. (Laudon, 2007)

FreeWebshop.org (FWS) for example is a free, full featured software package that allows company to set up own online web shop. FWS is written in the popular language PHP and uses a MySQL database which is very common in e-shopping. It provides also assistance for the features companies need from a web shop while having minimal impact on the resources of the server. (<http://www.freewebshop.org/>).

Also there is option to purchase a solution. Somebody will build for the company and e-shop the way it is wanted. One contract company that has this kind of service is Mediakomppania, <http://www.mediakomppania.fi/>. Mediakomppania has and online service that they will do the whole web pages for a person or a company or just an online shop if needed. Mediakomppania is only one sample a service provider. There are plenty of other services like this, if the case company is willing to pay to build up an e-shop.

TIEKE Finnish Information Society Development Centre that has a key role in networking as a neutral and non-profit organization. It promotes the efforts of its public and private sector members to create practical tools and increase expertise in the information society. The study company has a possibility to get free advice and help from there. Elcon Solutions is very used to co-operating with different schools and other network possibilities.

5. THEORETICAL FRAME WORK

5.1 Transactional Cost theory

Transaction cost economics (TCE), and more specifically the version of TCE that has been developed by Oliver Williamson (1975, 1985, 1993b), has become an increasingly important anchor for the analysis of a wide range of strategic and organizational issues of considerable importance to firms. Today, transaction cost economics is used to explain a number of different behaviours. Often this involves considering as "transactions" not only the obvious cases of buying and selling. A transaction cost is a cost incurred in making an economic exchange, the cost of participating in a market. (Moran, 1996)

Transaction cost are the costs incurred in using the market system for buying and selling goods and services. The cost of locating suppliers or customers and negotiating transactions with them. Firms engaged in e-business have been able to reduce the transaction cost at one or more stages of the buying process. The key issue addressed by transaction cost theory focuses on why firms internalize transactions that might otherwise be conducted in markets. (Combe, 2006)

There are six types of transactional costs by Colin Combe (2006)

5.2 Search Cost

Costs associated with buyers and sellers finding each other in the marketplace. Diversity of goods available in the marketplace can make the cost of searching for them quite considerable. The internet provides a quick and efficient cost – effective way of searching and advertising products. For the selling company

this is about marketing and advertising cost. When customers need new products or services, they must find suitable supplier.

5.3 Information Cost

The basic idea of an information cost is pretty simple: it costs something to learn something. Books cost money, reading takes time, study work and fieldwork are expensive, file folders need to be stored, computers need to be replaced (frequently) and people are forgetful so everything need to be saved. Cost incurred by byers of gaining market knowledge on price, quantity, quality, availability of goods offered by sellers. And for sellers information cost are incurred through process of learning about financial condition and characteristics of buyers. Many e-businessess have reduced this transaction cost by providing up-to-date product information on their website for potential customers

5.4 Bargaining Cost

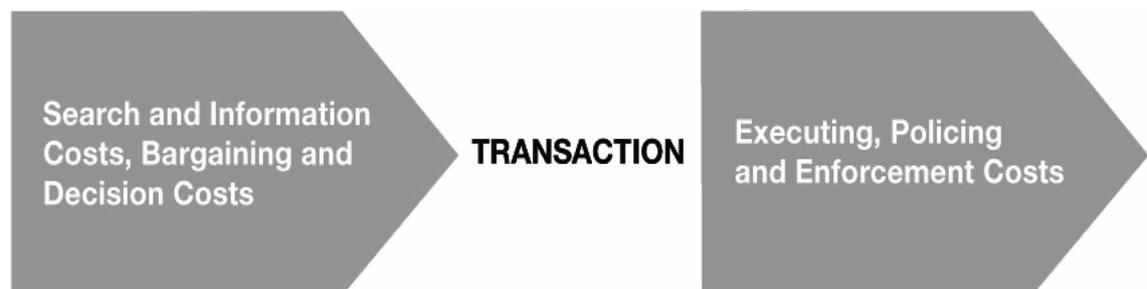
This incur to both buyers and sellers when negotiating a contract for a transtion takes place. This cost is required to come to an acceptable agreement with the other party to the transaction and may include the cost of using equipment to contact and communicate with the other party and legal cost to draw up the contract. With bigger purchase process this can take time and dedication to have all the legal details agreed by both parties. And is more complex when two countries and EU is involved that which country or general agreement law the contract will follow. E-mail has become a cheap and effective way of communication and there are now many websites offering goods and servives where the whole transtion can be completed online. Auction sites and e-shopping is a price example of transactions online

5.5 Decision Cost

Individuals, corporations, and governments make important decisions every day. To make the best decisions, they need to accurately weigh the relative benefits and costs of various alternatives. The buyer incurs a cost of comparing prices in the marketplace and ensuring that the goods or services match the need. For suppliers the decision costs are incurred when deciding whom to sell to or whether to refrain from selling. E-businesses can speed up the evaluation process by specializing in providing price information on goods.

5.6 Policing and enforcement Cost

There are the cost incurred by buyers and sellers ensuring that the goods or services provided and bought match the terms under which the transaction was negotiated and contracted for. costs of making sure the other party sticks to the terms of the contract, and taking appropriate action often through the legal system if this turns out not to be the case. This can be very expensive so enough time taken to make sure all the terms are followed is worth while.



Source: Janus (2003)

5.7 The case company transactional costs

For the company Elcon Solution Oy these solid costs are weighting a lot because there are a lot of products, lot of customers, lot of information and a lot of decisions to make. Changing these and information up-dates to to people working in the company and customers is a lot of work and there is always a cost. These monthly costs the company management is hoping to reduce and e-shop is an idea how the transaction between the seller and buyer is reduced to minimum. Due to this minimum contact there is as little transactions made between and only a lot of effort made in the beginning to start up an e-shop and put up all the information needed and then the customers could search the information. To find a suitable product, purchase online and sales made only with a contact of a sent order to the seller which follows order confirmation to the customer and later product delivery.

This would reduce the company search cost with a good base work of search engines for customers easy to find the company. Once the work is done and needed information put on the website, there is only updates needed by supplier and rest of the transactional cost for information search is for the buyer. Bargaining cost is not needed so much when all the prices and delivery time is on the web page ready. There is a chance that big businesses will need contracts and negotiations but these deals are normally done before hand face-to-face and through straight re-buy via internet. Comparing prices and delivery times is moved totally to the customer in an online shop. Internet is an easy tool for comparing choices and to make decisions. After the purchase, customer care and help in a fail situation should be as fluent as in any buy situation. E-mail just makes the information between customer and seller much faster and easier.

There is a problem that with an e-shop the need for a huge stock is relevant to keep delivery times as short as possible. Huge stock is a lot of money invested. Normally in e-shopping the quantity of one buy is smaller to keep it safe but the cost is greater because of stocking, packaging, delivery and information of all of

this between the customer and the seller. Normally customers relate e-shopping to cheaper option, but the transactional costs will increase the product price at least for smaller quantity orders.

5.8 Company Strategic choices

Some companies have a narrow portfolio and serve only few customers with one or a few products, others are broad and they provide with many products or services to many customers. A company's portfolio of customers affects the volume of its revenues and its overall strategic success. The characteristics of this set of customers, the particular relationships it has with them and the value it is able to provide reflect its organizational effectiveness and efficiency. In turn they have an important influence on the organization and its cost. When a company tries to determine whether to outsource or to produce goods or services on its own, market prices aren't the sole factor. There are also significant transaction costs, search costs, contracting costs and coordination costs. Those costs frequently determine whether a company uses internal or external resources for products or services. (D. Ford & colleagues, 1998)

The problem for a manager involved in business relationships is the complexity of those relationships and of the effects of any choices made in them. The cost and benefits of choices in a relationship are difficult to assess. Some have direct monetary value, such as the effects of a price change. Others are vague and ephemeral such as "good-will" and "trust". Both customer and supplier will not be fully aware of the cost and benefits of everything that happens in a relationship and so can only be rational within the limitation of their knowledge. Because of the complexity of a company's offering, which may include several products items, various service elements and social interaction, it can only rarely be designed beforehand as a package and then put in practice. A vendor's offering in a business relationship is more likely to consist of a set of solutions

and arrangements worked out more or less jointly between two companies often through a process of trial and errors. (D. Ford & colleagues, 1998)

In the set of strategic choices facing a company in a business market on how it can achieve efficiency and effectiveness in its internal operations and relationships with its counterparts. Company's way of organizing its technical and commercial operations. It will be influenced by interactions with its customers and suppliers. This means that the effectiveness, costs and efficiency of a company's operations will, in part be dependent on nature of its relationships, as well as its own resources and organizations. (D. Ford & colleagues, 1998)

6. METHODOLOGY

6.1 Generalisation or specific group?

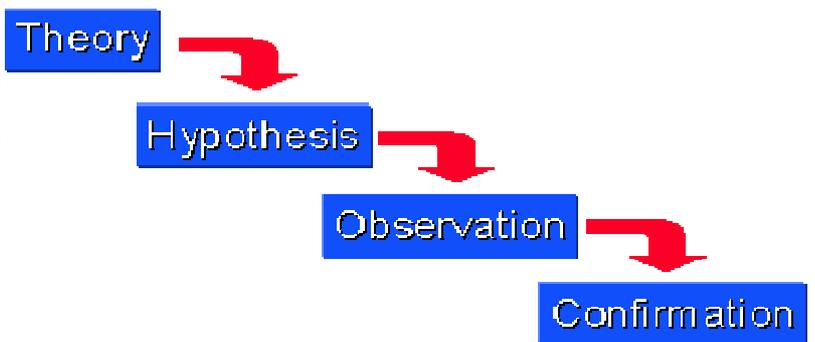
There are two general approaches to reasoning which may result in the acquisition of new knowledge: inductive reasoning commences with observation of specific instances, and seeks to establish generalizations; deductive reasoning commences with generalizations, and seeks to see if these generalizations apply to specific instances. Most often, qualitative research follows an inductive process. (Hyde, 2000)

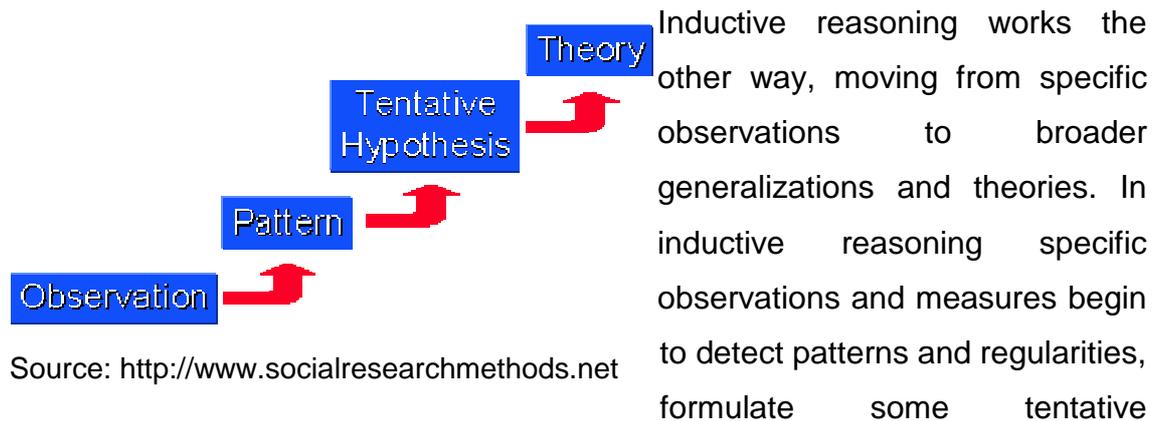
6.2 Methods of reasoning

The two broad methods of reasoning; *the deductive* and *the inductive* approaches.

Deductive reasoning works from the more general to the more specific. Begin with thinking up a theory about our topic of interest. We then narrow that down

into more specific hypotheses that we can test. We narrow down even further when we collect observations to address the hypotheses. This ultimately leads us to be able to test the hypotheses with specific data -- a confirmation (or not) of our original theories.





Source: <http://www.socialresearchmethods.net>

hypotheses that we can explore, and finally end up developing some general conclusions or theories. (Web Center for Social Research Methods; Deduction & Induction)

Inductive reasoning is used to draw general inferences from experience with specific events and therefore can be used to help personal experiences and construct a broad view of reality. Inductive reasoning can help distinguish between facts, beliefs and opinions. The basic process in inductive reasoning involves analyzing similarities and differences among specific experiences in order to extract a general principle of an event. (Overholser, 1993)

In this case the projects with customers of the case company are different but there are still similarities of how it is bought and used. With the inquiry the purpose is to find out the experiences of the buying process, which the person has collected from facts, beliefs and personal observation and opinions. To see how they consider online shopping would suit for them and in the conclusion to see if it is profitable for the case company.

6.3 Quantitative or qualitative research

Combination of methodologies in the study of the same phenomena is qualitative and quantitative approaches. Studies that use only one method are more vulnerable to errors linked to that particular method that studies that use

multiple methods in which different types of data provide cross-data validity checks (Keating 1995, 172)

Between qualitative and quantitative research, mixed research of these two methodologies were chosen. The research group was chosen from the key customers that make a substantial turnover to the case company. An interview with the management as qualitative and also a handful of keys customers was send an inquiry as quantitative research. Only the purchasing person or on a senior level management on these companies were selected and only customers that have existing important projects to the case study company in order to understand the need and buying methods of larger projects. Hoping the study will provide help for the case study company to understand if its beneficiary to open an e-shop or not.

By selecting only those samples who contributed to Elcon's majority of turnover in order to avoid the possibility of error by getting answers from organizations who were not in the right position to purchase Elcon's products, and might not even use the right kind of products this company has in their product line because that would not be useful for the case study company. My goal was to improve their sales as a result.

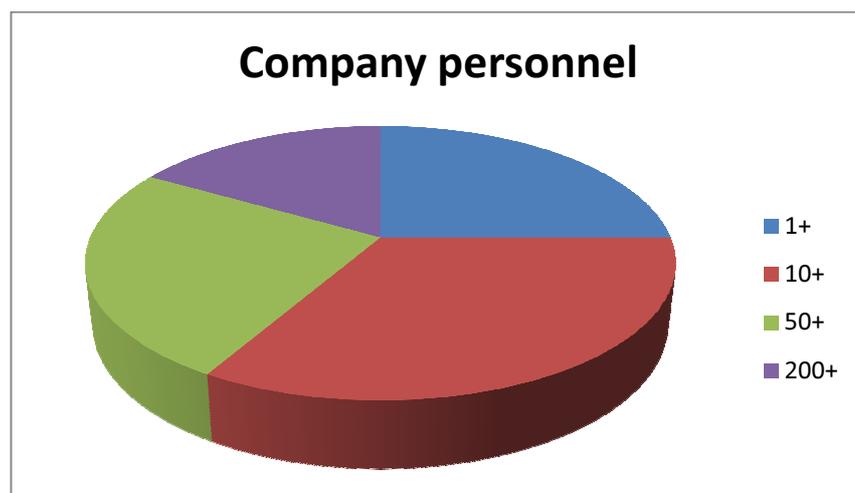
6.3.1 Descriptive study

Deciding between explanatory, exploratory and descriptive design depends on the richness of the propositions in theories related to the topic of the study; richest theories allow explanatory designs. Descriptive research deals with questions of what things are like, and why they are that way. It includes a wide range of areas as market research. (De Vaus, 2005) Descriptive study was used in this study to identify the possible pattern and trends of purchasing from an e-shop. Descriptive study provides a snap shot of the situation at the

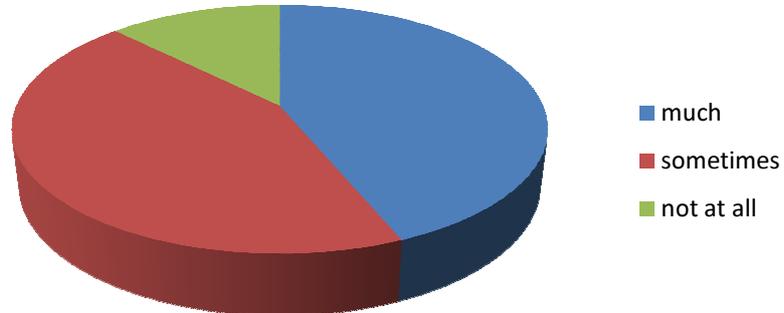
moment in order to have a full perspective idea of current e-shopping conditions on competition and interests of customers.

6.4 The questionnaire

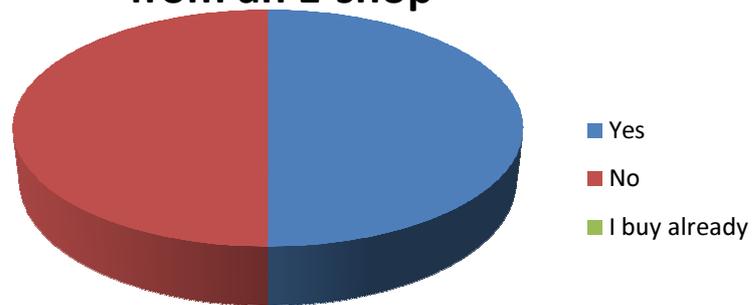
Twenty questionnaires were sent by email and 16 responded. Persons to receive this questionnaire was carefully chosen from the case company customer base. All of them were counted as the case company focus customers and contacted people part of the purchase decision group. The questions were kept simple and few so it would not bother much of the case company existing customers and for them to have interest to answer. Too long questionnaire would have probably decreased the answer rate. The style in the questions was kept the same for the logical issue and not to confuse the person answering. In the end of the questionnaire there were open questions to answer freely which most of the respondents used to give their opinions. Every person answered to all question points and most gave their own feed-back. Down below is some of the result charts from the questionnaire questions.



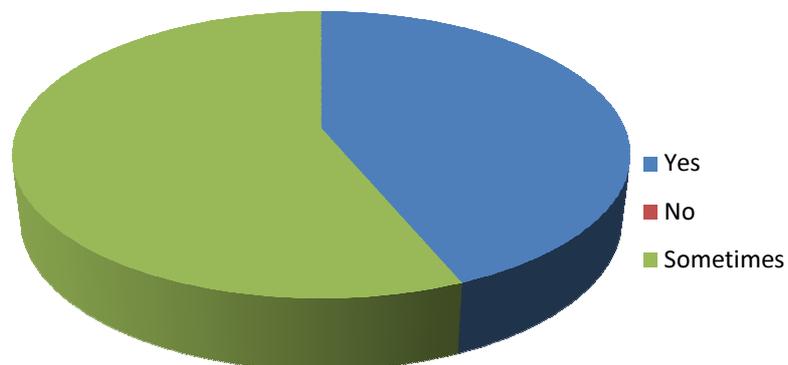
How much you search product information from the web



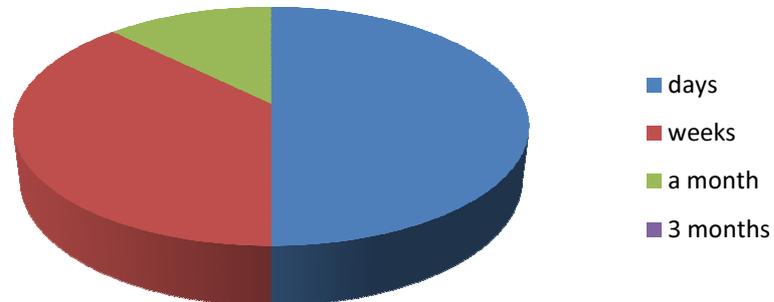
Would you shop power supplies from an E-shop



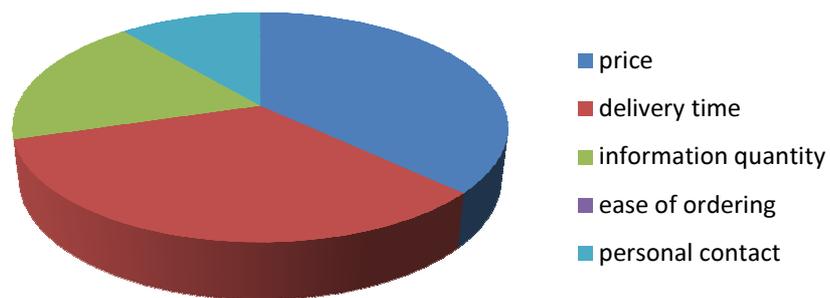
Would you prefer help with your E-purchase



Acceptable delivery time from an E-shop



Which (2) aspects influence your decision the most



7. EMPIRICAL ANALYSIS

7.1 Discussions and methods to proceed

In the questionnaire when asked what is the positive point on buying online, customers almost unanimously pointed out and chose the delivery time information being the main issue. This normally means that the supplying company must keep products in stock to shorten the delivery time and stock program connected or to e-shop database to have their own production. Elcon Solutions have these products supplied from Asia and Europe mostly and as I inquired from the supplying companies; only Meanwell Ltd has a possibility to connect online database to their stock account. On the negative side is that Meanwell Ltd provides this information only to their main distributor which in Finland at the moment is Metric Oy. The stock information is the main reason the customers would be interested to use online shopping.

7.2 The problem

The problem is that the power supply product range is so wide. The right product choice depends on environment, solution, how it will be connected, which country (US is 110V, EU 230VAC), also input and output voltage, current determine the power etc. And for the same product the power size varies from bigger smaller than 1W to bigger all the way to dozen kW power converters. In a typical product family there is more or less 10 different sizes. This creates and huge pressure on the stock, because there is no exact typical product which customers tend to use. Because electricity is needed on almost everything and all of the electronic machines need a power supply and most of need a different than the other machine there is no typical.

Because the current finance situation of Elcon Solutions does not give a possibility to invest such huge amounts of money for stock value. The delivery time otherwise can vary if ordered from a supplier warehouse depending if the lot is ready or on production, from two days to thirty weeks. The only idea would be to concentrate on current customer products and keep them in stock.. The problem with this is that the customers for a straight re-buy normally order hundreds of one piece which means a value of 5000 – 10.000€ and that is too much of a stock kept only for one customer and there is around 30 ongoing bigger customers.

Only connection on the contacted companies was that they all are existing customers to Elcon Solutions. Majority was the size of 10-50 people but some bigger and smaller was included to get overall picture of current market situation. Contact people generally are part of company management and/or R&D and either mainly or partially decision making person on the actual purchasing process.

Products that these companies are mainly using are standard AC/DC and DC/DC power supplies. Generally the ones needed are so called trading products which are straight what worldwide power supply suppliers e.g. Meanwell, TDK-Lambda, Friwo, FSP Group offer. If there is not a suitable product ready on the market then it is called custom made where normally the base is a standard power supply which is modified with the customer need by Elcon Solutions.

7.3 Response from the study group

Several questions were whether the customers search product information from the net, buy online and if they were customized used these kind of services in their personal life. Majority of the study group responded and they all claim to searching a lot of product information from the internet and mostly everyone

were used to buying products online also in their own private life and were partially already buying some components from an e-shop. Only half of people answered to the question yes to the matter if they would purchase power supplies from an e-shop. There was a clear division at this result between companies which answered no. The customers that purchase products which are either more complicated or then totally custom made and not easily purchased without sales person assistance. Companies that need custom made or complicated products like UPS where battery durability calculation is necessary. Those customers were more likely to need help choosing a right product, also did not seem to find enough product information online and were less reluctant to use an e-shop.

The amounts these customers were interested to buy online and did not vary on the quantities they have on production. Who had bigger production were also willing to buy the whole amount needed components if the price and delivery time improved. The delivery time was the interesting issue by everyone. Customers assume buying online will shorten the delivery times and supplier will have products on stock. This is the most tempting factor they were interested on an e-shop possibility, to see right away the delivery time and have the products faster.

From my personal experience I do not see that e-shop would be benefiting Elcon Group nor getting more of those customers that have big projects shopping that amount of components online. I find personal sales help and testing still vital when customer is starting up a project with a new product. So the author sees that sales person has to do the same amount of work to get the order. The actual order would in the end come through a shop instead of email or by phone. So same work, only different system to use and the same amount of time and effort has been put in to the whole. The author sees that the online shopping in the end would mostly interest customers that order small amounts with little risk and these customers are not the ones that management wants to company to focus on.

7.4 Questions asked

The questions were kept similar and answer style continuous so it made answering easier and more understandable. In the end there are two open questions so customers were able to add their thoughts and suggestions of the positive and negative aspects of an e-shop. Most of them answered to these questions. Following were examples mentioned of the positive aspects; short delivery times, payment is easy, prices shown, overall the ease of shopping, short time spent and information available was seen the best part. For the negative was pointed out; custom made products is not seen possible to order as a new product purchase, notice of defect was seen harder via e-shop, person contact would be missed, the needed information is not sure of order being correct and order confirmation. Mostly was pointed out of the fact that if not all of the information of price, delivery time, stock level, product alternatives are public information, the customer has to still contact the sales person and basically do the same work twice. Plus some mentioned the issue of themselves being more responsible for the possible mistakes. The purpose for using an e-shop was seen valuable in all three categories; new product purchase, straight re-buy or old product comparison with a competing other. It was more of the information availability and ease of shopping that is seen to make a difference.

8. CONCLUSION

The company is very eager to start with the idea of online sales for power supplies. I would see that after my studies, evaluating the results of my questionnaire response from the customers, I have come to the conclusion that e-shop would not increase their sales. I would see it more for financially and with the personnel capacity of Elcon Solutions' size company as an excessively absorbing too much employee time and company finance without providing the needed beneficiary result in the end.

8.1 Based on questionnaire results

Questionnaire answers revealed that most of the main customer companies were either small or medium sized, the contact person were most likely to work in purchase or R & D department and either main or one of deciding people on the purchase process. Half of the customers had a regular supplier and a contact where to purchase products directly. End customer production quantity varied equally from dozens, to hundreds and thousand pieces. Most of the customers searched a lot or at least all of the repliants some product information from the net but still only one said that is currently using e-shop to purchase power supplies. There was a clear connection with people who were used to buy online products in their personal life that they were all more interested to use an e-shop service also professionally. Ten out of sixteen people said they would like to use e-shop to purchase products online and half of people were ready to purchase also their needed power supplies. When asked what is the main issue to influence purchase decision the answers divided between price and delivery time. Most of the customers saw that acceptable delivery time was only days. Some thought that few weeks was still ok and only two people would have accepted a month delivery time. Although most people were willing to purchase products online which mean they would

have to handle choosing the right product and taking care of the purchase situation all by themselves. Still seven out of sixteen would prefer to have personal assistance with purchase and the rest said that sometimes they would need it. No one said that they were fine taking care of the power supply e-purchase alone. And over half did say that from new product, straight re-buy and comparing to compete the old product that they would most likely use e-shop in straight re-buy situation.

In the open questions of what positive sides the customers see on an online purchase, most of them mentioned that it is quick and easy. Also they clearly pointed out that information availability of stock situation, faster delivery time and cheaper price was main issues. Everybody who answered to this question mentioned shorter delivery time as one of the most important positive aspects. On negative issues most of the customers missed personal contact, lack of confidence that they were able to get all the information possible and to be sure that the order went through and was correctly made. If customers saw them not being sure what to buy, e-shop was not a good idea because of lack of sales person knowledge and also in custom made products they had the same reasons. Also three people mentioned that correcting mistakes or reclamation would be more difficult without a defined contact person.

So based on the results, the customers were using internet a lot to search information, they saw e-shop as a promising possibility but had high hopes of it also. Customers expected to have cheaper price, faster delivery, all the information available but still wanted to have the personal contact and preferred sales person assistant and were afraid of making mistakes by themselves. At least at the moment to be able to provide all of these for the customer what they wanted, would have been a lot of work and not really any clear definite promise that this would make customers buy more. They would still buy a same amount as now, just that the customers would get better price, delivery time but not purchase more nor give any input to the customer in the end. Based on these answers although customers would be eager to use an e-shop service, they clearly pointed out that sales person contact and customer service is relevant

and wanted. In no aspect can be assumed that they would find their own product, plan and buy it without at least some help. Normally in projects the sales person job is done in the beginning to find a suitable product. When this work is done, the ordering in the future will not really burden the sales person anymore. So e-shop will not take from the sales person the actually work away, it will only change the way the order is received from current telephone or e-mail, to an electronic e-shop order.

8.2 Stocking

The problem of a general e-shop and what the management pointed out is that normally the customers expect short delivery times when buying from an e-shop. This means the company would have to have products on stock. When the range of products is as wide as it is now with the case company this would mean huge stock and invest on money which the company does not have and is not willing to put without clear proof that it will bring fast financial benefit to them. The customers that the company is more focused on is with larger quantity orders and minimum of 10.000€ yearly orders. Most of the retail products although are not very expensive still would mean large stock orders. These large units then should be on stock ready for the customer and there is always a risk that customer project and need will change and the goods would be left lying in the stock. It is very unlikely that some other customer very soon will need that exact same product large amounts. With a wide product range there is a huge risk that the customers spread around with wide range of products which is logistically more expensive. At the moment not all of the suppliers are not willing to take the not needed goods back in order to change for other goods. This is a current problem considering the risks of stocking.

Based on the questionnaire answers, the delivery time; to get the information right away and also shorten the delivery times was a big issue to the customer. And as mentioned earlier the only way to have e-shop working with the delivery times, is to have products on stock which could be linked in to the company CRM program Lemonsoft. It will not be possible finance nor company size wise to have everything on stock because only one supplier can have 2000 different products plus and there is now more than ten suppliers. The company management has talked about having only the most popular products on stock. I don't see this as good marketing. I see the website and product information as one very good marketing tool. It is very easy way to show old and new customers all the possible products the company has. To have this work it should have then the whole product range or at least big part of it. Now on the website there is only information of the product range and more deeply can seen on supplier website or asked from the sales person. If the online shop is brought into the picture it should have all the products to increase marketing and there to show what company is even selling or at least most of it. But minimum the trading products quantity which is huge is about 90% of the whole product range now.

The company has clearly stated wanting to concentrate on the key customers that have bigger projects. Customers that bring most of the yearly turnover. The online shop is not really providing any help for these key customers because company will not keep stock for such amounts always ready. Also these existing customers' projects grow or die which is a problem and other projects is born, for these the e-shop is then not prepared. Their projects can be very complicated products and some are custom made. With continuous projects already now is used the principal of customers ordering whole year of supply in advance which is shipped in agreed delivery times. Products come in time and also with this system it is possible to offer cheaper price to the end customer. Benefit to the selling company is to purchase larger amount with better price and other smaller orders is easy to attach these big deliveries and save a lot on the value chain cost.

Management idea is to concentrate on dozen the key customers that will provide most of the 700.000€ of the trading products budget which means that one customer would need about minimum 5000€ worth the stock all the time. This would only benefit the customers. Case study company on the other hand would take the risk of stocking and customer changing their product and left over products would not be needed. I believe that will careful planning together with the customer and the supplier on future of the project and will get the same result with long term order, without the cost of an e-shop

8.3 Excess suppliers

There is other option to lose some of the over dozen suppliers and narrow the product range to concentrate only just to few of the most selling suppliers. This would increase the purchase amount from one supplier which means they give more support and better terms. Logistical planning is easier to maintain and plan which would decrease the transactional cost and work. From just two or three main suppliers it is easier to choose the more common products to keep in stock and follow up the stock level.

This would mean that the company would not be able to offer such wide range of products. At least until this day the management idea is to be a company that offer to their customers as much as possible, so that customers are able to get everything from one supplier. But with smaller product range, it is easier to advertise, to create web pages with easy access to information and clearly understandable even to new customers.

8.4 For new customers

For the more regular components which are AC/DC DIN-rail and also AC/DC - and DC/DC enclosed types and UPS's are more common on electric industry. There is a clear possibility when having all the product information online that others don't have like price and delivery time would be helpful to bring new customers. But most often companies don't normally need for their projects too many components if it's not for mass production. And these regularly used most needed products are so accessible and easily got from any hardware store, that there is no need for the customer to keep stock. This competition creates too much pressure on accessibility and the price.

Elcon Solution company policy is not to get more customers with frequent little orders but more to avoid them. To pack and ship few products, the labor time and money spend is more than achieved from this, plus the labor time used is away from productive work. These kinds of shipments do not give any financial benefit. Actually showing the vital information like price and delivery time to the competing companies would probably increase competition and possibility to lose important customers that would go only for lower price which would be easy for competition to offer knowing our price. And normally in e-shop situations in other companies the price that is on the net is not the real price that customers are able to get for bigger projects. So showing too expensive price can actually make some customers think that company product is too expensive and ask from other importer.

Customers also underline the importance of a personal contact. They see it as important part in their decision making. Also they prefer to move the possibility of making mistakes in the ordering process of choosing a right product, to somebody else. Without the sales meetings where the company profile, product line and new and upcoming products are brought up personally, some of the big business could have been missed and although it is a saying, the customer do not always know everything better.

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Bachelor's Thesis:

Viitasaari A. 2008. Implementing e-commerce on organizational buying: customer perception and other issues The case of Martinex Oy

Appendix

The Questionnaire

Kysely:

Ruksita sopiva vaihtoehto

PERUSTIEDOT:

Yrityksen koko	1-10, 10-50, 50-200, >200
Asema yrityksessä kokoonpano, muu	osto, suunnittelu, johto, myynti,
oletko mukana uusien tuotteiden hankinnassa	kyllä/ en/ osittain
Oletko päättävä osa teholähdeostoista	kyllä/ en/ osittain
Onko teillä Suomessa vakiooimittaja ulkomailta	kyllä/ ei/ ostan suoraan
onko teillä tuotannollisesti yhtä tuotetta	kymmeniä/satoja/tuhansia kpl
Mitä tuotteita käytät teholähteet, UPS, vaihtosuuntaajia, akkuja	AC/DC teholähteet, DC/DC
E-SHOP:	
Etsitkö tietoa tuotteista netistä	lähes aina/ joskus / harvoin
ostatko työssäsi tuotteita netistä	kyllä / en / joskus
Ostatko henk koht elämässä tuotteita suoraan netistä	Kyllä / en / joskus
ostaisitko mielelläsi enemmän tuotteita netistä	kyllä / en
ostaisitko teholähteet suoraan e-shopista	kyllä / en / ostan jo
Tarvitsetko usein apua oikean tuotteen valintaa	kyllä / en / joskus
Onko sinussa e-shopissa riittävästi tietoa tuotteesta	kyllä / ei / joskus
Mikä määrä on sinusta vielä sopiva ostaa netistä tuotteita määrät	1 / 10 / 50 / 100 / 1000 / kaikki
Mikä on max toimitusaika mihin suostut e-shopissa kuukausi / 2 kuukautta	päiviä/ viikko / 2 viikkoa /
Mitä hyviä puolia näet näet teholähteiden netistä ostamisesta?	
Mitä huonoja puolia näet teholähteiden netistä ostamisesta?	
Mitkä asiat vaikuttavat ostopäätökseen?	

