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Samuli Isomäki

# DEVELOPMENT OF A NEW SERVICE CONCEPT IN THE FIELD OF SHIP INDUSTRY – CASE EUROPLAN



**TURUN AMMATTIKORKEAKOULU**  
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Instructor Laura Heinonen

**Samuli Isomäki**

## TURUN AMMATTIKORKEAKOULU THESIS

Ship building industry is in great shift, traffic routes are spreading around the globe and production is moving to a cheaper production countries. This poses new challenges and forces the practitioners to improve their performance and to look for new innovative solutions and services.

The development of services is studied rather marginally and in some industries not at all. Therefore, it is important to try to form links between theory and reality.

The main purpose of this study is to provide a deeper perspective on development of new innovative services and service concepts in the field of marine industry. It is also intended to deal with issues and entities, which should be taken into account in planning and development of the new service concepts.

The case company is highly valued actor with long history in the marine industry. The company is developing a new innovative service concept to thrive better in a changing and challenging markets.

KEYWORDS:

Business Plan Innovation Service Development Marine Industry

Samuli Isomäki

## UUDEN PALVELUKONSEPTIN KEHITTÄMINEN LAIVATEOLLISUUDESSA – CASE EUROPLAN

Laivateollisuus elää suuressa muutoksessa, liikennöintireittien laajetessa maailmanlaajuisesti ja tuotannon yksinkertaistuessa ja siirtyessä halvempaan tuotantomaihin. Tämä asettaa uusia haasteita ja pakottaa alan toimijoita kehittämään toimintaansa ja etsimään uusia innovatiivisia ratkaisuja ja palveluita.

Palvelujen kehittämistä on tutkittu verrattain vähän, eikä suoraa tutkimusta kaikilla teollisuuden aloilla ole tehty lainkaan. Siksi onkin tärkeää pyrkiä muodostamaan yhteyksiä teorian ja arkitodellisuuden välille.

Tämän opinnäytetyön pääasiallinen tarkoitus on tarjota syvempää näkökulmaa uusien innovatiivisten palvelujen ja palvelukonseptien kehittämiseen laivateollisuus alalla. Tarkoitus on myös käsitellä niitä asioita ja kokonaisuuksia, mitkä tulee ottaa huomioon uusia palvelukonsepteja suunniteltaessa ja kehitettäessä.

Tämän työn kohdeyrityksenä käytettiin yritystä, joka on arvostettu pitkänlinjan toimija laivateollisuudessa. Yritys on kehittänyt uutta innovatiivista palvelukonseptia menestyäkseen paremmin muuttuvilla ja haasteellisilla markkinoilla.

### ASIASANAT:

Innovaatio Palvelu Kehittäminen Liiketoimintasuunnitelma Laivateollisuus

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# 1 LIST OF ABBREVIATIONS

NSD	New Service Development is a process of developing a new service (Smith et. al, 2007).
RCC	Royal Carribean Cruises is globally well-known cruise company with own fleet of 21 ships (Royal Caribbean Cruises, 2012).
SWOT Analysis	“A tool that identifies the strength, weaknesses, opportunities and threats of an organization. Specifically, SWOT is a basic straightforward model that assesses what an organization can and cannot do as well as its potential opportunities and threats (Investopedia, 2012).”

## **2 INTRODUCTION**

### **2.1 Background of Thesis**

I will conduct my thesis to Europlan Oy. Europlan is a turnkey company that operates in shipbuilding, industry engineering, building construction, and offshore engineering. Europlan's complete turnkey delivery includes design, project management, installations together with material procurement.

The global recession which started 2008 had big impact to ship industry, especially during 2010. This appeared dramatically in terms of ship building companies around the globe. This recession had huge impact to operations of Europlan. Management of Europlan were aware of the risks to get the majority of the revenue relying to new shipbuilding. Management of Europlan started 2011 a development project for a new service concept, which is expected to generate a steady income in the volatile and cyclical field of business.

The purpose of my thesis is to find which factors affect the development of a new service.

### **2.2 Scope of the thesis**

In the first part of the thesis I will provide theoretical frameworks for analysis and to base my views upon. The intention of this part is to set guidelines to understand the need for a business plan, to understand innovation and what is a process oriented new service development process like. The second part of the thesis concentrates to a case company to put more emphasis on these topics and findings. This part will link together the discussed theory and practice. Finally I will combine the two together to present my recommendations for the case company.

The objective of this thesis is to provide recommendation to Europlan how to proceed with their development process of their new service concept.

### 2.3 Background of Ship Industry

The international shipping industry carries about 90% of the world trade. This makes shipping important for world economy because without it the transport of raw- materials and import/export of food and manufacturing goods would no be possible.

There are over 50 000 merchant ships transporting all kind of cargo internationally. The ships are registered in over 150 countries employing over a million seafarers including almost every nationality.

Shipping is the safest and the most environmental friendly transportation type. It was almost the very first industry to be regulated by safety standards. (<http://www.marisec.org>)

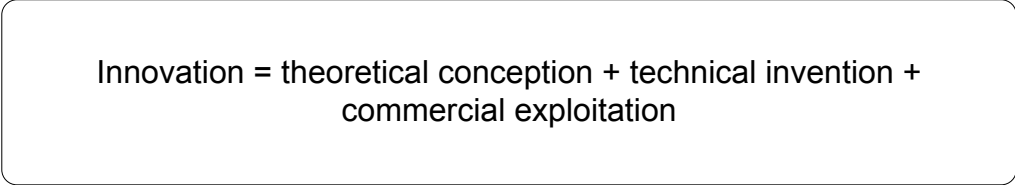
Cruise line industry has been evolved from fun for rich to \$17 billion mainstream vacation options. There are more than 230 ships around the globe carrying more than 16 million passangers per year. The largest vessels can carry approximately 5000 passengers. (<http://bx.businessweek.com>)

The shipbuilding industry includes new construction as well as modernization, maintenance, and repair of existing ships. Most ships require several major overhaul, repair or modernizations during lifetime. South Korea is the world's largest ship producing country with 51.2% market share in 2011. Other major shipbuilding countries are China and Japan.



### 3 INNOVATION IN BUSINESS

Innovation is a very broad concept that can be understood in many different ways. It is not a single action but total of different interrelated sub processes. Innovation is not only a concept of a new idea or invention of a new product or market development. It is all of these things integrated together. It can also be seen as the management of process that involves idea generation, technology development, manufacturing and marketing of new or improved product, service or manufacturing process. (Trott 2005)



Innovation = theoretical conception + technical invention +  
commercial exploitation

Figure 1 Innovation (Trott 2005)

#### 3.1 Drivers of innovation

Organizations must be able to adapt and evolve to survive. Businesses operate with knowledge that the competitors will inevitably come to market with a product or service, which will change the basis of competition. This is why ability to change, adapt and evolve is essential to survival. (Trott 2005)

Companies and organizations are currently operating in markets which are characterized by globalization, political instability, strong competition, increasing market segments, new technologies, substitute products, increased product life cycles and consumers having high bargaining power. At the same time stock holders are increasing pressure to lower costs and optimize all investments. There are two known approaches to increased profits and creating competitive advantage: in short-term by reducing costs and in long-term by differentiation and being innovative.

Despite the value of innovation as growth enabler, most of the organizations do not measure the benefits of their innovations. Most of the organizations do not have internal systems to measure innovation nor pay the attention to the management of innovation process. Some companies lack the support from top management because it takes too long time to create tangible outputs.

When innovation is well managed it creates long term advantages when the innovation is based on creating new things, in a systematic and structured way that encompasses a range of processes and methods bringing new products and services to markets. Well managed innovation is an important part of strategy of organizations and can even create new strategies. (Gama, da Silva and Atíde,2007)

The stimulus for a company to get involved with innovation is typically when its market is in threat or its products are reaching the end of their life-cycle. Innovation therefore is treated as an entrepreneurial activity within a short sighted management. This type of management is totally concentrated to accomplish customers needs and this results to lower importance of innovation activities in decision queue. This can be a huge mistake because innovation is required in companies to keep strong market positions. (Alvarado-Vargas 2008)

Sometimes to be successful in industries characterised by technological change, companies may be required to pursue innovations which are not demanded by their current customers. It is distinguished between 'disruptive innovations' and 'sustaining innovations' (radical and gradual innovations). Sustaining innovations are improvements to established products or services and this appeals to existing customers. Disruptive innovations are providing improvement which are greater than those demanded. Disruptive innovations will take more time to adapt it and adopt it in firm's business processes. (Trott 2005)

### 3.2 Innovation adoption

Sooner or later companies will face technological innovation. When this happens, management has to make important decisions to advantage of this new technology. Companies must be quick adopters and decision makers, otherwise they can lose important time and this can be beneficial to rivals. Technology, product or service innovation is always present in companies strategies and attention should be paid to other companies with innovative products and services. (Alvarado-Vargas 2008)

“Organizations conduct activities within an environmental context – they obtain inputs from the environment, respond to its demands and offer their services or products to it. The external environment provides opportunities (information, resources, technology) and constraints (regulation, restriction on capital or information). The adoption of innovation can be a means of changing the organization in response to environmental demands and constraints by exploiting environmental opportunities.” (Damanpour, Schneider, 2006)

Adoption of innovation means that the innovation is new to adopting organization and it lead to changes that may benefit the organization. Adoption can be result of management decision or external reason. Adoption of innovations is a way to create change in the organization to ensure that adaptive behavior and its purpose is to change the organization so that it maintains or improves its efficiency or effectiveness. (Damanpour, Schneider, 2006)

Adoption can be seen as a decision to use innovation. Companies ability to adopt new information dependent on previous experience relating to that information. Lack of related experience increases the need for information search. Companies will more likely adopt innovatios when they already have

knowledge and information related to the innovation because this lowers the need of organization to learn. (Vowles et al. 2011)

The innovation adoption process has been divide into different phases, for instance: evaluation, initiation, implementation and routinization.

Organizations perform functions in connection with the environment - they derive income from the environment, to respond to its demands and to provide services or products. (Damanpour, Schneider, 2006)

Researchers have identified several organizational correlates of the adoption of innovation including organizational structure, market structure, institutionalized expectations, organizational factors, organizational environment and leadership. The organizational structure plays a prominent role in explaining as up to 60 percent of the variation in the adoption of innovations. (Cooper 1998)

## **4 PLANNING & NEW SERVICE DEVELOPMENT**

### **4.1 Elements of Business plan**

To secure the future and to find competitive edge company needs not only knowledge and skills but also orderliness. A Business plan is a important tool for this. Business plan is a written compact presentation about the whole function of the company. Business plan includes those ideas and activities of which company uses to administrate chosen business operations. Business plan expresses keys to success, sources of income, strategy, and vision, which controls the choice making and activities. (Pitkämäki, 2000)

The primary idea behind a business plan is to identify the success factors. The business plan process is even more important than the written plan itself. (Bangs & David, 2005 and Pitkämäki 2000) This is because the preparations of business plan forces to think over every area of the business and the functions and state of those.

Every company requires a business plan to manage its operations. Business plan creates a good base for company to succeed in its mission and acts as a basis every time when company thinks about solutions and makes choices. (Pitkämäki , 2000) This is why business plan should contain strategic focus and also tactical execution. The long-term view should keep the focus on the company's mission or strategic direction and as long as there are valid assumptions supported by reliable assessments it should keep the company on course. (Paley, Norton, 2004) Business plan also help others to understand the business idea and provides base for financial proposals and will also help to evaluate potential of the business. (Bangs,David 2002, Pinson 2004, Hormozi et al 2002)

Like in most complex problems, for the planning of solutions and implementation of strategies it is important to create a practical method, which divides the problem into manageable parts which will be processed in a logical order. (Stettinius, et. all, 2005)

## 4.2 Content of a Business Plan

Business plan should be designed in a layout which helps to keep the readers interest. Most important is that all information given must be in logical way. (Blackwell 2004, Lipiäinen 2000)

### 4.2.1 Summary

Clarity and understandability of the summary are the most important features. Summary tells the reader quickly all the essential about business plan (McKinsey & Company, 2002)

### 4.2.2 Operational Environment

Thorough understanding of customers and their needs, forms the foundation of any company's success. Customers determine whether the company will succeed or fail by buying its products or services. Customers are buying the products only if they believe that it offers them more advantage compared to products of competitors'.

When analyzing the market the difference between entirely new market and existing market should be remembered. When launching improved version of product which is already available, market size can be estimated fairly reliably. For example reliable information can be found from professional publications or markets reports. When launching totally new product estimating market size can

be difficult. The necessary information can be obtained by market research or interviewing the most likely customer or experts.

Every company is facing competitors regardless of the market. If a company intends to succeed in the competition it must find out who is the leading market players, what their market share is, how do they operate and what are their strengths and weaknesses. Competitors should be well known but even more important is to know how and why own company is better than the competitors. (McKinsey & Company, 2002)

#### 4.2.3 SWOT –analysis

SWOT term comes from words “Strengths, Weaknesses, Opportunities and Threats”. SWOT -analysis is a strategic tool for environmental analyzing. SWOT –analysis involves systematic information collection about company’s’ internal and external environment. It includes information about markets, regulations, competitors, costs of production and productivity of labor. (Griffin, Pustay, 1999)

A good SWOT analysis contains the essential prerequisites for success in the industry which are compared to strengths and weaknesses of the company. It has to be considered what are the possibilities for the company to use the opportunities offered by the environment and does the company have exactly the expertise expected by the environment. In other words the company compares the success factors of the industry to own expertise and amend the prerequisites into own internal strengths or weaknesses. (Pitkämäki, 2000)

## SWOT -analysis

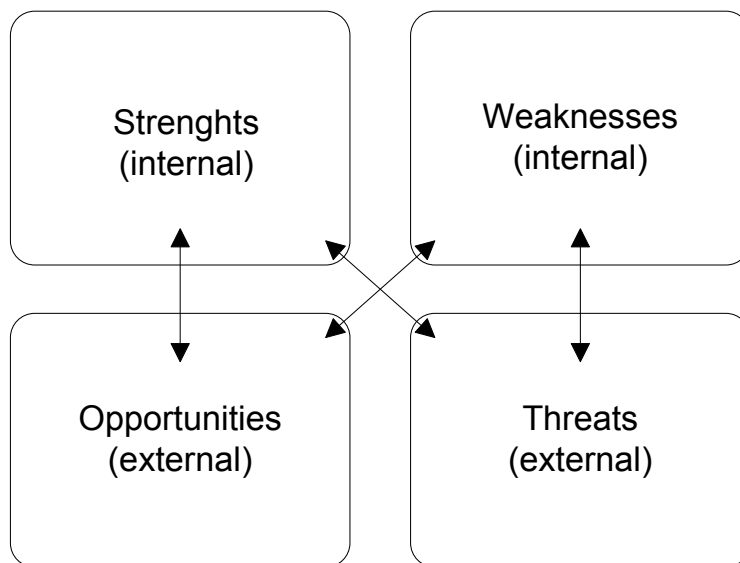


Figure 2 Interaction between SWOT boxes (Lipiäinen, 2000)

### 4.2.4 Vision, Objectives and Strategy

Vision is the target of the company in the long term. To achieve this company decides annual business objectives. Vision must be clearly defined to have a guiding influence and company has to be committed to it. Vision gives a clear direction to the business operations, increase team spirit, motivate people and give clear objectives for the owners and employees.

Business objectives are the result of achievements which the company can consider as milestones. Achieving all these objectives company can reach the set vision in long term. The objectives aim to serve customers and promote the business best when those are though, visible and measurable.

The objectives provide the right direction for the company. The sooner and better the right direction is found, the more resources are released to reach the objectives.



Strategy implicates those operations and action plans of which helps to achieve the objectives. Strategy defines how company achieves the objectives and vision. The strategy must be clear and simple to succeed. The most important success factors are focusing to strongest areas of the company, pre-eminence of knowledge and identification of critical tasks. (Lipiäinen 2005)

### 4.3 New Service Development

Services components are often not physical entities but more like combination of processes, human skills and materials which must be appropriately integrated to result in the planned or designed service. P. This includes major decisions like location of facility to minor decision like color of a button. (Goldstein, et all, 2002)

Services differ from tangible goods and those differences are causing challenges to service development. When developing services four characteristics need to be taken in to account: intangibility, inseparability, variability and perishability. Service can not be tested or examined before purchasing like tangible goods. It is produced and consumed at the same time and cannot be stored. Every service is also different. (Shekar, 2007)

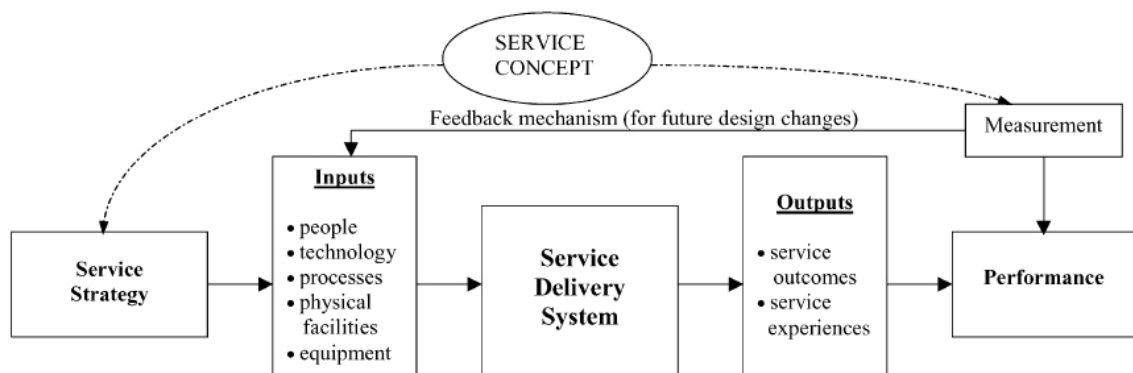


Figure 3, Service Design Model (Goldstein et al. 2002)

Service development has similarities with product development but there are also clear differences. Like in product development, services companies are not likely performing tests for concept, launch activities and marketing. The early stages of the development process (problem description, idea creation, concept definition) are vital for the success of the total process. (Shekar, 2007)

#### 4.3.1 NSD Strategy

Services have more development and marketing needs than tangible products. In particular the intangibility and experimental factors need for a research focus. (Edgett, 1994) Also as it has been showed that NSD is important for organizations planning to sustain and grow and the NSD process can be complex, time consuming, costly and often unsuccessful. (Smith et. al, 2007)

As the research show there is a lack of knowledge in how new services should be created. While the global economy is shifting from manufacturing towards services it is important to understand and have knowledge about the NSD process. (Smith et. al, 2007; Edgett 1994)

#### 4.4 Process Oriented NSD Model

Process Oriented NSD model is centralized perspective of NSD process attempting to collect models form operations management, product development and NSD literature. It is also not so complicated as other models might be. This is because it is generalizable and orginates from different models developed to different industries and have been used in many different environments. There are four main components in the process oriented NSD model: Design, Analysis, Development and Full Launch.

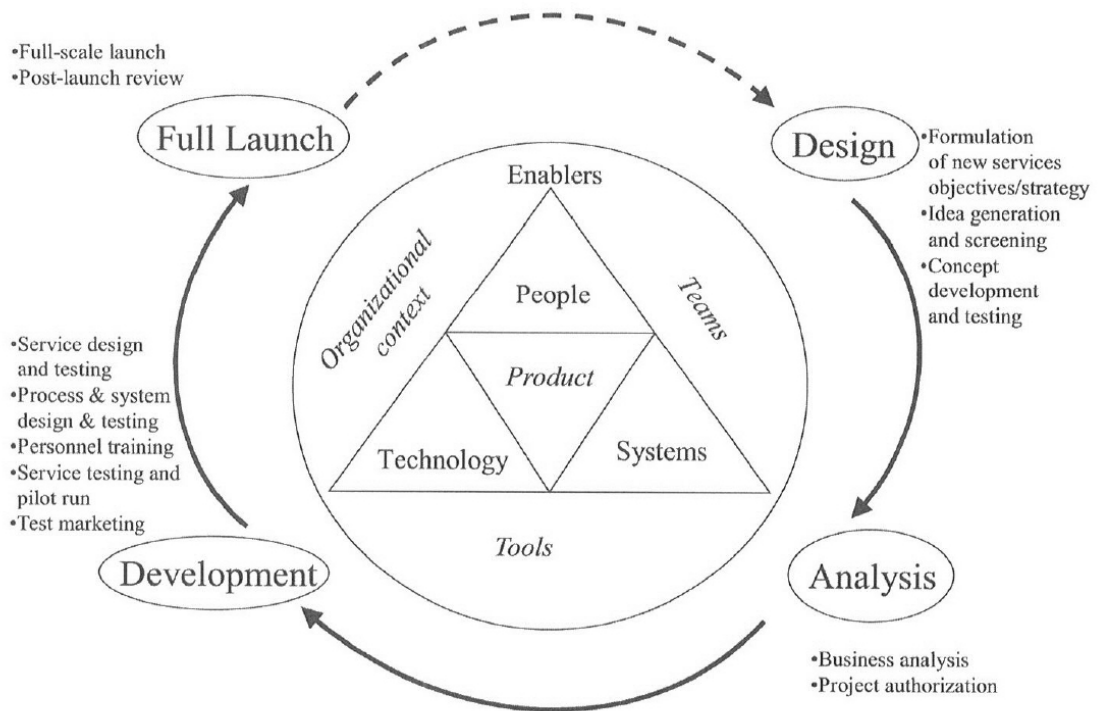


Figure 4, The NSD Process Cycle (Johnson, 2000)

Within each of these stage, the organizational context is involved which includes everything from people, systems and technology. These parts can be assembled into teams and tools that enable the innovation and service development process. (Craig, Roth, 2007)

#### 4.4.1 Design Stage

The Design stage includes idea generation, objectives, strategy, screening, concept development and testing. for new services. (Edvardsson 1997; Edvardsson et al. 2002) (Craig, Roth, 2007)

Service concept is a description of customer needs and how those needs are fulfilled in a satisfying and beneficial way. Task of service development is to create the prerequisites for service which the customer finds to be attractive. (Edvardsson et al. 2002 & Smith et al. 2007)

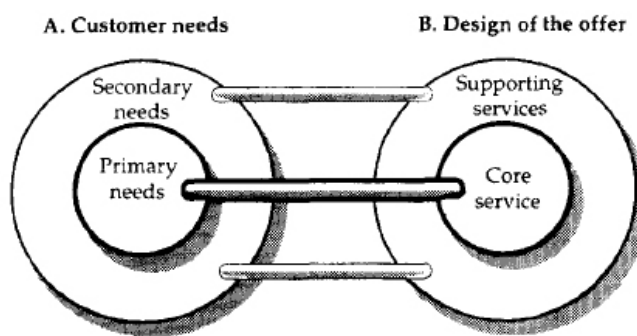


Figure 5, Model of the Service Concept (Edvarsson, 1997)

The service concept includes the description of the customer need to be satisfied and how they are satisfied in the form of the service content. The service concept specifies the needs, both primary and secondary customer needs and the service offer both for core service and supporting services to meet customer need. (Edvarsson et al. 2002; Smith et al. 2007)

The Design stage usually includes some sort of concept testing and it may include collecting customer feedback. (Craig, Roth, 2007)

#### 4.4.2 Analysis Stage

The Analysis stage is when company has an opportunity to critically evaluate the strategic, financial and market potential of the new service concept. If the concept has potential it will continue to development stage and finally to launch. (Craig, Roth, 2007)

#### 4.4.3 Development

The development stage includes important tasks which are needed to transform the idea into new service. During this stage a service process is refined. The service process is chain of actions which must function to be able to produce the service. The company is sometimes unable to control every action but it must be able to control the process in its entirety. The service process can be divided into core processes, support processes and management processes. The service process often enables the difference of services from competing services. (Edvarsson 1997, Edvarsson & Olsson 1996)

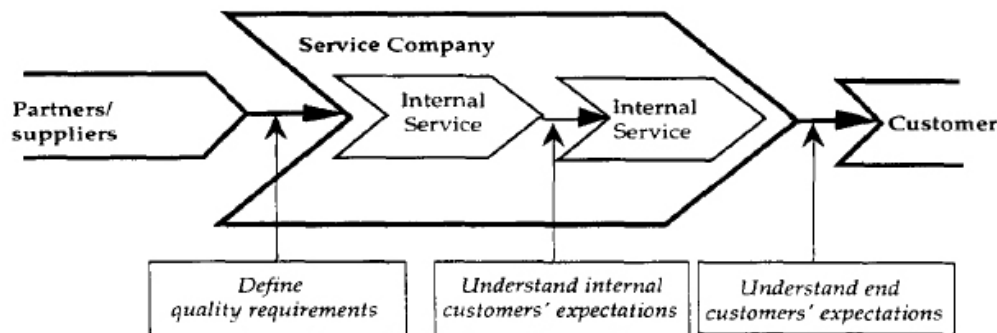


Figure 6, The Service Process (Edvarsson, 1997)

The service system which includes the resources available to the process and the infrastructure needed to deliver the service, is refined. The service system can be divided into interactive part which is visible to customer and support part which is invisible to the customer. The service system is controlled

by the business concept, strategy and the goals of the company. It can also be affected by internal and external infrastructure. Internal infrastructure includes competence of the company (employees, administrative support system and technical environment), distribution channel or possible alliances. External infrastructure includes law and regulations and also competitors. (Edvarsson, 1997)

#### 4.4.4 Launch Stage

This is the last stage which completes the process. At launch stage new service is offered to market. This include promoting and marketing the service and also gathering feedback from customers. After the launch is completed gathering post launch information can help to develop the NSD process and the organization.

#### 4.5 Performance Measurement

Measuring performance can differ widely between organizations. As some measure from financial (revenue, cost profit return on investment), some from operational (transaction per day, average time per transaction) and some from marketing (customer satisfaction). The measuring system should be decided to fit the particular service to benefit both customer and the service delivery organization. In best scenario the performance measure system should drive investment to support both organizational and customer goals. The performance measures can affect worker in all functional ares and also service processes. (Goldstein et. al, 2002)

#### 4.6 Pricing of Service

Services have to also have a price. Determining the profitability and the price level for supply of services may be difficult. Traditionally we are used to deal with profits, costs, profitability, logistics, inventory, prices, losses, etc. involved to products and goods. The intangibility nature of services causes their own challenges because they cannot be directly stored and costs and revenues are not directly measurable. Thus this the service business is largely based on assessment. The cost of the services consist almost entirely to work contributions and is therefore subject to higher taxation.

The service provider can communicate to customers the quality of service, expected customer segment, the competency and professionalism of the company with its pricing policy. Pricing service is based on three principles: a cost-based, market-based and competition-based pricing strategy. (Rissanen, 2005)

#### 4.7 Service Marketing

Service marketing has core paradigm which is caused by the four specific characters which make services differ from goods. Those are intangibility, heterogeneity (or variability), inseparability and perishability. Another paradigm is the marketing exchange that does not result in exchange of ownership. (Lovelock & Gummesson, 2004)

In the literature of service marketing, services are frequently described as intangible, heterogenic, inseparability of consumption from production and impossibility to keep in stock. Many of these like the first two are not specific for services. Also inseparability of consumption from production and impossibility to keep in stock, follow characteristic of services, i.e. the process nature of services. Services are produced in a process in which consumer interact with

the resources of the service company. Some part of the service can be prepared in advance but for service quality perception the most important part of the whole process is the interaction with customer. What customer consumes in context of services is totally different than in consumption of physical goods. (Grönroos, 1998)

#### 4.8 Innovation in NSD

New service development projects can be from totally new services to minor changes in existing services. The approach of managers need to be in line with the NSD type they have selected because of the differences in risks, uncertainty and complexity. Like in tangible products the innovativeness of a new service may vary related to degree of newness. New service project can be divided into incremental and discontinuous innovations. Incremental innovation are typically short-term viability because of the minor changes. Discontinuous innovations provide more longer term viability by providing greater advantages. These can be for example being first mover to market of a totally new service and can be very significant advantage.

Service innovation can be services that are totally new, services that are new to company but not for customers, new supplementing service, improvements of existing services, services that are targeted to new market of segment and services that lower cost with same or better supply. (Ottenbacher, Harrington, 2010)

As the competition and customer expectation increases, the service innovation is vital for success. New service development can be seen essential for increasing profitability, cost reduction and increasing sales. Also organizational image, employee morale and overall organizational health can be increased with innovation. (Smith et. al, 2007)

Innovation in service industries differs primarily in three way. The first is that service staff is part if the customer experience. The second is that service



innovation typically requires the physical presence of the customer but this is not in all cases. The third is that service innovations do not have a product on which to carry a brand name (Berry et. al. 2006)

Business analysis, market strategy formation and launching are significant contributors to all types of service innovation. The critical activity during launching is marketing to the customer along with customer training accompanied by training to staff. In highly innovative new services idea generation and marketing strategy are the main success criteria. In lower innovative services technical development and testing are more important factors for success. (Gounaris et al. 2003)

#### 4.9 Benchmarking

The search for benchmarking and best practices has become familiar and useful way for organizations to obtain information from other organizations. Benchmarking is ongoing and systematic process assessing someone else's or your own organization, product, services and the processes. New ideas and information learned by benchmarking others can be transferred to own projects where the aim is to improve or change own activities. Benchmarking is not copying of theft but new ideas are coming from synergy. Typically benchmarking focuses on processes rather than quantitative issues such as figures, although figures can support the processes. Benchmarking also involves co-operation between the organizations and all parties work on a voluntary base. (Spendolini & Workman, 1999)

## 5 RESEARCH METHODOLOGY AND PROCESS

Empirical section and data gathering for this thesis were utilized by the qualitative research methods. Qualitative research method is based on exploring and analyzing as comprehensively as possible and to describe the real life. Qualitative research is based on the complex and detailed analysis of the material. (Saunders et al, 2007) This thesis were done by using a single case method which is often used to represent unique case to provide opportunity to observe situation that many companies or organizations have not considered before.

The qualitative data collection and single case method were chosen because the industry is very competitive and other companies are not willing to reveal their data and secrets. Due this there would not have been enough information to utilize qualitative or multi case method.

Data collection for the empirical section where done by personal interviews. The interviews were semi-structured interviews based on selected themes. This allows the interviewer to vary the order of questions and responses are not bound to already selected options but the interviewees can answer in their own words. (Saunders et al, 2007)

Interview form (Appendix 1) was used as the basis of the interviews. Using the interview form allowed conversation to focus on the desired topics. The interview form was based on three different themes that were business plan, innovation and new service development. The questions were directed specifically to general manager and chief executive officer. The interviews lasted about 60 minutes and were recorded for comprehensive analysis of the interviews. GM Jari Savola was selected to interviewee as he makes the strategic decisions and is also the main owner of the company. Chief executive officer Perttu Tuominen were interviewed to get broader view and also more knowledge about the economical factors.

The results of this thesis are not widely generalizable because specific details of Europlans business model and competence. The findings apply to other companies with similar or almost identical competence and business model.

## **6 CASE EUROPLAN**

Europlan is a fast developing and innovative design and turnkey enterprise that has long record operating in shipbuilding, industry and building construction. Europlan was founded in 1990 and since Europlan has grown to a strong enterprise with almost 100 employees. Europlan originally began as a design operation business and the current strategic operation area is project management.

Europlan is a leading provider of cruise ship and passenger ferry renovation projects, and service implementer for selected shipping companies in the U.S. and Europe. Europlan is also desired supplier for new construction projects of cruise ships and ferries for selected shipyards and selected delivery areas in Finland, Germany and South Korea. Europlan is leading industry supplier in new construction and renovation projects, as well as engineering services for selected client companies

Europlan and the affiliate companies of it operate in four business branches. The main business of Europlan is shipbuilding which is divided into marine engineering and turnkey deliveries for new building and conversions. Europlan operates also in industrial design and turnkey operations. Other branches of operations of Europlan are building construction planning, management and development and offshore design and turnkey deliveries. This thesis is aimed to Europlan Engineering which is operating in shipbuilding. This thesis will be targeted to Europlan Engineering and the branch of maritime industry in the following figure.

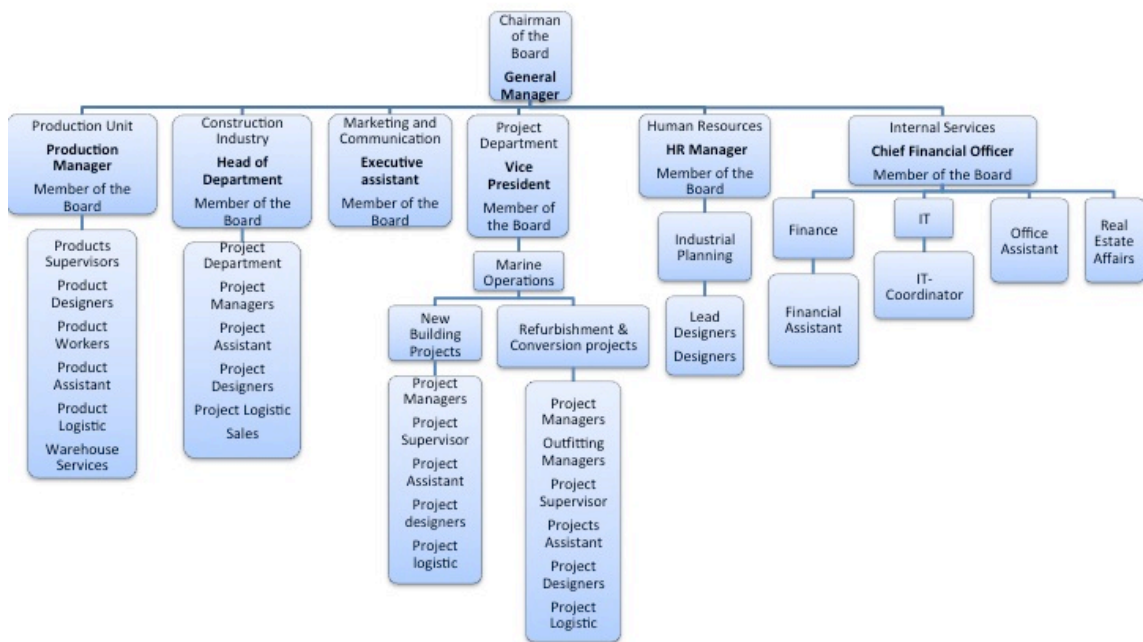


Figure 7, Organizational Chart of Europlan

Europlan is aiming to expand to business service, providing maintenance and services. It has been found that there is interest for such a service among customers of Europlan. Service and maintenance services are new mode of operation for Europlan and for the entire industry. (Jari Savola, Europlan)

The current service and maintenance processes of shipping companies are too long-lasting and take valuable time and resources. Shipping companies have many levels of organization making decision. There are department for small scale acquires and department for large acquires. In addition every ship has own budget sourced for parts. Therefor maintenance and service process is slow and heavy to rotate. Europlan wants to take into account rational and planned maintenance of the products. It is not profitable to use the product (eg. boat) to the very end and only then proceed to large and expensive repairs. The products should be maintenance continually. Doing service contracts allows

customers to perform their maintenance activities in their ships in fast, flexible, systematic and controlled manner.

The aim of Europlan is to develop in close cooperation with client a functioning service entity to satisfy the needs of the customer. The new service concept will ease the maintenance of ships with providing easy web-based system for the maintenance acquisitions. This way the ships can be mapped into the application and the person managing the maintenance can find all needed parts within it. This will make the maintenance process much faster and save time and resources. This service concept makes possible to order new parts to replace the old or broken one right away keeping the condition of the ships much better.

The development phase will be piloting phase and it will be conducted with Royal Caribbean Cruises, in the Oasis ship class that includes the newest and largest ships (Oasis of the Seas & Allure of the Seas) of RCC.

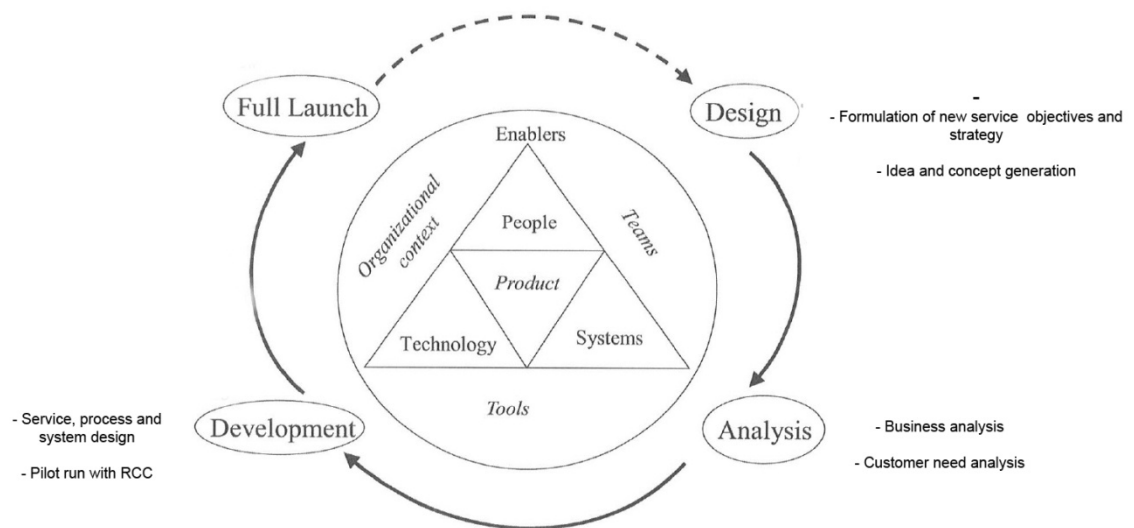


Figure 8, The NSD process cycle of Europlan

Europlan has been in collaboration with RCC for years. This will help starting the pilot because management of the Europlan knows the people in high management of RCC and the reputation of Europlan is very good among them.

RCC's current ship maintenance process is slow and heavy to run because there are so many organization levels that are making decisions. The goal is to create concept where only one level could make all the decisions and only one person using a web-based system could manage it. The new service concept may attract RCC because it will save time and resource since there is no need to attain many levels in organization that are doing decision about maintenance, repairs and acquisitions. Continuous maintenance process will also create more value for the company since the better conditions of their ships.

The service concept has already been introduced to Royal Caribbean Cruises. Europlan is also going to make different contract models to find out what kind of contract would work best. Mr Jari Savola also states "this project does not include any high risks other than normal risks of doing business because there is no large investments included." (Jari Savola, Europlan)

The employees of Europlan are very competent and Europlan has expertise in projects and project management this will be great asset when starting a new service. Europlan have done and managed many different projects so the employees are capable to cope with changes without any problems. The new service project has already started and few deals have already been made. The final direction of the service concept is still under development.

The cruise ship business is expanding from Caribbean to Singapore, Europe (during summer times), China and Australia. This will create need to manage the maintenance of ships in efficient, planned and rational way. Europlan's new service concept will help the shipping companies to save time and resources even though the ships are scattered around the globe. Also the fleet of shipping companies keeps aging, which will create endless need for maintenance, repairs, overhauls, and modernization of the ships.

According to Jari Savola there will not be need for marketing because the service concept is not bulk-service and Europlan will choose the wanted customers among the shipping companies after the pilot phase. Europlan will use the pilot and other projects as a reference to showcase their expertise and

capability to other wanted potential customers. According to Perttu Tuominen personal relationship to decision makers have a big importance in ship industry.

In Finland there are few companies besides Europlan that are operating in building of new ships and are expanding to international business. There are also few larger competitors in England, Ireland and also in the United States of America. (Perttu Tuominen, Europlan)

The weakening rate of dollar decreased the competitiveness of European companies but the present situation has changed to better as the value of euro and dollar has converged. This has created a new distribution of the business.

The cruise ship business is expanding from Caribbean to Singapore, Europe, China and Australia which will create more business opportunities. This will also make the maintenance process more difficult because the ships are spread around the globe. When a single part of a ship will be replaced the expenses may rise high but this can be avoided if there is an existing maintenance service contract. Few companies have earlier tried maintenance services without success, because the costs have risen too high.

The business Idea of Europlan is to be innovative supplier of new construction and renovation projects, and be responsible for project development, commercialization and implementation in the way that takes the customer's basis into account.

Europlan will expand their operations to providing maintenance services which will help generating a steady source of income regardless of the marketing conditions. The new service concept will become the main source of income of Europlan in the future, instead of relying exclusively to income from building new ships. This will be important because according to Jari Savola the competitiveness of Finnish companies will not last long in the field of building new ships. As long as the ships will develop larger and more complex Finnish companies have competitive advantages. Although the ships have already started to change back to simpler and this allows easier benchmarking and



constructing the product anywhere. This means that eventually the construction will move to cheaper countries than Finland. (Jari Savola, Europlan)

The idea for the new service concept were developed when management of Europlan were thinking over what their customers might need and Europlan wanted to offer something for new markets that competitors are not offering. Efforts of Europlan to develop the business as well as external factors affected the emergence of the new service idea.

Adapting the organization of Europlan to the new service concept will not be any problem as the employees of Europlan are competent and Europlan is specialized to projects and project management. As a result the organization is accustomed to continuously changing conditions and is very flexible.

Europlan have earlier relied solely their outcome from building new ships. As the management wanted to change the strategy they started to develop a new service to expand their operations and to create other sources of income. They analyzed what would be the needs of their customers and how could these needs be fulfilled. While analyzing the customers they found out that there are interest towards their new service idea. Europlan has been developing the service and content of it. They have created a web-based shopping cart application to help manage the maintenance acquisitions easier and faster.

The most potential customer is Royal Caribbean Cruises as Europlan has done business with them for years and this will help the startup. Europlan will try to pilot the service with RCC and would like to start the pilot properly during year 2012. The pilot will be conducted in the Oasis ship class which includes Oasis of the Seas and Allure of the Seas. Those ships are new and there are not many maintenance targets but if something breaks RCC will want to repair it fast because those are their flagships. When that modeling and maintenance plan of that particular ship class is properly done can the process be expanded to other ship classes. Europlan wanted to include the customer into the develop process and this way avoid the risk of losing resources because of creating a complete service concept before they have “green light” from the customer.

Mr. Savola states that there will not be need for particular marketing of the service as Europlan have good relationship with management of RCC and have already introduced the service concept to them. The next phase will be developing different contract models and find out how to proceed.

SWOT of Europlan:

<p><b>STRENGTHS:</b></p> <ul style="list-style-type: none"> <li>• Europlan has been working long in the business</li> <li>• Strong competence and expertise</li> <li>• Own design department, wide capability of making ships not just some details</li> <li>• Largest turnkey supplier of Oasis class ships.</li> <li>• References of managing large ensembles.</li> <li>• A lot of competence in planning and project management</li> <li>• Capable to deliver any part of ship</li> <li>• Affiliate company Hermann's has been manufacturing decor elements to almost every ship, capability to deliver any decor element to ships</li> <li>• AAA-class credit rating</li> <li>• Fast, agile and flexible organization</li> </ul>	<p><b>WEAKNESSES:</b></p> <ul style="list-style-type: none"> <li>• Managing logistics of supply chain (although possibility of contracting 3<sup>rd</sup> party logistic provider)</li> <li>• During large projects the load of workshop can be problematic</li> </ul>
<p><b>OPPORTUNITIES:</b></p> <ul style="list-style-type: none"> <li>• Expanding markets</li> <li>• Narrower activity of competitors</li> <li>• Aging fleet of shipping companies</li> <li>• Customers may be tempted to by possibility to narrow own organization managing the maintenance</li> <li>• Capability to finance operations without advance fees, as opposed to most competitors</li> <li>• Service contracts are opportunity to increase revenue and gain equally strong new business, alongside the building of new ships</li> </ul>	<p><b>THREATS:</b></p> <ul style="list-style-type: none"> <li>• Overall cost in Finland (example: there is no minimum wages in Italy or Germany)</li> <li>• Managing around the world shattered business</li> <li>• Currency risk and protection against those (example: bid are made in dollars and trades in euros)</li> <li>• Personnel risks (Europlan tries to avoid this by spreading the management of projects to multiple persons)</li> <li>• Possible terrorist attacks against ships or ship wrecks can affect the industry</li> </ul>

Europlan has long history in maritime industry and shipbuilding. The company has knowledge and competence to design and manage project from small details to complex ensembles and can deliver basically any part of a ship. Also most of the competitors have narrower operations than Europlan. Europlan's affiliate company Hermann's can manufacture almost any interior detail needed. Europlan has also AAA –class credit rating and is capable to finance its operations without any advance payments from customers.

As the cruise ship business is expanding from Caribbean to other parts of the world there will be more ships to maintenance. Europlan will make possible to customer to narrow the organizations through easier management of the ship maintenance.

As the business is shattered around the globe it will make managing it harder. Europlan will probably need to contract a 3<sup>rd</sup> party logistic provider to manage the logistic of delivered parts for maintenance. Europlan has been co-operating with Viima Logistics general manager have been working in Almaco and as a result knows the ship industry very well. Co-operation with Viima also helps to save some of the consulting expenses.

The bids to customers are mostly made in dollars and trades in euros. Europlan will need to be able protect against currency risks. Also the high overall cost in Finland can complicate operations of Europlan.

## 7 CONCLUSIONS

### 7.1 Planning

For every successful business a well-formed business plan is vital. The business plan helps the management and owners to perceive the business as a whole. One vital aspect of business planning is to have the plan in written form showing all needed data and information. The business plan should include at least summary, information about operational environment, swot – analysis and clear statement of vision, objectives and strategy of the plan. Having the business plan in written form forces the decision makers to review every aspect in more detailed manner.

Every business should have long terms goal and strategy to reaching it. All tactical executions and decisions should be done based on that strategy. Business plan is also a great tool to divide the business areas into manageable parts. Business plan should include summary of the whole business to provide possibility to quickly understand the business idea as a whole. Business plan should include information about the operating environment and competitors. Collecting the information regarding competitor and the business environment forces the management to review the success factors of the company related to competitors. Business plan should also include analysis of the strengths, weaknesses, opportunities and threats of the company. One good tool for this is SWOT –analysis. A good SWOT analysis helps also to compare the company or organization to competitors. SWOT analysis can also provide a good base for business development. Every business plan should have clear vision, objectives and strategy to support these. The vision works as a guiding influence for the company providing a clear direction for managers. Forming the strategy the business areas should be divided into smaller more manageable parts. The strategy should implicate those operations and actions to help to achieve the

set objectives. Strategy works as a tool to reach the objectives set to follow the organizations vision.

## 7.2 New Service Development

Today businesses are facing huge competition and getting a satisfying market share can be difficult. Companies need to evolve and develop their functions and supply. Customers are more familiar with substitute products and services and this force the organizations to continually develop their business, products, services and all operation. To cope with the growing competition organizations can benefit being highly innovative. They need to develop new or better products and services and be able to decrease the costs of business operations. Innovation is a very broad concept which includes not only a single action but many interrelated sub processes. Innovation is not only a new product, invention or market development. It is all those things integrated as an entity. Innovation happens when theoretical concepts and technical invention are commercially exploited. These innovations can lead to development of new services ideas, concepts and eventually new services.

In ship industry the markets are moving towards less complicated design and this moves most of the orders to ship yards in cheaper countries. This is why Europlan and other companies operating in more expensive countries need to find new ways to operate succesfully in the business. Companies are forced to adapt and evolve to survive. This will create more business opportunities for those businesses with best innovations and ideas. Strategic advantages can be gained by developing more efficient processes saving resources or either developing totally new services, processes and ideas. The companies which are capable to manage innovation can create advantages in long run in the strongly transforming field of business. Generally for maritime companies to be able to gain competitive edge they must be able to stand out from others and provide something that others do not offer or do something evidently better and save in both costs and resources.

As production of new ships are moving to countries with cheaper labor Europlan needs to adapt and transform their main business idea. This is why there is need for their new innovative service idea. The Development of a new service concept is very complex process that is time consuming and often do not carry out successfully. For service development to be successful every phase of the development process should be well planned and executed. Typical mistake is to develop new service without the knowledge whether there is demand and need for such a service or trying to launch without proper testing and development. Launching an unfinished service can be catastrophic for the company.

When developing a new service the objectives of the service must be known otherwise it will be pointless to carry on. It is important to know what potential customers need and how new services would help their business. New service can be beneficial to the customers only if it can save their resources, create new opportunities or otherwise create a clear advantage.

Europlan has been developing their new service concept following process oriented new service development model. The process oriented NSD process where used because it is more centralized perspective of NSD process and is combination of different more complicated development models. It is more generalizable and can be used in many different industries. Due the nature of the model it where the most potential to use for the needs of Europlan. The Process oriented NSD process consists four main components which are design, analysis, development and full launch.

Including a customer into a development process can make some phases slower and more complex but can help development of needed and better working services more efficiently.

When the objectives for the new service are clarified a strategy must be created to achieve the set objectives. This strategy is needed to form the service concepts which includes description of the customer needs and how those

needs are fulfilled. It is important to test the concept before proceeding further in the development process.

When the service concept is tested can the process be carried on into analysis stage when the company will evaluate true potential of the new service concept. If the concept does not have potential it will be discontinued or changed. If it has potential the process can be continued to further development.

In the development phase the service concept is refined and the chain of actions is tested and also refined to function properly. Also the service system which includes the needed resources and infrastructure to deliver the service is refined. At this point the new service idea is transformed into concrete service.

When the whole service entity is refined it can be launched to market and potential customers. This phase includes also promoting and marketing of the new service. After the launch more information can be gathered to help develop the NSD process and the company further.

Europlan has been including their most potential customer Royal Caribbean Cruises into the service development process and know that there is demand for their new service idea. They have already created a service concept which saves both time and resources of the customer which can be provide great advantage because RCC can focus more on their core business. The service concept has already been introduced to RCC. There will be no need to market the new services as the benefits of the service is already known in the management of the RCC.

The new service will create competitive advantage to customer by creating the possibility to focus more on their core business instead of using time and resources to slow and bureaucratic ship service system. The new service creates possibility to manage the ship service process with one level of management or only one person instead of many decision makers. The service decision and acquisition can be done onboard with simple web-based service portal which also saves time and resources. This way the ships can be maintenance constantly and there will be need for bigger overhauls or repairs

less often. This will create beneficial advantage for RCC and other shipping companies because big overhauls and repairs are very costly and will keep the ships in the harbors.

Since there will be no need for large investments the risks are quite slow. At this point the only big expenditure will be the modeling of the ships and maintenance parts targets.

Europlan is currently doing well and their new service concept has significant potential to provide base for steady income and growth. This all comes down to management and how they drive through the service development process. As stated in the research, every phase of the development process must be controlled and well directed to be successful.

The new service plan of Europlan is truly innovative and can help them to gain the competitive edge in the future markets. As the ship building business is moving towards less complex ships and production in the cheaper countries developing a new business idea like this is essential for growth or existence in the long run. If successful the new service concept of Europlan is discontinuous innovation providing long term viability and great advantages because they are first mover to markets with this totally new service. The new service concept can be essential for increasing profitability and cost reduction which are important aspects for new service.

Europlan is well known and respected company in their field of business that will help in the volatile markets. The cruise ship business is expanding to larger areas around the globe. Managing and maintenance of the growing fleet can be challenge to many shipping companies. The new innovative service idea of Europlan can help them to manage better with it and save time and resources significantly. There is currently no similar service and if Europlan can be the first to provider can give them the competitive edge.

I truly believe that Europlan will be successful with their new service idea which has a lot of potential if everything is done right. The current situation can help them to be one of the market leaders in providing maintenance service for ships



and especially for cruise ships as there are currently no competitors offering similar services.

## **8 RECOMMENDATIONS FOR EUROPLAN**

To be successful in the service development, every phase must be well planned, and controlled by the management. Documenting every phase is essential for further analysis and planning. This also helps to avoid some difficulties in the future development projects.

Europlan has developed their new service concept and have included their major client (RCC) in the development project that is essential. The project has advanced to the point when pilot launch is the next phase. This will be the final test for the new service and will generate enough data and information to finalize the process and refine the final service. Though the service development process is in good stage there is lack of documentation of the whole service and the structure of it. Before starting the pilot Europlan must be sure that every aspect in the internal infrastructure (employees, administrative support system and technical environment) is ready to support the service system. A setback in the launch stage could prevent the success of the final service and interest of RCC towards it. This is why Europlan must be sure that everything is ready before starting the pilot because there is no stepping back after pilot launch and everything must work smoothly. At the moment there is imperative need to document every step of the process and the whole service concepts. Otherwise success of the further launch can be under great jeopardy. Having every aspect of the service development process and the new service well documented would also benefit in contract negotiations as everything could be seen clearly and in transparent manner.

For everything to work well the logistics must also work seamlessly. The best way to deal with this would be to contract 3<sup>rd</sup> party logistics provider to take care of the shipments. Developing own logistics department could also be possible but would require a lot of resources and would be very expensive.

Europlan must also be sure that their workshop can process needed parts and orders in time without endangering the schedule of other services. This is why Europlan must know what is the exact workload their workshop can process.

One important aspect is how the service contracts and pricing will be done. Pricing the service can be based on three different principles which are cost based, market based and competition based.

As the ships must be virtualized into web-based shopping chart which takes a lot of time and resources and it can be expensive. In the best scenario the expenses could be divided between Europlan and Royal Caribbean Cruises. Europlan could benefit if they could benchmark how the service contracts are done in other companies providing similar services. Also open discussion with RCC would help to find the best solution regarding the expenses. Europlan could also benefit trying to benchmark the pricing and contract styles of other similar services. Though finding a willing business partner for benchmarking can be very difficult.

As stated in the SWOT the current custom is making the bids for customers in dollars and to do trades in euros. This can cause currency risk and Europlan must protect against those.

Europlan should also develop reporting systems which would provide real-time data and reports about the costs of maintenance services and this way they could report directly to RCC and show how much they really save in expenses and resources. Those reports and data could include every aspect of the new service or ones that the management find essential. The knowledge gained from these reports can also work as reference for other potential customers later on.

As in many cases a situation in the ship industry has been reached where strategies of companies are approaching each other, the competitive weapons are the same and the earnings drop due to the sharp competition – it is called the wall of the descending revenues. In a case like this, company earnings are tried to improve by economizing and streamlining the processes. In cases like this the goal of reforming the business concepts is to introduce more strategic variety and change the basis of competition and strive to create a model so much divergent from the previous that the competitors can be overcome. (Hamel 2000)

My recommendation for Europlan is to link their new innovative service into their core business as a business concept. This would benefit in the highly competitive markets where competition takes place between business models. Europlan would benefit using Hamel's model for innovative business concept to gain more strategic variety and this way gain competitive advantage.

The Hamel's model for innovative business concept tries to combine the core competence thinking with the pursuit of a strategic value composition. In the core competence thinking the company's unique skill-based strategic foundation is stressed in the strategic value composition to perform in a divergent way from the competitors in order to conquer a permanent strategic position.

A sustainable competitive advantage is strived by creating new competition rules and diverging from the previous way of thinking. The business concept is composed of four factors each with several substructures. The concept factors are: core strategy, strategic resources, customer interface and value network. The business concept factors are interconnected by three bridges: customer benefits, configuration and company boundaries. (Hamel 2000)

Beneath is the generation of the business model presented as key questions:

- What is our business mission?

- What is our product/market scope?
- What is the basis for differentiation?
- What core competences are important?
- What strategic assets do we need to own?
- What core processes are critical?
- How can we best configure our resources?
- How to enter the market?
- What kind of information do we need to serve our customers?
- What kind of relationship we want with our customers?
- How do we price our products and services?
- What is the particular benefit bundle we deliver?
- How do we integrate with suppliers and partners?
- What profit boosters can we exploit?

(Hamel 2000)



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## **Appendix 1 The interview**

### **Jari Savola (General Manager of Europlan) and Perttu Tuominen (Chief Financial Officer) interview:**

1. Can you tell me about operational environment of Europlan?
2. Who are the competitors of Europlan?
3. What is the situation of the markets of Europlan?
4. What is the vision, objectives and strategy for the new service concept?
  
5. What are the strengths (internal) of Europlan?
6. What are the weaknesses (internal) of Europlan?
7. What are the opportunities (external) of Europlan?
8. What are the threats (external) of Europlan?
- 9.
10. Where did the idea for the new service concept come?
11. Will there be any difficulties adapting your organization to this new service?
12. Who are potential customers for the service concept?
13. Does Royal Caribbean Cruises have interest toward the service concept?
14. What are the possible needs of targeted customers?
15. What are the risks of this process?
16. Has this kind service been tried before by some other company?
17. How is Europlan going to execute the pilot phase?
18. During what kind of time period are you planning to execute the pilot phase?
19. Is there need for marketing / promoting the service concept?