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**RELATIONSHIP MARKETING'S POSITIVE
IMPACT ON SUCCESSFUL NEW INDUSTRIAL SERVICES**

Brian Rowland

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In
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of
Commerce and Administration

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ABSTRACT

Relationship Marketing's Positive Impact on Successful New Industrial Services

Brian Rowland

Collaborating with a client-partner during new service development (NSD), a phenomenon seen more and more often, has certain advantages for the industrial services provider. Among them is the ability to reduce risk of service failure by developing the new service to meet the client-partner's specific needs, sharing NSD costs, and gaining access to specific client expertise not found in-house. There are, however, certain hazards to performing NSD with a partner firm. Not only must the service provider master and manage the NSD process, but also the client relationship as it evolves throughout the NSD process. Indeed, a large part of a successful new service outcome depends on a solid relationship between supplier and client, since many industrial services require on-going interaction between the two parties long after the new service is in production. One of the most effective tools available to the service provider to manage the client relationship is Relationship Marketing. Relationship Marketing (RM) is a process by which the service firm builds an excellent relationship with the client firm based on mutual trust and motivates the client to commit to the relationship over the long term. Through the use of case study analysis, this research identifies a "best practices" list of Relationship Marketing activities that a service provider can use throughout the different collaborative NSD phases. When implemented, the best practices boost the likelihood that the client will be satisfied with its relationship with the service provider, and ultimately, satisfied with the new service.

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I. Introduction

"Forming alliances with the right partner is an art; building and keeping them going is a science." (Leclercq, 1995 p.136)

The business climate is changing. Globalization and industry deregulation have helped to open previously closed markets to more competition, and allowed niche or regional players the opportunity to enter new markets. The need to keep current customers while also winning new ones makes it critical for firms to innovate and launch new offerings, or risk losing market share to more innovative competitors. For example, if the local phone company does not yet offer the latest high-tech product, such as digital mobile phone technology to its clients, a newcomer most certainly will. Innovation, however, is expensive and risky. The costs involved in new product development can be huge, with no guarantee of a quick payback. The desire to innovate while minimizing risks and costs has led many firms to look toward collaboration with other firms. Indeed, many partnership ventures are successful because they allow each firm access to new ideas, capital, markets or expertise that they do not have internally. In other words, the partnership as a whole is greater than the sum of its parts. Of course, while there are many benefits to partnering, it is not without its complications. A partnership, like any relationship, must be actively maintained and well managed to keep it going over the long run, and many firms are not skilled in partnership management.

Perhaps more than firms in other sectors, industrial service firms understand fully the need to innovate and to manage relationships. First, in contrast to the consumer market, industrial service firms generally have a small number of high dollar value clients. The loss of one major account to a competitor, either because the competitor offers a superior service or because the client is not happy with its relationship with the service provider, could be enough to jeopardize the future of the service firm.

Second, certain characteristics of services, such as intangibility or reliance on technology, make it difficult to achieve a sustainable competitive advantage from a unique service offering or technology. Not only can competitors copy the service (most services are not patentable), but rapid technology change can turn a service from state-of-the-art to outdated in a relatively short amount of time (witness analogue cellular phones). Therefore, in addition to creating new service offerings, many industrial service firms try and develop a *relationship* advantage with their clients whereby, all service offerings being judged equal, the client will stay with its current provider because of the established relationship. Luckily for industrial service firms, they normally have ample opportunity to build this relationship during service delivery because production and consumption of the service frequently occur at the same time and may require interaction between the provider and client.

Third, because services are intangible and production and consumption occur at the same time, it is difficult to make a new service prototype (which is more easily done for manufactured goods) that can be tested on customers prior to market launch. This

raises the risk that the new service might fail to meet client expectations, and that the money invested in new service development (NSD) will be lost.

Industrial service firms looking to innovate while reducing risk, and to build relationships with their clients are thus turning to a particular type of collaboration: collaborative new service development (CSD). CSD can be defined as a partnership between a service firm and its client partner to jointly design, develop and implement a new service that will respond to the specific needs of the client firm. As mentioned earlier, service firms often have experience in working with the client during production, but a CSD venture involves working with the client from the beginning of the new service development process. CSD is a relatively new research arena, integrating several different fields of study which researchers have typically handled as separate and distinct. Gaining an understanding of CSD requires a detailed review, presented in the first part of this paper, of the following academic literature areas:

- Business services, their distinguishing characteristics, and their marketing;
- New service development, the process and its success factors;
- Inter-firm collaboration, including its advantages, dangers, and success factors;
- and Models of collaborative relationship development.

CSD is becoming more popular for two reasons. First, the client's involvement throughout the development process should boost the likelihood that the new service will be a success; and second, the relationship that forms between the two parties during CSD

should ensure that the client remains with the service provider over the long term. However, for these two outcomes to emerge, it is imperative that the service provider not only effectively manage the NSD process, but the developing client relationship as well. Indeed, the nurturing of trust and commitment from both partners as the CSD project moves through its different phases is an essential determinant of success: As the collaboration develops over the CSD cycle, the relationship changes and, hence, the character of the trust and commitment also changes. This requires continual adjustment by the partners in order to ensure the success of the underlying new service project.

For service firms who take a proactive view of their CSD ventures - that is, firms who take primary responsibility for ensuring the successful development of the new service in this collaborative mode - the tools of “**Relationship Marketing**” can play an essential role in creating and maintaining an effective provider-client partnership.

Rounding out the literature review chapters will be a review of the current state of research on Relationship Marketing. This review will show that the current research focuses on defining RM and identifying the importance of the various RM conceptual constructs (e.g., trust, commitment, good communication, etc.). It will be demonstrated that what is missing from the literature was a more concrete, operationalized view of RM which describes the *actual behaviours* that make for excellent RM. Indeed, little research has been done to elaborate a set of lessons, or normative rules of behaviour, that outline in practical terms the types of RM activities that should be employed during different RM situations.

The objective of this study is to fill this gap by identifying specific RM activities that are relevant during each phase of the CSD process because CSD involves a relationship between two firms where the nature changes as it moves through the phases of the CSD cycle. Specifically, the study addresses: what particular activities the service provider can/should employ during each phase of the CSD process to achieve the success factors that have been identified as critical in existing RM models (i.e., trust, relationship commitment, relationship benefits, shared values, communications, relationship termination costs, and opportunistic behaviour reduction). It is this author's goal to help project managers improve their chances of creating an effective relationship and, as a result of this relationship, of CSD success by identifying the various RM constructs and activities that can be used during CSD.

The goal of this research will be met using a qualitative case study approach with 3 different CSD scenarios, as outlined in the research methodology section. Following the presentation of the methodology and the case study analyses, this paper will outline the findings. The study findings will be presented in the form of a RM "best practices" list developed from the most effective and often-observed activities that service providers undertake when attempting to ensure a successful relationship with their clients during a CSD venture. The resulting RM "best practices" list will identify the appropriate actions that service providers should undertake during each stage of the CSD process in order to move the collaborative relationship and the new service under development to a successful conclusion.

II. Importance of Services

Over the past decades the service sector has become a major force in the world economy. It has long been observed that western countries have become especially dependent on services for sustained wealth, as goods production (i.e., clothing, cars, electronics) is transferred to countries offering cheaper labour ¹. In the United States, the largest of the western world's economies, services currently account for over 70% of GNP, and 3 out of every 4 workers are employed in a service-related job (Gordon *et al.*, 1993; Jackson *et al.*, 1995). However, the growth in the service sector is also on the rise in places that are normally perceived to be heavily industrial: Services account for just under 50% of Gross Domestic Product of many developing countries such as Indonesia, Turkey and Brazil (Gross *et al.*, 1993).

Services can be either of a consumer or of an industrial nature. When the end users are consumers, the term "consumer service" is used. When the end user is another organization, the terms "industrial service" or "business-to-business service" is employed. Service firms can operate in either the consumer side or the industrial side, or both. Bell Canada, for example, provides local and long-distance telecommunications services both to consumers and to corporations. However, a service firm differentiates its offerings for each market. A consumer will normally have a single phone *line* (or perhaps 2 or 3 for

¹ Terminology

Different terms are used throughout this paper to add clarity to the discussion of services. "Services" are understood to be intangible functions, or actions, that are performed; "goods" are, by contrast, physically manufactured objects. A "product", as it is used in this paper, is a generic term that can be either a good or a service. Hence, future discussions on new products and their development can be generalized to include both goods and services. Specific mention of new services and new service development serves to highlight properties or areas that are unique to services.

things like fax machines or a computer modem), but a corporation will likely have a more complex telecommunications *network*.

While the services sector has traditionally been dominated by offerings to the consumer, demand for industrial services is on the rise and now accounts for over 30% of all service revenues in the U.S. (Wilson *et al.*, 1996) and is probably similar for Canada. Development and growth in business-to-business services over the past years can be partially attributed to corporate downsizing and product "bundling".

The downsizing phenomenon and its impact on the growth in services reflects the view that today's managers have of their businesses. After years of mergers and conglomerate-building during the 1970s and 80s, where firms tended to expand in an attempt to do everything themselves, firms in the 90s have been downsizing, or "rightsizing", to focus on core competencies by selling off "extraneous" business units that do not fit with these competencies. The downsizing phenomenon, combined with the increasing technological complexity of business services, means that firms either call more frequently on outside experts to intervene where internal resources are lacking, or decide to outsource support departments to specialized service firms (McFarlan, 1995).

Product bundling, the practice of selling a package of goods and services to enhance the value of a firm's core product is also related to service growth. Companies often use service add-ons, such as technical support or 24-hour-a-day customer service centres, to differentiate their product offerings from that of the competition. Indeed, rarely is an industrial good sold today that does not contain some kind of service component like a warranty or staff training (de Brentani *et al.*, 1996).

The importance of industrial services is quite evident when their growth rate is compared to that of the general economy. Wilson *et al.* (1996), after performing an examination of 11 U.S. business services sectors between 1982-1992, conclude that all business service segments grew faster than the overall economy. Some of these sectors, including computer and data processing, and management consulting, grew twice as fast as the economy in general. In just the computer and data processing segment, for example, revenues of \$101.1 billion US were generated in 1992 alone. Further, almost 3.8 million net new jobs were created in the U.S. during the 82-92 decade among all of the business services sectors studied.

III. Distinguishing characteristics of services

A number of key differences between services and goods have been identified. The well-known article by Zeithaml *et al.* (1985), reviewing the work of different researchers over the years, confirms that four key distinguishing characteristics of services - that is, intangibility, simultaneity, heterogeneity and perishability - call for service firms to use different approaches in conducting business and dealing with clients. These approaches are discussed below.

III.A. Intangibility

Services are activities and not something that can be touched and inspected like physical goods (Grönroos, 1990). As such, customers purchasing services are really buying outcomes or experiences (Thomas, 1978). This can be both positive and negative for the service firm.

On the positive side, intangibility means that services can often be developed more quickly than goods, passing through the new service development process more rapidly to provide a quick and innovative response to the needs of customers (Berry, 1980).

On the negative side, intangibility means that services can be easily copied, making much less sustainable any long-term competitive advantage that may have been achieved by the service firm that was first to market. In addition to the "copycat" effect of services, customers often complain of the difficulties presented in evaluating services prior to purchase, during development or even during delivery as there is nothing for

them to touch or inspect (Jackson *et al.*, 1995). Working closely with the client during service development and delivery, and producing tangible written documentation - brochures, manuals, etc. - is one way that the service organization can help ease clients' frustrations and create an image of quality that distinguishes the firm from its competitors with similar offerings (de Brentani, 1989).

III.B. Simultaneous production and consumption

In general, goods are produced, then sold, then consumed. Services, however, are often sold first, then produced and consumed simultaneously (Berry, 1980). Because of this simultaneity, an integral part of service delivery is the interaction between the service provider and customer. And because services are intangible, the moment of truth - where customers can evaluate service quality - comes only during the production stage. For example, passengers may judge an airline's service quality based on their airport and in-flight experience (ticketing, baggage handling, on-time takeoff, meal service, etc.), although this is only a part of the overall service creation process that the airline goes through each day. Customers use the interaction with the service provider to evaluate service quality, and perceived service quality greatly influences a customer's satisfaction with the service. This means that production is an extremely critical stage in the overall new service development process in that satisfying customers during service production encourages customer loyalty and repurchase (Jackson *et al.*, 1995).

III.C. Heterogeneity, or variability, in service delivery

Human interaction plays a key role in delivery of many types of services. The unlimited number of combinations involving different service personnel, different customers and the different service requests means that no two service encounters are alike. This can be positive for the service firm in that customization of service delivery for different clients is more easily achieved than with goods (de Brentani, 1989). However, as service quality is evaluated during delivery, the service firm is often required to ensure a minimum level of service delivery (i.e., guarantees) and to reduce any negatively perceived inconsistency in delivery as much as possible (Berry, 1980; de Brentani, 1989).

III.D. Perishability

Whereas product manufacturers can create and stock inventory today for peak periods tomorrow, service providers do not have this option. Service production must be synchronized as closely as possible to fluctuating demand levels to maximize sales opportunities while avoiding lost revenue or idle capacity (Berry, 1980). Responding to perishability, service firms often adjust their staff levels, service offerings, or prices to meet cyclical demands. For example, a bank's call centre might employ more customer service agents during the standard business day shift, when calls are more numerous, than in the evenings; or airlines might reduce the number of flights on the weekends to avoid planes taking off with empty seats. Another way service companies can reduce perishability is to develop new services that make use of existing operations systems

during periods of low demand (Berry, 1980). For instance, a customer service call centre in Montreal could also handle incoming calls from France, taking advantage of the 6-hour time difference so that peak periods in France (9 a.m. to 3 p.m.) correspond to quieter periods in Montreal (3 a.m. to 9 a.m.).

IV. Industrial Services Marketing

Most of what we currently know about what makes services different from goods comes from research performed in the consumer market because of the huge dollar values of consumer services. With the growing importance of industrial services, however, it is becoming apparent that our understanding of marketing in this area lags that of consumer services marketing and needs to be improved (Jackson *et al.*, 1995). Results from studies that focus on industrial services marketing have concluded that it is, indeed, different - different from consumer services marketing, and different from industrial marketing for physical goods.

IV.A. Differences Between Industrial and Consumer Services Marketing

Business-to-business service marketing is different from consumer service marketing in terms of the complexity of the purchasing process, the aspired length of the relationship between the service firm and its customers, and the dollar amounts involved in purchases.

The sheer size and cost of industrial service purchases (a large company does not buy one airline ticket a year, but thousands) renders the organizational buying process more complex and longer in duration, and subjects the process to more influences both within and outside the company than the consumer buying process (Jackson *et al.*, 1995). The industrial client has several roles to fill - initiator, gatekeeper, influencer, decider, and buyer - and it is not uncommon that each role be occupied by a different person in a different department (Gross *et al.*, 1993). This means that service marketers must make

contact with and convince several people in the buying organization who may have conflicting needs, wants and interests.

Whereas a consumer may stop into any travel agency to buy a ticket, a company searching a corporate travel agency may take several months to choose, as it solicits proposals from a number of agencies, asks for formal presentations, and negotiates rebates. Although pretty much everyone knows what to expect from business travel, intangibility can prolong the buying process if the service sought is new to the buying firm, thus making it more difficult to articulate or grasp the solutions proposed by service providers (Gross *et al.*, 1993). Service variability can help a service firm distinguish itself from competing offers when the firm proves that it understands the buyer's particular needs and is willing to adapt itself to those needs. A travel agency may offer, for example, Saturday hours or an around-the-clock emergency hotline. Because service variability can also be a detriment when it means service inconsistency, a buying organization may demand service guarantees, such as next-day ticket delivery.

While the Purchasing department might be responsible for assigning the contract, preferences of both top management and other employees that travel regularly have influence over the decision. Outside forces can also influence buying decisions. The necessity to purchase a service prior to testing it may make the buying organization review a travel agency's client list to determine the agency's expertise with business travel, or contact the agency's current clients to gauge service satisfaction. A service firm's reputation for dependability and stability can ultimately be more important than price (a leading determinant for consumers) because a business only wants to sign a contract with

an agency that offers consistently good service and that will be in existence for the duration of the contract, which is normally long-term. Indeed, corporate resources would be wasted on a lengthy service provider selection process if the firm has no intention of working with the service provider over a prolonged period.

When the dollar values are high, transactions are on-going and long-term contractual links are developed, the service firm is likely to suggest a "relationship" where the two firms work closely together to ensure that the delivered service meets client expectations. Indeed, forming and maintaining good relations with clients in the business services industry has always been a priority given the often ephemeral nature of what is for sale: The travel agent for this author's previous company once said, "The only thing that distinguishes me from my competitors is my relationship with you". When relations are good, clients stick with their service provider. In contrast to consumer marketing, a business customer that defects to a competitor could cost a service provider millions of dollars in lost revenue and a relatively small number of these high-value defections could be enough to put the future financial health of the service firm in jeopardy.

IV.B. Differences Between Industrial Marketing of Goods and Services

In addition to being different from consumer services, industrial services are different from industrial goods in some respects. Industrial goods and services are neither purchased nor evaluated in exactly the same manner by business clients, which means that service firms must use different marketing techniques. Gordon *et al.* (1993), looking

at the differences in goods and services in the telecom industry, found a major distinction between the two in terms of product evaluation. While so called "vendor criteria" (p.50) such as image, reputation, competence, stability, reliability, responsiveness and offered selection, tops the list as the most important set of attributes for selecting any product supplier, these criteria are even more important for service firms than for goods manufacturers due to service intangibility. As one respondent stated: "While in both cases, the vendor is important; in service [provider] decisions, the vendor is all-important" (p.54).

Further, Jackson *et al.* (1995) found that 3/4 of industrial buyers in their study approach service purchases differently than that for goods due to the effects of service intangibility and simultaneity of production and consumption. As services are often highly conceptual, the industrial buyer is unable to inspect the service prior to delivery and production. There is, hence, a subsequent overimportance placed on production for judging service quality (p.107). If, for example, a client firm is working with an information systems consulting firm on the development of a new billing system, things such as the bill page layout, the correctness of the billed amounts, and the time it takes to print the bills, all of which occur during service production, greatly impact how the total system, and thus the service provider, is perceived.

Moreover, the lack of ability to inspect services prior to delivery can make industrial buyers anxious and frustrated: It is difficult to monitor concepts (i.e., intangible services) during development to determine whether the delivered service will conform to specifications prior to production. This anxiety, combined with the huge dollar amounts

invested in and the critical nature of certain business services, incites the industrial services provider to form a "relationship" with the client which offers reassurance that the delivered service will in fact meet expectations (Gummesson, 1981).

Because of differences in industrial services, Jackson and Cooper (1988) propose that the following two distinguishing characteristics be added to the list for industrial services: specialization and technology.

"Specialization", or customization, means that industrial services often need to be adapted for an organization's specific needs. At the same time, industrial services also tend to be more technological in nature than consumer services because of the greater complexity of organizational needs. This combination of customization and technology is observed in corporate telecommunications networks. More than a matter of plugging in a telephone, each corporate network is unique in its layout and technical complexity. There are voice lines, fax lines, even special high-speed lines for data transfer. Companies with offices in more than one location may decide to lease a dedicated line, thereby rendering all calls "local", or the firm may use the public network and pay long-distance charges. In addition, adjustments to the service are required when companies expand or consolidate branch offices. Each time a corporate telecommunications network is developed or modified it is in accordance with the individual customer's situation.

V. New Service Development (NSD)

Researchers have long emphasized the importance of new product development (NPD) for ensuring the continued well-being, and indeed the survival, of the firm (Booz Allen & Hamilton, 1982; Cooper, 1993; de Brentani, 1992). Whereas in the past, successful products enjoyed a relatively long life cycle that almost guaranteed profits for the firm, this is less the case today. Tougher competition, brought about by the globalization of markets and deregulation, combined with rapidly changing technology means that product life cycles are shorter (due to technology advancements that "push out" older products), competitors are quicker to appear and offer newer products, and "protected", or regulated, markets are no more (Iansiti, 1995; Lawton Smith *et al.*, 1991; Littler *et al.*, 1995). These changes have forced firms to innovate and, through NPD, to continue offering new and different products that the public and other businesses want to buy (Booz Allen & Hamilton, 1982). Indeed, no firm can continue in business very long with the same products; thus, development and introduction of new products are vital to corporate profitability and growth (Booz Allen & Hamilton, 1982; Gross *et al.*, 1993; Wind, 1982). Cooper (1993), for example, found that new products launched in the preceding five years accounted for almost 40% of company sales; and this figure is expected to grow over time.

Although critical to success, new product development is not a simple task. The average company launches around 40 new products a year (Cooper, 1993), but only about 2/3 of these will actually succeed (Booz Allen & Hamilton, 1982). Indeed, one new

product successfully launched is the fruit of seven new product ideas, some of which were partially, or even fully, developed before being dropped prior to launch (Booz Allen & Hamilton, 1982). This attrition can be expensive to a company in both time and resource investments, and involves a good deal of risk since a firm does not know for certain ahead of time if a new product idea will eventually be successful.

In some respects, developing new services can be even more difficult than goods due to services' distinguishing characteristics. First, the intangible aspect of services, with copying so easy and no patent protection possible, means that it is very hard for a company to achieve a sustainable competitive advantage by being first to market (Berry, 1980). Companies thus find themselves in a difficult position - invest in NSD knowing that competitors will soon copy, or risk losing customers as the firm's services become outdated and replaced with new technology offered by a competitor. Intangibility also renders the entire NSD process extremely conceptual. In the past this has led to haphazard development of services that, in the end, failed to meet customer needs (de Brentani, 1989). When done correctly, however, investing in NSD can be profitable for the firm when the process delivers a superior service and responds to unmet customer needs (de Brentani, 1991).

Simultaneous production and consumption means that service production and delivery systems ultimately must include the customer to some degree (de Brentani, 1992). In contrast to manufactured goods development where a delivery scheme can be developed once the product has been manufactured, contact between customers and suppliers during service delivery means that project managers must be forward thinkers.

They must deal with production and delivery concerns early on and incorporate these processes up front into the new service design, instead of after-the-fact (Grönroos, 1990). For example, the design of a new information system must take into account an end user interface that is user-friendly. This interface must be built while the rest of the development is underway and tested prior to service delivery to assure that the interface enables the client to correctly use the information system.

Heterogeneity of service delivery forces service firm managers to answer the question: "How variable should the service offering be?". While some variability in the form of customization is good for responding to the different needs of industrial clients, too much may give an impression of inconsistency. In addition, service firms must clearly define the scope of the service to avoid launching a service that is neither too narrow nor too general. A service conceived for one client may end up not only being very costly but also being too specialized for a broader customer base, thus reducing opportunities for revenue. A service that is too general, or that wants to be all-encompassing, not only risks diluting the core offering and confusing the customer, but also tends to cost the service firm more in staff and equipment for service delivery, and in training contact personnel on all of the different service facets. Service variability, like the delivery process, must be a well thought-out attribute which is built, up front, into the design of the new service.

Finally, perishability can lead to capacity and production-efficiency problems due to expensive unused capital and human resources (de Brentani, 1992). Certain NSD ideas may come from the desire of service firms to absorb the excess capacity; thus, instead of creating a service that targets the needs of the company's main customers but requires

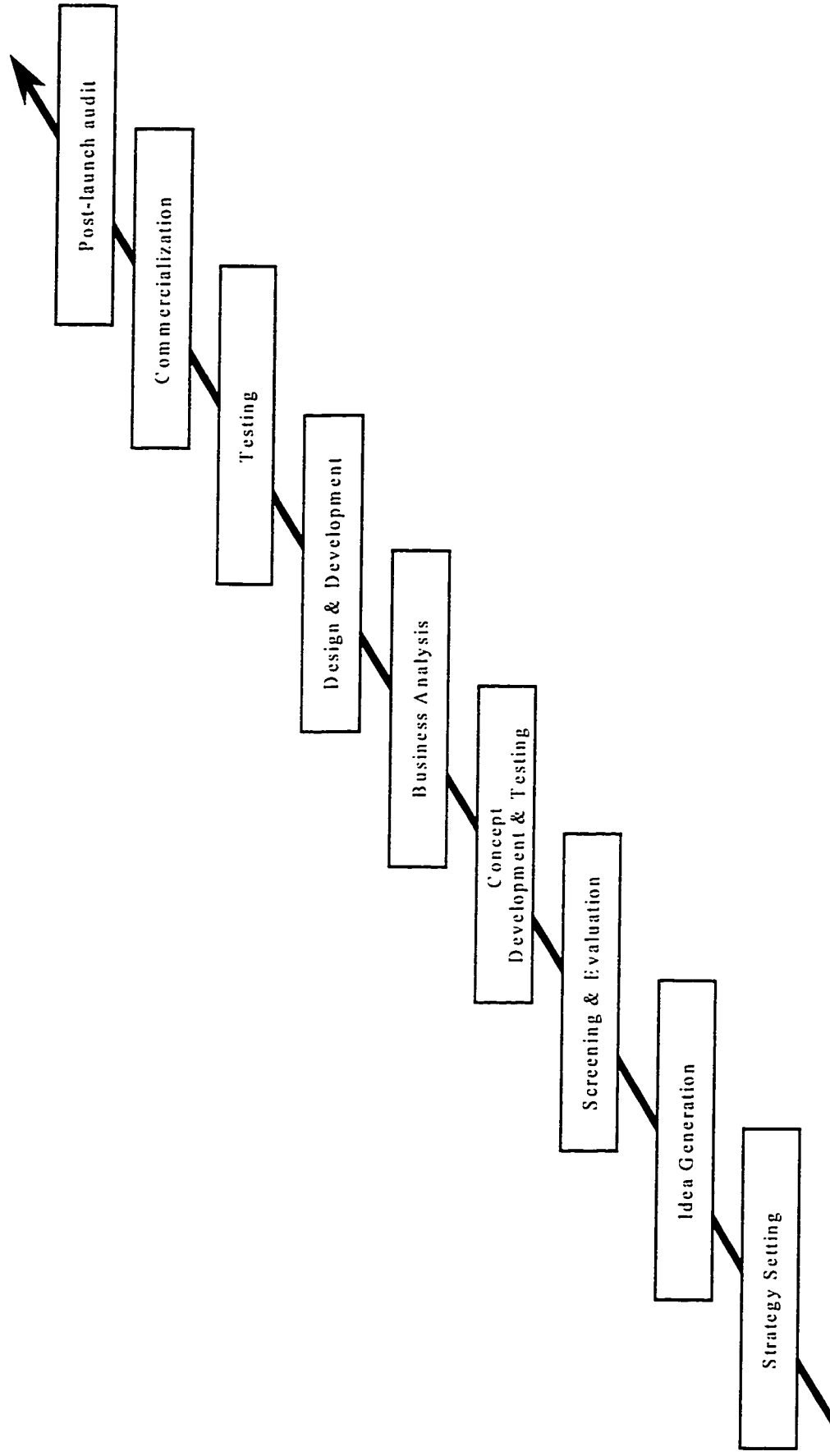
new investments, firms will develop new services that aim to reduce excess capacity by selling to "fringe" clients. For example, Air Canada sends customers weekly electronic mail messages which offer last minute weekend getaway deals. This service is not meant to attract business passengers, the bread and butter of an airline, but to sell open seats to individuals that need only a minimum amount of lead time to leave for a weekend (source: Air Canada's Web page). A service firm does not, however, want to depend on "excess capacity" services as a long-term growth strategy. NSD targeting idle capacity should be viewed as a means to boost profitability of core services by reducing "lost" revenue.

VI. New Service Development process

New product success has often been linked to using the right development process. Researchers have, thus, been investigating the different stages of new product development for the past 30 years. While most of the NPD research has been on manufactured goods, the more recent past has seen researchers focusing on the new *service* development process. It is generally accepted that, in many ways, NSD is an extension of what is already known about the development process for goods. Indeed, researchers into the NSD process (Bowers, 1989; Cowell, 1984; Gordon *et al.*, 1993; Scheuing *et al.*, 1989) have concluded that successful NSD is grounded in the same principles that govern NPD, although some special actions are taken by service firms as they go through the different stages to account for the distinguishing characteristics of services.

Probably the most famous NPD model is that outlined by Booz Allen & Hamilton (1982), based on their original research dating back to 1968. The model comprises 6 steps: New Product Strategy Development, Idea Generation, Screening & Evaluation, Business Analysis, Development, Testing, and Commercialization. The relevance of this model has been confirmed by numerous studies since its appearance. Most of the later models for both NPD and NSD mirror the stages of the Booz Allen & Hamilton model, but some include different stage names, sub-stages or have split previously single stages into multiple ones. This paper discusses a 9-stage NSD model as outlined by de Brentani *et al.* (1996), based on previous NSD process research (Bowers, 1989; Cowell, 1984; Scheuing *et al.*, 1989; Shostack, 1984). The stages in the new service development process are as follows:

Figure 1: New Service Development Stages



As in NPD, the first step in NSD is the outlining of a new service strategy. Its purpose is to identify the business requirements that all new services should satisfy, and to provide the new service team with direction and focus as the firm moves through the different NSD stages (Booz Allen & Hamilton, 1982; Cooper, 1993; Scheuing *et al.*, 1989). Strategy setting is closely linked with the second step (generating ideas & concepts) and the third step (screening & evaluating those ideas and concepts) as the three steps operate in an iterative fashion to compare the new ideas to stated strategy in order to determine fit early on (Booz Allen & Hamilton, 1982).

Ideas (stage 2) can come either from inside or outside the company. For generating ideas internally it is suggested that all departments participate and not rely solely on the Marketing or R&D departments (Booz Allen & Hamilton, 1982). Employees who have frequent contact with customers, such as front-line personnel should be tapped for ideas since they are in a position to receive complaints and suggestions from clients (de Brentani, 1989; Easingwood, 1986). In addition, Cooper (1993) suggests that companies should make the entire workplace idea-oriented by implementing incentive-driven suggestions schemes and following up quickly on ideas received.

Service firms that are market-driven look outside the firm for new ideas, especially to their current customers. Customers can suggest new services they would like, improvements to services already in production, or modifications specific to their needs that later could be generalized for other clients. New services developed to meet customer needs offer the greatest promise of success (de Brentani, 1989). Simply put, if

customers do not recognize the utility of a new service offering, it will not succeed. In addition to customers, other outside idea sources could be research laboratories, universities and government agencies who often provide the "test tube" in which embryonic ideas are born prior to any real market demand (e.g., the Internet). As well, firms should not overlook competitors and suppliers in their search for new ideas. As opposed to merely copying existing services on the market, a firm could develop a new service that is an improvement to what is already available (Gross, *et al.*, 1993).

During the screening stage, the new ideas are compared to the outlined new service strategy to assess fit and the service's chances for success. This internal evaluation of ideas seeks to separate the more promising from the less credible ideas (Easingwood, 1986). Elements which are looked at when screening ideas include synergy or fit with existing corporate resources (technical and production), financial costs and expected returns, and competitive advantage in the marketplace (de Brentani *et al.*, 1996). In addition, the importance of a service firm's image means that new ideas should be evaluated with respect to image to avoid any negative consequences on other existing services provided by the company (Easingwood, 1986). New ideas that appear to be too far from the stated strategy (and, therefore, unlikely to succeed for the firm) are rejected at this point and resources are rechannelled to other new ideas.

Ideas that survive internal screening proceed to the Conceptual Development and Testing phase. Here ideas are evaluated externally against the needs and wants of clients, and other services already on the market (Bowers, 1989; Cowell, 1984; Scheuing *et al.*, 1989). The role of service concept testing is to determine if prospective customers

understand the proposed idea, react favourably to it, and feel that they would benefit from the new service idea (Scheuing *et al.*, 1989). Tools such as core benefits statements (Urban *et al.*, 1993) can be used which address questions such as: What benefits would this service offer?; To whom would the service be offered?; How would this new service be different from those of competitors?; and What problems would we have developing this service? While the task of writing this type of statement is difficult enough for physical goods, it is even more so for services. Ideas that are highly conceptual may be hard to clearly articulate and, as such, concrete statements about expected benefits or differentiation from other services may be less than exact.

The core benefits statements are reviewed with clients in, for example, a focus group setting. Feedback is received, based on which the service firm will either decide to go ahead with the idea as stated, make modifications, or scrap it. Service intangibility can not only make the articulation of new ideas difficult inside the service firm, but can present challenges for firms looking to test concepts with prospective customers. Feedback about a new service idea is only as good as the customers' ability to conceptualize it. Difficulty in concretely presenting the new service idea to prospective customers may make it equally difficult for them to grasp the idea and provide useful feedback. As well, the variability of business services means that clients can perceive service delivery taking numerous forms. This is a plus *during* delivery when the service firm wants to customize the service for a client, but can be a minus when the firm is trying to nail down its various service delivery options during idea testing (Edgett, 1991).

The Business Analysis involves the important go/no-go decision that must be made prior to service design and development. As such, it is a critical phase. To take a go/no-go decision, a detailed business plan is developed, often in conjunction with a market study, which includes numerical analyses to assess market size, growth rate, sales potential, development costs, projected revenue and return on investment. Firms may have certain minimum financial performance criteria (e.g., ROI) that all new ideas must achieve prior to any development efforts. Service ideas projected to underperform are dropped prior to investing large sums of money into their detailed design and development (Shostack, 1984).

Those ideas which survive the Business Analysis stage enter Design and Development. This phase can require large financial and human resources commitments by the firm to realize the project. A firm must be certain that it wants to go ahead with the new service idea given that it is difficult to re-evaluate the go/no-go decision based on any evidence of tangible progress during this stage. The fact is that service intangibility provides little hard evidence to show movement toward the stated goal during design and development. This contrasts with goods where prototypes can be developed to demonstrate progress and permit some degree of testing, allowing for design modifications if feedback indicates that changes are needed (Cooper, 1993). With most services, the firm must wait for production to see the outcome of its investments.

One way to build some concreteness into the design and development of services is to diagram, or blueprint, the different service dimensions (Shostack, 1984). Blueprints help managers and service development personnel to identify inputs to production,

outline the steps to follow during production, and define the standards of service execution. Blueprints do not make it easier to verify progress, but do help managers, designers and developers stay "on the same wavelength" throughout development.

As the new service is under development, the firm should begin preparations for service delivery. This includes recruiting or training staff, constructing facilities, and establishing communications systems. In particular, service managers should now be thinking about what kind of physical elements can be created (brochures, manuals, etc.) that will render the new service more tangible (Cowell, 1984).

After Design and Development is completed, Testing is undertaken. Ideally the testing should be performed both in-house and with specific clients (Shostack, 1984). However, client testing is often unfeasible for industrial services. First, multiple components making up a complex services, such as an information system, are difficult to test separately (Shostack, 1984). Second, researchers have found that many industrial service firms skip over market testing to save time and money, but also out of fear of exposure to competition. As intangible services are easily duplicatable, it is seen as unwise to let competitors know that a new service is in preparation and risk any positive effects of being first-to-market (Barczak, 1995; de Brentani, 1989; Shostack, 1984). Third, there is a limit to the amount of testing that an industrial client will agree to. Whereas a telecommunications services firm could recruit 1000 consumers to try out a new Internet access software, very few companies would be willing to allow the same service provider replace their working telecommunications network by a "test" version, no matter what the promised benefits are, for fear of production problems (i.e., "bugs")

that could gravely affect the industrial client's business. Sometimes clients will agree to run the new service in parallel with their current service, but this can be time consuming and cumbersome. Hence, many times industrial service firms simply bypass market testing.

The Commercialization phase involves both internal and external marketing and monitoring of events (de Brentani, 1989). Clients are informed about the service availability, but not before the service has been "talked up" in-house, especially among frontline personnel (de Brentani, 1989; Edgett, 1994).

Finally, once the service has been on the market for a period of time a Post-Launch Audit is conducted to evaluate performance (Shostack, 1984; Scheuing *et al.*, 1989). The new service performance is compared against its objectives outlined in the business plan (Business Analysis stage) on both the financial level (sales, ROI, profit contribution) and on customer satisfaction. This audit allows service managers to identify any necessary corrections or enhancements to the service that, in the future, can service as new ideas for NSD projects (Shostack, 1984).

The system of steps outlined in the NSD model is such that it becomes more difficult to advance to the next step as the NSD process goes along. This way only the most worthy services make it to commercialization. While it is preferable for the firm to use such a sophisticated NSD process to ensure that commercialized services are successful (de Brentani, 1989), the screening out of ideas at each step means that a large number of new ideas must be generated to allow a few to reach commercialization. Indeed, Wind (1982) notes that to produce one *successful* new product, the firm must

generate 20 new ideas. Firms are, thus, under enormous pressure to continually come up with new service ideas in sufficient quantity, and move them quickly through the different NSD phases as a means to remain competitive in the market.

VII. Success Factors in New Service Development

Not all commercialized products are successful. Indeed, only slightly over half of commercialized goods and services are deemed a success in the eyes of the producer (Booz Allen & Hamilton, 1982, p.7). As such, both researchers and managers are interested in the factors that can boost the likelihood of product success. Most of the research in the area of NPD success factors has focused on manufactured goods. The findings of these NPD success factor studies are similar and consistent regardless of the research method, type of products studied or locus of the study. The most commonly identified success factors in the development of new goods include: product superiority, market understanding, proficiency of marketing operations, project fit (synergy), interaction between R&D and marketing and production, top management support, and effective project management (de Brentani, 1991).

Since services have many things in common with manufactured goods, it is not unreasonable to expect that some of the same factors previously identified for NPD success are also relevant for services. The last few years have produced studies that tried to determine how the distinctive qualities of services might influence their success. And indeed these studies of successful and unsuccessful services show results that are quite similar to tangible product development, but are nuanced to account for services' differences (de Brentani, 1989).

Easingwood (1986) was among the first to focus on success factors on new service development and, since publication of his work, other researchers have expanded

on the subject and identified additional NSD success factors. de Brentani's research (1989, 1991, 1992, 1995, 1996), for example, was larger in scope than Easingwood's, analyzing 274 new service projects in 115 different companies which represented a broad cross-section of industrial services such as financial, transportation, communications, and professional services. Since the initial articles by Easingwood and by de Brentani, other researchers have confirmed the presence of their identified success factors as well as added a few new ones. Following is a table that presents the correlates of new service success as identified by the various researchers:

Table 1 : New Service Development Success Factors

Market size and potential; client and market fit	de Brentani (1991) de Brentani and Cooper (1992) de Brentani <i>et al.</i> (1996) Edgett (1994) Zirger (1991)
Effective NSD management; market-oriented approach; effective NSD culture	de Brentani (1991) de Brentani <i>et al.</i> (1996) Easingwood (1986) Edgett (1994) Zirger (1991)
Overall corporate synergy; service expertise and familiarity to firm	de Brentani (1989, 1991) de Brentani and Cooper (1992) de Brentani <i>et al.</i> (1996) Edgett (1994)
Service superiority and innovativeness; product advantage; significant value to customer	de Brentani and Cooper (1992) de Brentani <i>et al.</i> (1996) Edgett (1994) Zirger (1991)
Formal NSD process (i.e., going through all the steps)	Barczak (1995) de Brentani (1989, 1991) de Brentani <i>et al.</i> (1996) Easingwood (1986) Edgett (1994)
High quality service experience for clients; high degree of participation and feedback from client	de Brentani (1989, 1991) Easingwood (1986)
Specialized initial market	de Brentani (1989, 1991) Iansiti (1995)
Responds to demand cycle	de Brentani (1989, 1991)
Market's familiarity with service	de Brentani (1991)
Quality of execution of new service launch and marketing activities	de Brentani and Cooper (1992) Edgett (1994)
Product/service champions	Barczak (1995)
Expert/people-based service	de Brentani (1989, 1991)
Providing tangible evidence for evaluating service quality	de Brentani (1989, 1991)
Strong internal marketing to boost awareness	Edgett (1994)

(adapted from Ragot (1995))

While the majority of the above success factors are also applicable to manufactured goods, several are indeed unique to services, including service expertise (overall synergy), providing tangible evidence, and high quality service experience and customer participation.

VII.A. Service Expertise

It makes sense that service expertise would be unique to NSD since buyers frequently purchase services to have access to expertise (i.e., proprietary know-how) not available in-house (de Brentani *et al.*, 1992). This is especially true for the professional services sector (i.e., legal, accounting, financial planning, management consulting, etc.) which is almost 100% expert-based and requires punctual, but on-going involvement in particularly complex areas (de Brentani *et al.*, 1996, Gummesson, 1981). Moreover, service firms often develop new services which are incremental improvements or extensions of current offerings by leveraging existing proficiencies and resources, and by integrating newly gained know-how into existing services (de Brentani, 1991).

VII.B. Tangible Evidence

Whereas a manufactured good is tangible and can be inspected for quality, services often do not include tangible components. As seen earlier, clients can become frustrated at the lack of ability to touch or see the service. Successful services offset intangibility to a certain degree and reduce client anxiety through the use of physical

evidence such as brochures, manuals, reports and flowcharts (de Brentani, 1991; Gordon *et al.*, 1993).

VII.C. Service Delivery Quality and Customer Participation

In contrast to manufactured goods, simultaneity of service production and consumption means that the delivery process is a critical part of the service offering, and therefore high service quality during delivery is of utmost importance for successful services. As previously mentioned, it is during delivery that customers evaluate service quality; perceived service quality directly affects the customer's level of satisfaction with the service; and a satisfied customer will continue purchasing the service (de Brentani, 1991). This means that higher quality service delivery can result in higher customer satisfaction. Service firms working with the client during service delivery can have immediate feedback regarding service quality and whether or not the service meets client expectations, which permit the firm to quickly make any needed corrections (Boström, 1995).

Further, customer involvement is a key success factor for "pure services" that have little tangible component, such as professional services (de Brentani *et al.*, 1996; Easingwood, 1986). Benefits to the client from close participation include the formation of a durable relationship with the service firm which reassures the client that the service provider, who often has intimate knowledge of a customer's business, will continue to work for the best interests of the client and will keep client information confidential (de Brentani *et al.*, 1995, Dwyer *et al.*, 1987). For the professional services firm, benefits

from working together include satisfied clients who continue to purchase the service on a regular basis, offering a stable workload and reducing revenue loss due to service perishability (de Brentani *et al.*, 1996).

VIII. The Need to Study Collaborative NSD Success Factors

Besides during service delivery, where simultaneity often necessitates service provider-client interaction, an important question is: are there reasons for service providers to work closely with customers much earlier in the new service development process? The new service success studies of the recent past (see above) all focus on services developed in-house-- that is, within the service firm and do not take into account how the new service success factors might change if clients actually became involved right from the beginning of the NSD process. Indeed, the existing research into the NSD process and new service success factors gives the impression that service firms take a highly proactive approach, starting with generating new service ideas all the way through to market launch, only sporadically consulting with the customer to test new concepts or freshly developed services prior to commercialization. In reality, this is often not the case for many business services.

According to von Hippel (1987), industrial service firms are more reactive than proactive in generating new product ideas because problems and ideas are often brought to the service firm by the customer. Indeed, industrial customers, facing a problem that cannot be solved in-house, often approach service firms for solutions and thus become involved from the beginning and stay involved throughout in new service development

process (von Hippel, 1987). In other words, in business-to-business services, clients can be involved not only during the production and delivery (as is the case for most services), but can play an active role much earlier on in the NSD process when they approach a service provider with a particular problem. This means that in the business-to-business scenario, there is more of a collaborative effort where the customer and service provider work hand-in-hand to articulate the business problem, to design and develop the solution and to test and implement the new service at the client site. Hence research into new industrial service development should take into account this much broader simultaneous, or collaborative, character.

Studying new industrial service development which involves a "partnership" between the service provider and the client throughout the NSD process necessitates a solid understanding of several areas: The distinguishing characteristics of services, the NSD process, new service success factors - all of which have been presented - plus insights about inter-firm collaboration. Indeed, firms that work together in any capacity over an extended period of time are subjected to the benefits and risks of collaboration and should have an understanding of what makes for a successful business relationship. The following sections address these issues.

IX. Inter-firm Collaboration

Inter-firm collaboration is the term used to describe the coming together of individual organizations to realize common goals. Varadarajan *et al.* (1995) define collaboration as "a manifestation of interorganizational cooperative strategies, [which] entail the pooling of skills and resources by the alliances partners, in order to achieve one or more goals linked to the strategic objectives of the cooperating firms" (p.293). Further, Anderson and Narus (1990, p.43) hold that collaborations involve "...mutual recognition and understanding that the success of each firm depends in part on the other firm...." Firms are motivated to enter into partnerships because they offer a certain synergy, allowing the partners to leverage complementary skills, knowledge or technologies in a win-win situation (Littler *et al.*, 1995). Simply pooling skills and resources could result in a zero-sum game - the company getting out only as much as it puts in. For an alliance to be considered strategic it must offer each firm more in return than what it costs, creating value for both partners. Value translates into a competitive advantage in the marketplace (Varadarajan *et al.*, 1995) whereby the new entity is a more potent force than either of the individual firms (Bucklin *et al.*, 1993). In other words, firms entering alliances find value when the whole is worth more than the sum of the individual parts (Day, 1995; Hamel *et al.*, 1989; McFarlan *et al.*, 1995; Millson *et al.*, 1996; Ohmae, 1989).

The strategic aims behind business-to-business collaboration are the following: acquire skills, resources and competitive advantages not available within the individual

firm; create new and better goods and services; and sell more of the goods and services already available (Freeman, 1991).

The body of information on collaboration is enormous in both the management and marketing literatures, proving how partnering is a strategy that necessitates the input of both disciplines. This is because firms engaging in collaborative ventures do so for predominantly market reasons, but such relationships only succeed when operated within a strategic management framework. The terminology used to describe inter-firm cooperation is quite vast and, in addition to collaboration, includes strategic alliances, business alliances, strategic partnerships, networking and collaborative agreements, to name but a few (Varadarajan *et al.*, 1995).

Collaboration is not a new phenomenon, but it has been undergoing a profound change in the last few years (Bucklin *et al.*, 1993). Factors that push firms to invest in new product and new service development - namely increased competition due, in part, to the globalization of markets, and rapid technology change - are wooing even the most autonomous of corporations to team up as a preferred strategy for growing the business (Day, 1995; Douard, 1995; Iansiti, 1995; Lawton Smith *et al.*, 1991; Littler *et al.*, 1995; McFarlan *et al.*, 1995; Ohmae, 1989; Varadarajan *et al.*, 1995). Indeed, there is a paradox to doing business in the 1990s: to be an effective competitor in the global economy, a firm must also be a good and trusted collaborator (Morgan *et al.*, 1994).

As briefly outlined in the last section, service firms may have even greater reasons to collaborate during the new service development process. Service intangibility has

always meant that competitors can launch imitations or new services onto the market fairly rapidly; but this is even truer in the global market because the number of possible competitors increases. New service development can be expensive, and there are few guarantees of success. Collaborating with other organizations, whether it be clients, suppliers, universities or certain competitors, is one way that service firms can attempt to reduce the cost and risk of NSD, as well as the time needed to bring new services to market ahead of the competition (Millson *et al.*, 1996).

Partnering with a client can also be viewed as a natural response of a service firm's desire to "get close to the customer" as a means to boost the chances of creating successful new services. Collaborating with a client during NSD allows the service firm to reduce the conceptual nature of the service by designing and developing it with a particular customer problem in mind. Further, the customization that is normally required in business services, made possible through service heterogeneity, would seem to make a provider--customer partnership ideal in this NSD situation. Working directly with the client, the service firm could build specific customer needs into the new service starting with the identification of core benefits as well as during the development and delivery stages. Firms offering services which require high levels of contact with the client during delivery have always been aware of the need to partners. Simultaneity of production and consumption means that a harmonious service provider-client relationship is necessary to make service production and delivery run smoothly. Thus increasing customer

satisfaction and the chances of further service purchases in the future (Beaton *et al.*, 1995; Berry, 1995).

X. Collaboration Structures In New Product Development.

Figure 2: Spectrum of partnership structures

<i>Mergers & Acquisitions</i>	<i>Joint Ventures</i>	<i>Contractual Partnerships</i>
Full equity investment	Partial equity investment	No equity investment
Reduced flexibility	Some flexibility	Greater flexibility
Total control by 1 party	1 party has majority control	Both parties share control

adapted from Millson *et al.* (1996, p.47)

New product development partnerships between firms can take several different forms. These are outlined in the spectrum presented in Figure 1. They range from the full integration (merger), to joint ownership (joint venture), to contractual agreements between independent firms. Collaborative NSD between service provider and customer normally involves the latter case-- that is, a contractual partnership--given that the service provider and client tend to operate in different industries and thus would not be served well by either a merger or a joint venture. Further, researchers are starting to question the adequacy of mergers and joint ventures as a way to become more innovative and to grow a business. Many argue that companies looking to innovate through new product

development should, instead, adopt contractual partnerships as a preferred strategy to boost innovation (Hitt *et al.*, 1996; Millson *et al.*, 1996; Ohmae, 1989).

X.A. Problems with Mergers and Joint Ventures

According to Hitt *et al.* (1996), mergers and joint ventures have generally failed to achieve systematic positive outcomes for the participants and may have become popular for the wrong reasons. In the case of mergers, one important reason for failure is that they are often used as a substitute for internal innovation. A larger firm, looking to increase its market offering, simply takes over a smaller, more innovative company. This tactic, however, has more often than not served to kill the innovative spirit of the absorbed company rather than produce any kind of creative synergy between the two firms. Indeed, researchers point out that most mergers end up with a lacklustre rate of new product success (57% of merged firms underperform their industries in new product development), partly due to in-fighting between the employees of the formerly independent firms, and partly due to management's focus on "the deal" rather than on figuring out how the merged firms should operate once the contract is signed (Hitt *et al.*, 1996).

Compared to mergers and takeovers, joint ventures have been thought of as a more flexible and economical alternative for collaborative NPD. This joint venture formula respects the autonomy of the partners through the creation of a separate firm which is owned by the 2 partners (Millson *et al.*, 1996; Ohmae, 1989). When the partners equip a joint venture with the proper tools such as a separate mission statement and

business plans, and solid contracts outlining the responsibilities of the players, this partnership type can lead to a win-win situation (Gyenes, 1991). However, while certainly more flexible than mergers, Millson (1996) notes that, "joint ventures are often an unstable organizational form" and cites findings that their failure rate is between 30% - 40% (p.47), mainly due to a lack of trust among the partner firms' employees assigned to the project. Ohmae (1989) also warns that partnerships involving equity too often lead to excessive focus on control and return on investment. The partners do not give the joint venture room to expand and take on a life of its own, which can lead to failure. Gyenes (1991), although in favour of the joint venture model, admits to its riskiness and states that joint ventures should *not* be a company's first choice for business growth.

X.B. Contractual NPD Alliances

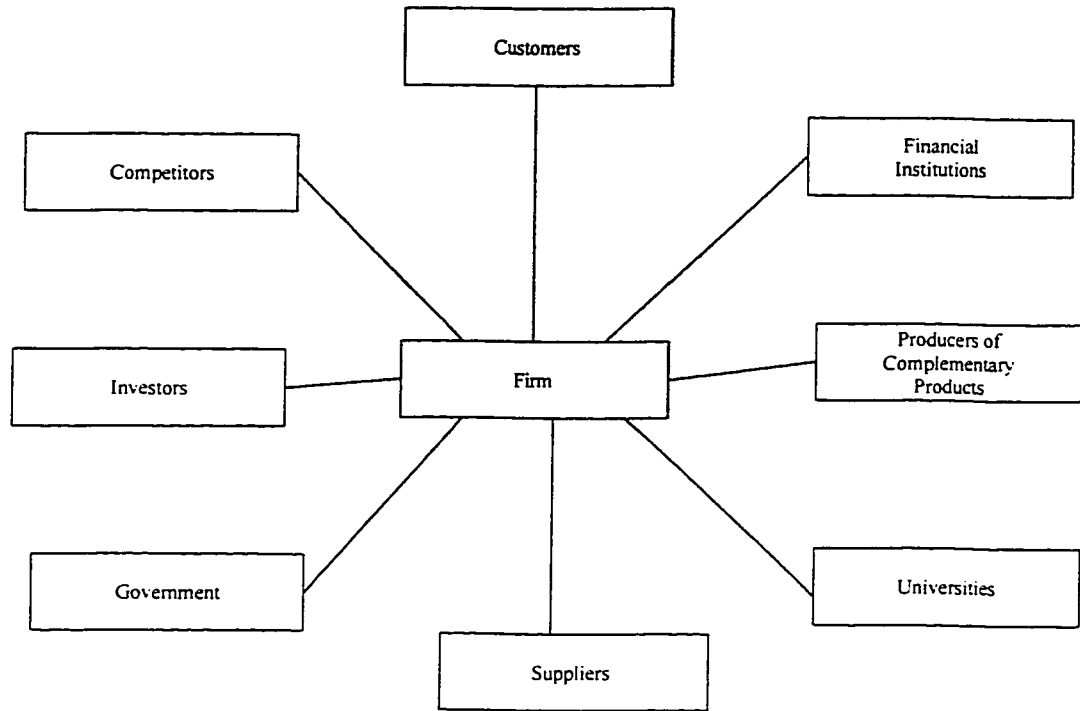
A much more flexible approach to industrial partnering in NPD is the contractual alliance which involves no equity exchange, but where the firms solidify their desire to collaborate through both binding contracts and the fostering of mutual trust and commitment to the partnership (Gyenes, 1991; Millson *et al.*, 1996; Morgan *et al.*, 1994; Ohmae, 1989). According to these researchers it is this form of partnering that has demonstrated the greatest potential for partnership success and thus should be explored as the preferred vehicle for NSD alliances.

X.B.1. Types of Contractual NPD Alliances

Supplier-buyer alliances can either be short- or long-term. Short-term collaborations have a limited project duration from the outset but go beyond simple one-shot transactions (Lawton Smith *et al.*, 1991; Millson *et al.*, 1996). Architectural planning is an example of a short-term collaboration, as the architect and client must work closely together over a period of time to arrive at the finished product. But once construction begins, the relationship between the architect and client is either minimized or disappears entirely. Many scenarios, however, call for potentially long-term collaborative relationships; for example, an IT consultant who solves a client's computer systems problem. Where possible, marketers prefer a long-term relationship with their clients. Not only does it cost less to keep clients than to recruit new ones, but loyal clients tend to spend more over the life of the relationship (Gummesson, 1981).

In addition to a time-based (i.e., short- versus long-term) collaboration typology, alliances can be categorized in terms of the types of organizations that take part. Figure 2, adapted from Millson *et al.* (1994) provides a schematic representation of the range of most likely partners in an NPD alliance. The typology includes eight potential partnership relationships, including the one of interest to the current research: that between producer and customer in a vertical supply relationship. A brief description follows.

Figure 3: Alliance partners



(Taken from Millson *et al.*, 1996, p.44)

In certain new product development situations, a firm may have a new product idea, but is in need of cash to subsidize the development process. In this case it could look to government, financial institutions, or private investors as partners for funding. These "silent partners" share both the risks and rewards of NPD with the firm, but typically have limited direct involvement in the NPD process for things such as design or technology choice.

Firms may also partner with research institutions such as universities or government agencies when they are searching for new ideas. Here, the firm is often looking for "seeds" or for new ideas that the market is as yet totally unaware of. The Internet and its search engines like Yahoo! and Netscape were almost exclusively developed in the university environment prior to their release to the business or consumer markets.

Lateral NPD partnerships--that is, alliances within the same general industry--are also possible involving competing firms or producers of complementary products. This type of relationship appears to be quite natural, given that the firms are scanning the same industry for new product ideas. Chances for success, however, depend on the degree to which the firms view each other as competitors. "Concert" is a global telecommunications alliance between Sprint (U.S.), France Telecom, and Deutsche Telekom (Germany). The alliance has done well because none of the firms are in direct competition with the others. Working with direct competitors or with firms that could become competitors has been found to be quite difficult. Such firms normally seek each

other as partners only when a particular window of opportunity presents itself or when ordered to do so by, say, the government (Leclercq, 1995).

One of the most heavily researched alliance types is that between buyers and suppliers. The existing literature on this specific topic, however, has almost exclusively emphasized the channel relationships in goods manufacturing (Freeman, 1991; Håkansson *et al.*, 1984; Han *et al.*, 1993; Iansiti, 1995; Lawton Smith *et al.*, 1991; Leclercq, 1995; McFarlan *et al.*, 1995; Millson *et al.*, 1996; von Hippel, 1986; Young *et al.*, 1996). Vertical supply alliances between a firm and its up-stream suppliers have been used to enhance both traditional supply agreements and the more recent Just-In-Time practices (Leclercq, 1995; Young *et al.*, 1996). In their study of the computer hardware industry, Han *et al.* (1993) found that computer manufacturers are more willing to enter cooperative alliances in order to reduce the number of component suppliers they deal with (but not necessarily to restrict them to a single supplier). In exchange for purchase guarantees, suppliers are expected to offer delivery and quality guarantees which, in turn, should translate into economies and higher quality for the buyer. For example, the buyer gains if the need to inspect incoming goods is reduced because the supplier has guaranteed quality. This type of savings would be unavailable in traditional channel relationships which are usually of a more adversarial or arm's length nature.

The NPD collaborative relationship between an innovating firm and its industrial customer--the relationship highlighted in Figure 2--is the focus of the study described in this paper. Such new product development alliances have received some attention by

researchers over the past few years, notably in the areas of outsourcing and partnering with lead users. Outsourcing of support services is one area that has received increasing attention as the need of customer firms to focus on core competencies has become more acute. For example, in computer services, the client firm (whose business is usually not computers) can realize substantial economies by contracting for these services from a specialized company. Not only does the buyer benefit from the computer services firms own economies of scale (due to running multiple client systems on a single machine) but also from transforming what was once fixed overhead costs of computing services to variable costs on a pay-per-usage basis (McFarlan *et al.*, 1995).

Another type of NPD partnership frequently occurs between a firm and an industrial client who is a "lead user". According to von Hippel (1986), lead users are customers who are at the very front of the demand for new products or services. Continually changing environments and completely new customer needs makes new product development a risky and complicated affair for the firm. Not only must the company attempt to accurately predict what future customer needs will be, but it must invest its resources in order to develop a new product today to meet what are often very uncertain needs of tomorrow. One option available under these circumstances is to try to identify lead users that actually need today what the majority of the market will need in the future. By jointly developing and testing the new product with the user the company not only is assured of a customer for its original NPD investment, but it can refine the product later for a general market launch (Håkansson *et al.*, 1984). Such a relationship

has a good chance of success because, the new product is customer-tested, it solves a real problem, and it has good prospects for customers with similar needs.

XI. Provider-Customer Collaboration in NSD

. As noted above, new product development and collaboration are both natural and high-growth phenomena for providers of business-to-business services. Yet, the literature on vertical NPD relationships has focused primarily on manufactured goods and on channel relationships that emphasize the perspective of the buyer (e.g. reduced inspection/inventory costs in product quality/just-in-time agreements). While the handful of studies on the topic of outsourcing and lead users do take the supplier perspective and also provide some information about seller-customer relationships, only a limited part of this latter research is relevant for services. In fact, researchers in the literature have just started to focus efforts on the specifics of the service provider-client relationship as it relates to in new service development. The study presented in this paper is part of this new effort.

Focused research into the collaborative NSD process will permit us to address certain important issues that relate specifically to how a service firm's collaborative relationship with a client is affected by the unique properties of services. These issues were discussed earlier, but are summarized here for emphasis:

- Service delivery often requires customer involvement due to the simultaneity of production and consumption, and the inherent variability of services. As a result, it is more natural for service firms and clients to collaborate both when designing new services and during the service production and delivery process.

- The absence of tangibility radically reduces the ability of the client to inspect the new service as it moves through development. This may push service firms and clients closer together right at the start of the NSD process to assure that the service that is ultimately delivered will conform to expectations and needs. A key question, therefore, is: Do industrial service clients have more involvement in the NSD process than their manufactured goods counterparts?
- NSD success factors have been well documented for in-house developed services (i.e., no collaboration with the client). But how do these success factors hold up when confronted with the added issue of collaboration? If the performance factors change when partnering is involved, it is important to understand and identify these differences if managers are to create successful new services and assure their firm's continued prosperity.

The remainder of this chapter deals with the advantages, dangers and identified success factors relating to inter-firm collaboration. It should be noted that most of this information comes from literature sources that are of a generic nature, and therefore can be broadly applied to different types of alliance situations. As this paper is specifically concerned with collaboration in new service development, however, only issues that relate to this topic and new product development in general will be presented.

XII. Advantages to Collaborations

One of the first questions that researchers usually ask about inter-firm partnering is: Why do companies collaborate? Table 2 presents a comprehensive list of the most frequently cited advantages of entering strategic partnerships. It should be noted that firms may perceive multiple advantages from their alliances, thus the identified reasons are not mutually exclusive, but often overlapping.

Table 2 : Advantages of Collaboration

Share risks and costs; leverage resources	Douard (1995) Freeman (1991) Hagedoorn (1993) Hamel <i>et al.</i> (1989) Johansson (1995)	Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Ohmae (1989) Varadarajan <i>et al.</i> (1995) Vasseur (1995)
Respond to key customer needs	Littler <i>et al.</i> (1995) von Hippel (1986)	
Speed development cycles; improve time to market	Bonaccorsi <i>et al.</i> (1994) Freeman (1991) Hagedoorn (1993)	Johansson (1995) Littler <i>et al.</i> (1995)
Expand/access new markets and infrastructure; Broaden product line or range of products/services offered	Douard (1995) Freeman (1991) Hagedoorn (1993) Johansson (1995)	Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Ohmae (1989) Varadarajan <i>et al.</i> (1995) Vasseur (1995)
Master technological changes; Shape industry structure	Freeman (1991) Hagedoorn (1993) Johansson (1995)	Littler <i>et al.</i> (1995) McFarlan <i>et al.</i> (1995) Varadarajan <i>et al.</i> (1995)
Skills, knowledge, technology: improvement, acquisition, access	Freeman (1991) Hagedoorn (1993) Hamel <i>et al.</i> (1989)	Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Varadarajan <i>et al.</i> (1995)

1. Share risks and costs; leverage resources

The most often cited advantage to partnering is the ability to share risks and costs and to leverage resources across firms (Douard, 1995; 1995; Freeman, 1991; Hagedoorn, 1993; Hamel *et al.*, 1989; Johansson, 1995; Littler *et al.*, 1995; Ohmae, 1989; Vasseur, 1995; Varadarajan *et al.*, 1995). And, since both cost and risk are substantial in new product development, companies often undertake NPD collaborative alliances to reduce individual exposure to such costs and risk.

For new product development, especially in high-technology and the sciences, large up-front commitments for research and development are usually a must (Douard, 1995; Lawton Smith *et al.*, 1991). Further, as there is no guarantee that the R&D will generate a marketable product, these investments are made under rather uncertain, or risky, conditions. Tied in with the cost and risk of development is the shrinking product life cycle. Investments made today, however large, must be quickly recoverable once the product is on the market since its "shelf life" may be shortened by the arrival of newer technology (Johansson, 1995).

For companies looking to expand into new markets with either current or new product offerings, the fixed costs associated with opening new offices, hiring personnel, and building and maintaining a brand image can be enormous. Thus as with R&D, there is risk associated with entering new markets where a poor understanding of the way the market functions can hinder growth regardless of the amounts invested (Ohmae, 1989). In

order to reduce or share these major new product development investments and risks, companies often enter strategic alliances.

Also in services, both service provider and client can reduce their NSD cost and risk by collaborating. Especially for new-to-the-world services, where the service firm may not have a clear idea of what exactly the new service should be and whether it will be accepted by the market, the risk of failure is great. A partnership with a client can give the service firm a better idea of what the new service should be by tapping into the ideas of the client. Further, partnering generally offers the service firm some guarantees that there is at least one client committed to buying the new service.

Even if the service is not new-to-the-world but demands substantial up-front resource commitment by the service provider, a committed client partner assures that these invested resources, which are often specific to a project and irretrievable, will come to fruition. The client firm, in exchange, receives assurance that, by investing up front, the new service will indeed meet its particular needs.

Whereas a physical good can be prototyped and periodically inspected and tested during the development process, intangibility renders this difficult for services. As such, developing a new and complex business service involves the risk that the new service may "miss the mark" because it is difficult for the service provider to explain and demonstrate, and equally difficult for the prospective client to conceptualize the new service. Involving the client in the entire NSD process, instead of just during delivery

(launch phase), can add better understanding of the new service and help to ensure a better fit with client needs (de Brentani *et al.*, 1996).

2. Responding more effectively to key customer needs

In a recent study of collaborative NPD in information and communications technology companies, Littler *et al.* (1995) identified "response to customer needs" as a key reason for entering such an alliance. An accurate understanding of user needs is, of course, also essential for successful NPD, especially in turbulent high-technology markets, where user needs change more quickly than in more stable markets (von Hippel, 1986). As mentioned earlier, within a firm's client portfolio there are usually one or two customers that have current requirements which are ahead of the needs of others (i.e., "lead users"). Collaborating with these clients to satisfy their current requirements can be a "need-forecasting laboratory" for future trends in the general market (von Hippel, 1986, p.791).

For service firms, responding more effectively to key customer needs is likely to be the dominant reason for collaborating. Indeed, one of the primary success factors in NSD is developing a new service that has significant value to the client (de Brentani *et al.*, 1992). This is achieved when there is a good fit between the client and the new service.

It has been previously discussed that business services firms are more reactive to market needs than firms focused on the consumer market because it is often business

customers who first become aware of a particular problem and then turn to service firms for help. Working together, the client firm brings to the partnership the details about the problem as well as knowledge about both the firm and the industry; the service firm supplies specific expertise. NSD partnering, especially when it involves lead users, allows the service provider to undertake a form of "beta" testing and refine a new service prior to a full market launch. The up and running service can then be used as a reference by the service firm to reduce its intangibility for other prospective clients.

Moreover, working with a single customer prior to full market launch permits the service firm to "iron out the kinks", especially in service delivery, which helps to ensure satisfaction of both current and future clients.

3. Speed development cycles; improve time to market

The pressure on firms to innovate through new product initiatives is more acute today than ever before. The need to get a new product to market quickly is critical, as the firm who arrives first to market with a new product usually gains a competitive advantage (Bonaccorsi *et al.*, 1994). As well, the life cycles of products already on the market are becoming shorter. Johansson (1995) speaks about today's "steeper" product life cycles - the introduction stage is shorter, growth arrives earlier, and new services displace existing technology quicker. When a product life cycle is shortened, a firm must replace the product with something newer more quickly. To beat the competition to market and introduce more products faster, firms are implementing shorter development cycles where the same number of stages and the same process are "compressed" into a reduced time

period. Extra demands are, thus, put on limited corporate resources to speed up the NPD cycle in an effort to get new products to market sooner. Firms can turn to collaboration as a way to create synergy to increase project momentum and reduce the necessary innovation lead time (Freeman, 1991; Hagedoorn, 1993; Littler *et al.*, 1995).

Although the competitive advantage that comes with being first to market with a new service is not 100% sustainable in the long-term due to imitations or improvements, service firms can still come out ahead by developing and launching products faster than the competition. Being first to market means that the service firm can, for a time, control the market and use the profits to pay off development costs. As well, consistently being first to market boosts the firm's reputation as an innovator. As a service firm's reputation is often used as a surrogate for quality due to intangibility, clients searching for a service provider may be more likely to turn to one that is perceived to be innovative.

4. Expand/access new markets & infrastructure; Broaden product/service line

Increasing competition means that firms must look for new markets in which to sell current products, and also expand current product lines with new offerings for their current markets.

When a firm decides to take a strategic position in a new market, collaboration with clients who are already in that market becomes an attractive means of gaining rapid access (Johansson, 1995; Freeman, 1991). The partnering option is especially enticing for

suppliers that lack the internal resources to develop new markets on their own (Littler *et al.*, 1995; Hagedoorn, 1993). Further, part of the cost of entering new markets is establishing a corporate image and good reputation (Ohmae, 1989). Successful new product development alliances with established firms can bring an immediate legitimacy to the newcoming supplier, and allow the supplier to more easily gain additional clients in the new market.

In addition to partnering to develop products for new markets, firms need multiple products and complete product ranges to continue competing effectively in their traditional markets (Johansson, 1995; Lawton Smith *et al.*, 1991). Often, however, the time lag and investments required to expand a firm's product line can be prohibitive when competitors are turning out new products at an accelerated rate. NPD alliances with existing clients can be used to create new products or bring improvements to existing ones so that the gaps in a supplier's product line are filled with products that should be successful because they address a real client need (Varadarajan *et al.*, 1995).

Service firms may choose collaboration as a way to build expertise in a new area or industry. At first glance, it appears easier for service firms to expand into new markets because intangibility reduces barriers to entry. But wanting to enter a new market does not guarantee that the service firm will be able to develop successful new services for it. Indeed, key factors for service success include a firm's expertise with the service and overall fit of the new service within the firm. These would not necessarily be present

when a firm enters a new market with which it is unfamiliar. Thus, lack of expertise increases the risk that the new service will fail.

Partnering with a client firm already in the market works to counter this lack of expertise and synergy, and can improve the chances for success of this first service offering in the new market. The expertise acquired over the course of the NSD process with this initial client can then be transferred to other clients in this new market and used to develop even more new services.

5. Master technological changes; Shape industry structure

The rapidity of technological change has many firms struggling to keep up. This is not surprising given that a firm must focus on satisfying its current customers with its current technology, while at the same time keep abreast of what changes are on the horizon. Collaborations often form as a means to respond to changes in the technological environment and provide some stability in a turbulent sector (Littler *et al.*, 1995; McFarlan *et al.*, 1995).

Applying technology to solve a customer's problem, especially if the problem requires a service solution, can be risky. Not only are services intangible by nature, but technology-based services are especially difficult to conceptualize. A supplier that wants to create a new state-of-the-art product must have intimate knowledge of market needs if the service is to be designed and developed correctly. In these cases, the service provider can try to seek out a "lead user", or a client partner whose current technological needs are ahead of the trend. Working together over the course of the NPD process allows the

service provider to "harness" the new technology by giving it shape and structure in the context of solving a real client problem. Collaborative NSD increases the chances that the developed service will conform to client needs and boosts its chances for success on the general market (Freeman, 1991; Hagedoorn, 1993; Johansson, 1995). An example of this type of partnership could be an alliance between a telecommunications firm and a client to develop a real-time teleconferencing system. Although the basic ingredients exist to permit teleconferencing (satellites, high-speed lines, cameras, etc.), the technology to put the ingredients together at a reasonable price for business is underdeveloped. Questions that the service firm must address prior to investing in a telecommunications offering include: What is the best way to connect users, high-speed data cables or via satellite? How do we synchronize the voices with the images, given that each travels at a different speed? How much screen "flickering" or "jumping" would clients tolerate? Working directly with a client during the NSD process would enable the supplier to more easily grasp this new technology and put the pieces together in a way that solves client problems.

6. Skills, knowledge, technology: improvement, acquisition or access

Many firms form strategic alliances to tap into complementary assets and resources of the partner firm (Freeman, 1991; Lawton Smith *et al.*, 1991), to learn from the partner (Hagedoorn, 1993; Hamel *et al.*, 1989) or to acquire new skills (Hamel *et al.*, 1989; Littler *et al.*, 1995; Varadarajan *et al.*, 1995).

Because no firm can have expertise in all technological areas, alliances form to facilitate access to experts, specialized technical know-how, or resources outside of the firm which complement the firm's internal strengths (Freeman, 1991; Lawton Smith *et al.*, 1991). The partnering of the railway RAIL and the petroleum producer PETROL (pseudonyms for the firms in one of the case studies elaborated later on) is an excellent example. RAIL realized that there was a market for moving petroleum products by a highly innovative new train alternative, but needed a partner to bring specialized knowledge of the petroleum industry to the NSD project. Without PETROL, it is unlikely that RAIL would have been able to see its new product idea to fruition.

Mutual learning occurs in an alliance through things such as technology or process exchanges (Hagedoorn, 1993; Hamel *et al.*, 1989). Each partner can build skills, learn a new technology or process and then diffuse the acquired knowledge throughout its organization. Difficulties can arise from one-sided learning relationships if one firm wants to capture its partner's tacit knowledge in order to expand its own competencies without giving an equal amount in return (Hagedoorn, 1993; Hamel *et al.*, 1989; Varadarajan *et al.*, 1995). Companies in alliances to share knowledge must, at the same time, learn all they can from their partner while protecting leakage to the partner of strategic information beyond what was initially agreed to (Varadarajan *et al.*, 1995).

Innovating through new service development means expanding the service firm's skills and knowledge. But because service providers and clients often operate in different industries, acquiring skills through service provider-client collaboration is different than

between firms in the same industry. For lateral partnerships, accessing skills or expanding product offerings is done on an exchange basis - "I'll show you this, if you let me have that" - and the new-found skills are then applied to future in-house projects (i.e., Air Canada might partner with Lufthansa to find new ways to improve its productivity; in return Lufthansa would learn how to operate an airline in a completely deregulated environment). In service provider-client partnerships there tends to be little or no negotiated exchange of technology or other know-how (e.g., IBM would have little need to acquire knowledge of how Chrysler builds cars). Instead, partnering is a way for the service firm to acquire new service expertise that can then be sold to other clients. For example, firms offering "pure" services with little or no tangible component (i.e., management consulting) share previously acquired expertise with a client, while at the same time learning from that particular client situation. This newly acquired knowledge reinforces or adds to the firm's existing know-how and is not reserved for in-house use only, but is passed on to solve the problems of future clients.

XII.A. Advantages for Collaborative NSD: Summary

In summary, the following are the main reasons why service firms would choose to collaborate with clients in the development of new services. These reasons correspond to the majority of the general advantages of inter-firm collaboration, but are nuanced to account for the distinguishing characteristics of services and the difference in sector of activity between the service firm and its clients.

- Reduce the risks that the newly developed service will meet customer needs and its investments are not lost;
- Minimize the negative effects of intangibility by involving “lead” customers in the entire NSD process, and by allowing other prospective clients to “observe” the developed service prior to purchase;
- Try out, refine and "iron out the kinks" of a new service (especially delivery) on one customer prior to a full market launch;
- Shrink development times and allow the service firm to be consistently first to market;
- Enable the service firm to develop new expertise and create the synergy necessary for successful services, especially in new markets;
- Allow the service firm to "harness" new technology by giving it shape and structure in the context of solving a client problem;
- Expand a service firm's knowledge that can be used in future projects with other clients.

XIII. Difficulties and Risks Associated with Collaborations

For all of the benefits that strategic alliances offer, they are not without their disadvantages. Table 3 presents a summary of research findings on the hazards of collaboration. A discussion of the findings follow.

Table 3: Hazards of Collaboration

Coordination problems and resistance to alliance	Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Ohmae (1989)
Failure to set and monitor goals, focus on long-term objectives	Berling (1993) Bucklin <i>et al.</i> (1993) Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) McFarlan <i>et al.</i> (1995) Ohmae (1989)
Loss of direct control over project direction	Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) McFarlan <i>et al.</i> (1995) Ohmae (1989)
Opportunistic behaviour	Bucklin <i>et al.</i> (1993) Lawton Smith <i>et al.</i> (1991) Hamel <i>et al.</i> (1989) Han <i>et al.</i> (1993) Millson <i>et al.</i> (1996) Ohmae (1989) Stump <i>et al.</i> (1996)
Future competition from partner	Ohmae (1989)
Leakage	Hamel <i>et al.</i> (1989) Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Vasseur (1995)

1. Coordination problems and resistance to the alliance

A partnership necessitates that the firms work closely together. Differences in management style and corporate culture can lead to problems in communication and in coordinating the alliance (Lawton Smith *et al.*, 1991; Littler *et al.*, 1995; Ohmae, 1989). Especially for firms that are not experienced in the forming and managing of partnerships, a certain "not invented here" mentality can develop (Lawton Smith *et al.*, 1991), encouraging management resistance to the project. This resistance can lead to project delays (Lawton Smith *et al.*, 1991; Littler *et al.*, 1995), which is exactly the opposite of what was initially intended in the alliance! Delays caused by resistance to the collaboration may eliminate any competitive advantage that had been hoped for and reduce the enthusiasm to continue the partnership.

Although any kind of direct competition between the partners is less likely to occur between a service provider and client because they are usually in different industries, coordination problems which delay the new service's development or launch, risk putting the relationship in danger. This is especially true if the partners believe that the new service could have been developed more quickly (and, therefore, less costly) either in-house or with a different partner (Lawton Smith *et al.*, 1991).

Not only does a collaborative NSD project have to deal with general differences in corporate culture or management style of the partners, but there is the added requirement that both partners share an NSD-oriented culture. If either, or both, of the firms are ill-equipped to carry out the NSD process in its entirety, the risks are higher that

the service will not be developed on time or as imagined. In other words, without both service provider and client sharing a common approach and attitude to NSD, the new service may not succeed.

Further, a certain complicity between partners, which exists when they have similar ways of working and solving problems, is required given the close interaction that is needed during service delivery. Since service providers and clients are usually in different industries, differences in company culture and work habits are very likely to be present (e.g., for service firms a key resource is often technology, while for manufacturing firms it may be capital equipment). Culture clashes during service design and development can transfer over to the production stage and ultimately reduce the client's satisfaction with the service.

Resistance to an alliance on the part of either the client or the service provider appears to be less of a problem when the client is incapable of developing and producing the service in-house. It is difficult to imagine a client throwing up barriers to its legal council, for instance, when it does not have its own lawyers on the payroll. Resistance could pose a problem, however, for business services that are subjected to outsourcing. Contracting for the provision of corporate services, such as information systems, involves transferring responsibility for the provision of the service from the client firm to a specialized service provider. Clients with existing IS departments must decide which employees stay with the client firm, which ones are transferred to the service firm, and which ones are let go. It is easy to imagine resistance to this type of partnership coming

from the in-house IS staff for two reasons. First, their careers are on the line; second, there is probably disbelief that an outsourcing firm could have the same level of knowledge of the client firm's business which would permit the outsourcing firm to provide services as well or better than an in-house department.

2. Failure to set and monitor goals, focus on long-term objectives

Resistance to the project can be inadvertently fostered by senior management's failure to reinforce the strategic nature of the alliance by setting and monitoring goals (Lawton Smith *et al.*, 1991). As well, many companies enter alliances without clearly defined objectives, neither for the individual partners nor for the partnership. If, as the alliance continues, individual partner objectives diverge from those of the partnership, dysfunctional conflict can result (Bucklin *et al.*, 1993; Littler *et al.*, 1995). Unresolved conflict often leads to negative satisfaction evaluations of the alliance and, ultimately, to its end (Bucklin *et al.*, 1993; Lawton Smith *et al.*, 1991).

Lack of long-term objectives for the partnership has also been identified with disappointing alliance results. Berling (1993) found that the U.S. companies in his study tended to focus on the short-term and often sacrificed long-term objectives for short-term opportunistic gains. Indeed, companies in the study did not appreciate the linkages between their own prosperity and that of their partners. Ohmae (1989) reinforces the notion that firms must focus on long-term objectives especially when confronted with the short-term problems associated with getting the alliance off the ground (contractual, financial, cultural, etc.). Continuous commitment to the alliance, over the long-term,

without losing interest is vital and often taken for granted by the partner firms (Littler *et al.*, 1995; McFarlan *et al.*, 1995).

For service firms and their clients, a long-term collaborative approach is necessary given the intangibility of services. As the service can be neither easily conceptualized during design, nor inspected during development, the partners must have confidence that the finished service will meet the expectations set out in the alliance agreement. For this to happen, project champions must be present on both sides whose job is to continually "talk up" the new service and keep interest in the partnership going during the periods of frustration with the NSD process. Furthermore, as giving priority to NSD is a key success factor in new service development, if either firm has not set NSD as a priority the project will have difficulties moving through the different NSD process phases as prescribed, reducing the chances of a positive outcome.

3. Loss of direct control over project direction

Many companies, especially those for whom partnering is brand new, are reticent to relinquish direct control over the alliance project (Lawton Smith *et al.*, 1991; Littler *et al.*, 1995; McFarlan *et al.*, 1995; Ohmae, 1989). Generally, firms entering into an alliance for the first time are not equipped with the mindset - management style and corporate culture - which permits them to open up and trust outside firms. Power struggles associated with project control can, if not resolved quickly, eat away at the goodwill that exists between the partners.

In services, simultaneity of production and consumption implies that service provider and client may indeed have previous experience with working together during service delivery. But partnering for the entire NSD process for the first time involves new commitments from both sides. For the service provider, there is a new commitment to involve the client continually throughout the entire NSD process. It is a given that the service provider's delivery team would be well versed in client management and customer care, but other areas of the service firm such as design and development teams, often composed of more technical staff who have little client contact, must also become adept at consulting the client prior to taking decisions. The client firm, in turn, must be willing to get involved from the beginning and stay involved, even if that means working through the nuts-and-bolts of development questions that, in the past, were the exclusive domain of the service firm.

Key new service development success factors for the service firm include effective NSD management and following a formal NSD process (Easingwood, 1986). An NSD alliance necessitates that the client share this view so that the NSD process is not rushed or performed haphazardly to the point where the finished service is a disappointment.

4. Opportunistic behaviour

Opportunistic behaviour is any unilateral action which is deceit-oriented and violates the implicit or explicit promises about appropriate or required role behaviour (Morgan *et al.*, 1994, p.25). It is usually provoked by a power imbalance arising from any number of asymmetries between the partner firms, such as size disparities (Bucklin *et al.*, 1993; Lawton Smith *et al.*, 1991; Millson *et al.*, 1996; Ohmae, 1989; Stump *et al.*, 1996). Lawton Smith *et al.* (1991) and Bucklin *et al.* (1993), who both looked at alliances involving large and small firms, found that predatory behaviour by the larger firm in an attempt to take advantage of the smaller was present when the partners had unequal resource endowments (i.e., one partner believed that it was committing more resources to the relationship than the other). This behaviour led to distrust and a demise of the relationship in many of the cases. The researchers' findings run contrary to the general idea that small, leading-edge technology firms should seek alliances with extremely large companies in an exchange of expertise for access to markets or resources.

Another area for opportunistic behaviour is an overdependence of one partner on the other (Hamel *et al.*, 1989; Han *et al.*, 1993). Manufacturers and suppliers in particular can be reluctant to enter into an exclusive provisioning deal, no matter how advantageous in terms of price or quality, for fear of being at the partner's mercy once other potential suppliers and clients have been shut out.

For service firms, overdependence on one particular customer can, indeed, open the door to opportunistic behaviour. Service intangibility and variability increases the amount of customization that can be done relatively easily to adapt the service to the needs of a particular client. The service firm must be careful during an NSD alliance to develop a service that meets the needs of the client without overcustomizing the service to a point where it becomes too costly and/or unsaleable to the general market. Such an outcome would put the client into a dominant position whereby more customization or other concessions could be demanded, reducing even further the service's market appeal and creating a vicious cycle for the service provider.

5. Future competition from partner

Termed the "Trojan Horse fear" by Ohmae (1989, p.143), companies are often reticent about establishing a partnership that appears a gift today and transforms itself into the enemy tomorrow. The hazard that a partner could become a competitor is especially present in alliances involving companies in the same sector but with different home markets, or when companies already compete on other product lines outside of the alliance (Bucklin *et al.*, 1993).

While competition from a partner is less likely to occur between service providers and their clients, it is a possibility due to service intangibility and low barriers to entry. After a particularly successful NSD project, the client firm, especially a lead user aware that it is at the front of the demand curve, could decide that it has acquired enough of an

expertise with the new service to package it and sell it to other firms in the sector. The client firm that becomes a consultant to its own industry could have an advantage over the service firm in that the client firm would already have a certain amount of name recognition and reputation not available to the service firm.

For example, this author previously worked for a mid-sized information systems consulting firm that developed a new billing system for a large North American telecommunications company. Once the system was working to the client's satisfaction, the telecommunications firm began offering this customized system to other firms in the industry, notably in South America and North Africa. The telecommunications firm met with mild success as a reseller of the billing system in part because its name carried a solid reputation as an innovative firm within the industry.

6. Leakage

By far the most important disadvantage to strategic alliances identified in the literature is the threat of leakage - proprietary knowledge such as skills, experience or "tacit" knowledge being intentionally or unintentionally passed to the partner (Lawton Smith *et al.*, 1991; Littler *et al.*, 1995). For many companies, especially service companies where the competitive advantage is intellectual and employee-based, leakage could mean a serious loss of competitiveness (Littler *et al.*, 1995; Vasseur, 1995). Managers of alliance projects are often called to play the role of gatekeeper (Hamel *et al.*, 1989) to restrict access by the partner to proprietary knowledge. Although leakage is a concern for all companies, the problem is even more acute for smaller companies with

neither the experience nor the resources to effectively safeguard intellectual property (Lawton Smith *et al.*, 1991).

An example of how leakage can rob one partner of its competitive advantage involved Locafrance, a French computer leasing firm, and Xerox. The two formed a joint venture in 1979 to lease information systems equipment with a majority participation by Locafrance, due to its expertise in this type of financing. In 1982, Xerox renegotiated the terms of the joint venture and took 70% control, saying that it was acting as the motor of the alliance in its role as market developer. Four years later, after having learned the intricacies of computer leasing, Xerox dissolved the relationship with Locafrance and started its own leasing firm (Vasseur, 1995, pp.148-49). It is definitely a fine line to walk between being cooperative and too collegial with partners (Hamel *et al.* 1989) and many alliances end between firms that have not yet mastered the technique.

Leakage is also the most hazardous event that could occur for the service firm in an alliance (de Brentani *et al.*, 1996). It is especially troublesome for firms that offer pure services (i.e., no tangible component) because their primary competitive advantage is proprietary intellectual property (Vasseur, 1995). Besides absorbing know-how to eventually compete with the service firm (see Future Competition from Partner above), clients may want to appropriate a service firm's expertise in an effort to squeeze out the service firm from future service delivery occasions. This author's experience in the information systems sector is that some clients do try to absorb the service firm's knowledge so as to become more independent from the consultants. It is not uncommon

for companies, especially larger ones, to have an in-house IS department that maintains certain core systems while partnering with IS consultancies to develop complex or specialized systems. Although normally the IS firm will want to prohibit the practice in the written contract, clients often request to "take over" the system's computer code once the system is up and running. This allows the client's in-house IS staff access to specific programming techniques and permits the client to perform maintenance and any further system changes, effectively reducing any future role for the IS firm. Similarly, for some business services, there is little to stop a client firm's employee from taking the client's proprietary know-how sold to the client firm and opening his or her own consulting firm based on this know-how.

Of course, the majority of client firms do not enter into alliances with the express intention of squeezing out the service provider or setting up a competing company. Of equal threat to the service firm is leakage of expertise to the competition by way of the customer. This could occur through seemingly harmless venues such as an article in the company newsletter, two CEOs playing golf together or members of a carpool talking about what they are doing at the office. The conceptual nature of services means that the competition does not need to receive detailed designs, but just enough information on the purpose of the new service and how it works in order to start development on a copycat offering. Service firms will often place non-disclosure statements in alliance contracts to prevent word getting out prior to the launch of the service.

XIII.A. Hazards of collaborative NSD: Summary

To summarize, all of the above hazards are as important to collaborative industrial NSD as for any other alliance type. Service firms and clients must be especially aware of the following problems when evaluating NSD partnering possibilities:

- Coordination problems resulting from cultural differences (including attitude towards NSD) that slow down the process and/or lessen client satisfaction levels during delivery;
- Customer's resistance to the alliance due to "turf wars" over responsibility or fear of becoming redundant once the new service is in production;
- Losing a long-term focus to counteract the effects of service intangibility during design and development;
- Difficulties integrating the client throughout the entire NSD process instead of just during service delivery;
- Overcustomization of the service which renders it unsaleable to the general market and makes the client firm overly dependent on the client;
- Future competition from a client-partner who becomes a reseller of the newly developed service;
- Leakage of proprietary information to the client which results in the squeezing out of the service provider or in the diffusion of new service details to copycat firms.

XIV. Collaboration Success Factors

In addition to the collaboration benefits and hazards described above, a number of success factors which must be present throughout the collaboration have been identified in the literature. These cover issues ranging from choosing the right partner, to how the alliance is structured, managed, operated and evaluated, to commitment and trust between partners. These are summarized in Table 4 and described below.

Table 4: Key Success Factors in Collaboration

Choosing the right partner; Prior experience with collaborations	Bucklin <i>et al.</i> (1993) Dwyer <i>et al.</i> (1987) Gyenes (1991) Leclercq (1995)	Littler <i>et al.</i> (1995) McFarlan <i>et al.</i> (1995) Millson <i>et al.</i> (1996)
Appropriate alliance structure; Good contract; Joint goals, standards, control plan; Clear rules, shared control	Bucklin <i>et al.</i> , (1993) Gyenes (1991) Hamel <i>et al.</i> (1989) Littler <i>et al.</i> (1995)	McFarlan <i>et al.</i> (1995) Millson <i>et al.</i> (1996) Ohmae (1989)
On-going alliance management; Support of top management; Alliance champions	Gyenes (1991) Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995)	Millson <i>et al.</i> (1996) McFarlan <i>et al.</i> (1995)
Personal chemistry; Ability to resolve conflict and keep harmony	Littler <i>et al.</i> (1995) Hamel <i>et al.</i> (1989)	McFarlan <i>et al.</i> (1995) Millson <i>et al.</i> (1996)
Performance satisfaction; Experience or knowledge gain	Day (1995) Hamel <i>et al.</i> (1989) Littler <i>et al.</i> (1995)	Millson <i>et al.</i> (1996) Ohmae (1989)
Commitment	Beaton <i>et al.</i> (1995) Bucklin <i>et al.</i> (1993) Day (1995) Dwyer <i>et al.</i> (1987) Ford (1980) Gundlach <i>et al.</i> (1995) Hallén <i>et al.</i> (1991)	Han <i>et al.</i> (1993) Holmlund <i>et al.</i> (1995) Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) McFarlan <i>et al.</i> (1995) Ohmae (1989)
Trust	Beaton <i>et al.</i> (1995) Berling (1993) Boström (1995) Bucklin <i>et al.</i> (1993) Crosby <i>et al.</i> (1987) Dahlstrom <i>et al.</i> (1996) Day (1995) Dwyer <i>et al.</i> (1987) Ford (1980) Freeman (1991) Gummesson (1995)	Hallén <i>et al.</i> (1991) Han <i>et al.</i> (1993) Holden (1990) Holmlund <i>et al.</i> (1991) Lawton Smith <i>et al.</i> (1991) Littler <i>et al.</i> (1995) Millson <i>et al.</i> , 1996 Morgan <i>et al.</i> (1994) Stump <i>et al.</i> (1996)

1. Choosing the right partner; Prior experience with collaborations

"Forming alliances with the right partners is an art..." (Leclercq, 1995 p.136)

Once a firm has decided to enter into a strategic alliance, its first job is to choose a partner. Partner choice is not done at random from a pool of applicants, but rather it is a formal process where the firm evaluates multiple candidates and selects a compatible partner. Compatibility refers to numerous factors, both hard and soft, such as management style, corporate culture, values, goals and objectives (Littler et al., 1995; McFarlan et al., 1995). Additionally, the firm's best choice for a partner is a company that has matching or complementary skills, resources and needs (Bucklin et al., 1993; Gyenes, 1991). To find such a partner the firm must first proceed with an internal audit to identify its own mission, weaknesses and needs that could be served through an alliance (Millson et al., 1996).

Firms may approach alliances in a bitter-sweet fashion. Problems with alliances such as leakage of proprietary knowledge, coupled with a high failure rate of new products make firms nervous about what to expect (McFarlan *et al.*, 1995). Firms that have had positive past experiences with alliances are less fearful, are usually more willing to trust partners and have acquired a certain expertise in forming and maintaining partnerships that makes future alliances easier to manage (Dwyer *et al.*, 1987; Littler *et al.*, 1995).

When firms take the decision to collaborate for NSD, the likelihood of choosing a good partner may be improved. As business service delivery requires a certain level of customer participation, partnerships between a service provider and a current client seem to be a natural next step. If the relationship has been good during past service delivery, it would make sense that a partnership between the service provider and client would come more easily (de Brentani *et al.*, 1996).

But what about the case where a service firm and prospective client have never worked together in the past? It could be that the client would have a more difficult time choosing the right partner due to service intangibility. When a number of service firms respond to a client-prospect's request for proposal, it can be very difficult for the client firm to determine which one would offer the best fit because, on paper, the different proposals may look alike. A service firm must try different tactics to make the proposed service more tangible and less conceptual to the client, such as scheduling meetings between top management (opportunities to convey approaches to NSD, corporate culture and management styles), inviting the client-prospect to tour the service firm's facilities, and introducing the client-prospect to current clients and demonstrating services that are already operational.

Because of intangibility and client participation in service delivery, clients seem more likely to choose a service firm with whom they have had positive experiences in the past. In the absence of experience, reputation of the service firm can serve as a proxy. It is customary for client-prospects to contact references to inquire about their satisfaction

with the service firm. Past actions such as customizing the service for the client's needs (i.e., leveraging the heterogeneity of service experiences) demonstrate the service firm's commitment to keeping its customers happy by being flexible.

2. Appropriate structure and contract; joint goals; clear rules

As described previously, the type of structure chosen for the alliance can influence its outcome. McFarlan *et al.* (1995), having studied outsourcing alliances between service providers and clients, argue that, while the proper structure is not a guarantee of success, the wrong one is almost guaranteed to fail. Indeed, the number of failed mergers and joint-ventures imply that a strategic alliance structure which is more flexible and quick-responding can increase the longevity of the partnership (Gyenes, 1991; Millson *et al.*, 1996).

The partners should sign a clearly written agreement as to the scope of their alliance. This agreement should detail mission statements, objectives, goals and specific performance requirements of the alliance. This helps focus the partners on the alliance's original intent as time goes by and also lessens uncertainty by spelling out who does what (Gyenes, 1991; Hamel *et al.*, 1989; Littler *et al.*, 1995; Millson *et al.*, 1996). Elaborating the responsibilities of each player is especially critical for power balancing in asymmetrical relationships, as between a large and small firm, where the smaller firm fears being taken advantage of by the larger (Bucklin *et al.*, 1993; Millson *et al.*, 1996).

Contracts should also stipulate relationship dissolution procedures in case either party should wish to terminate the alliance (Ohmae, 1989). Although it may seem

pessimistic to address dissolution, as with prenuptial agreements it is always better to discuss separation parameters while the relationship is going well than to wait until it deteriorates. Further, Millson *et al.* (1996) suggest that, instead of long-term contracts, a shorter duration be the norm with contract renewal contingent upon achieved progress toward the alliance's goals as a way of prompting partners to perform periodic formal relationship evaluations.

A contract, however, cannot be all-encompassing. It can only reflect the partners' understanding of the world at the present time, and so a large degree of flexibility must be included which permits the alliance to evolve and adapt to changes in the marketplace (Hamel *et al.*, 1989; Littler *et al.*, 1995; Ohmae, 1989). Contract rewrites should be performed as often as necessary to reflect market changes and the shared approach to problem solving among the partners (McFarlan *et al.*, 1995).

As collaborative NSD involves partners from different industries, the most common alliance structure would be contractual (i.e., not a merger or joint venture). The signed contract can help protect against leakage by stipulating what part of the developed service belongs to the client and what part stays with the service provider. For instance, a new computer system may be the property of the client, but the know-how behind code development is that of the service firm.

Since business services can be extremely conceptual and complex, the contract should outline the long-term goals of the alliance (i.e., the problem to be solved by the new service) but should refrain from tracing the path of how to get there. A number of

design and development issues will emerge over the course of the project which cannot be foreseen in a contract. Focusing on the joint goals of the alliance instead of on detailed development points enables the partners to adapt to the conceptual nature of services.

3. On-going alliance management; support of top management; alliance champions

Like any relationship, an alliance must be constantly maintained. This means regular and on-going alliance management (Gyenes, 1991; Lawton Smith *et al.*, 1991; Littler *et al.*, 1995; Millson *et al.*, 1996; McFarlan *et al.*, 1995). Practically speaking, managing the alliance involves activities like annual or semi-annual meetings between the senior managements, regular communication between the respective project managers and full-time relationship managers (McFarlan *et al.*, 1995).

Although it is the interactions of the joint project team that are most apparent in an alliance, support of top management is also critical. This support provides reassurance to the partner and affirms to the project team that the relationship is valued by executives and should be maintained (Gyenes, 1991; Littler *et al.*, 1995).

In addition, an alliance needs one individual on each side that champions its cause (Lawton Smith *et al.*, 1991; Littler *et al.*, 1995). This person may be part of the project team, senior management, or someone else with authority in the organization. The role of the alliance champion is to constantly validate the benefits of the alliance to overcome any difficulties that may be encountered.

As discussed earlier under Hazards of Collaboration, a continued push from top management, project management and partnership champions is needed to overcome the intangibility encountered during design and development. It is this forward thinking that is required to address future issues during the initial design, such as service delivery, so that the delivery process can be built into the design rather than added on at the end.

Clients are often frustrated during service development because they cannot always see or inspect the service as it moves through the development stages. Keeping the client in the fold of service design and delivery (i.e., having daily or weekly status meetings) helps alleviate fears that the developed service may not meet expectations and can provide immediate feedback to the development team of necessary changes instead of waiting for production.

4. Personal chemistry; conflict resolution; harmony

It is believed that personal chemistry between the major players contributes to successful alliances (Littler *et al.*, 1995; McFarlan *et al.*, 1995). Players that get along well are more likely to avoid conflict and quickly resolve any conflict situations that arise before they damage the relationship (Millson *et al.*, 1996). Keeping the peace is not always an easy task, as any partnership involves some jockeying for position and the need to compromise. Successful alliances keep a harmonious balance between collegiality and cooperation and protection of individual partners' competitive advantage (Hamel *et al.*, 1989).

Good personal chemistry may already exist between service provider and client if they have already worked together during service delivery (a common occurrence given services' simultaneity of production and consumption). Regardless of past experiences, it is important for the project manager and employees of the service firm to bond with the client staff early on in the development process. This is because the service under development is often personified by the project team due to intangibility, and if relations are good between the two sides, the client is more likely to believe that the developed service will conform to expectations (Ford, 1980).

As previously mentioned, conflicts encountered during design and development must be resolved prior to production to ensure that bad feelings do not jeopardize client satisfaction with the service delivery process, a critical step in overall client satisfaction with the service.

5. Performance satisfaction; knowledge gain

Although analyzed in retrospect at the end of a project or partnership, an alliance can be considered successful if each partner believes that it benefited. Indeed, several researchers state that alliances are judged successful when each partner received more than what was put in, or that the partners together were better off than they were separate (Day, 1995; Littler *et al.*, 1995; Millson *et al.*, 1996; Ohmae, 1989). Alliances must contribute to win-win situations where each partner is satisfied with the performance - knowledge acquired, goals achieved, delivery timetables and budgets respected, etc. (Hamel *et al.*, 1989; Littler *et al.*, 1995; Millson *et al.*, 1996).

Since, due to simultaneity of production and consumption, clients tend to overweight service delivery in the evaluation of service performance, it is even more important for the service firm to offer quality delivery than for a goods manufacturer. On the other hand, service firms may have an advantage over goods manufacturers when production problems arise. If there is a problem with service production, intangibility and variability permits the service firm to “recover” the new service (i.e. correct the problem) more easily by empowerment (to make changes) and additional training of the delivery staff. Problems encountered in the production of goods tend to oblige much more costly and time-consuming fixes such as recalling the goods and making major changes to the design and fabrication process.

It has been posited that the more a client firm is involved with a service, the more loyal it is to the service provider (Boström, 1995). By involving the client from the beginning of the NSD process, the service firm can create a deeper sense on the part of the client that the service is valuable and important, which drives feelings of loyalty and the desire to stay linked to the service firm.

6. Commitment

Commitment is the implicit or explicit pledge of relational continuity between exchange partners (Dwyer *et al.*, 1987). It is one of the key elements of alliance success (Beaton *et al.*, 1995; Dwyer *et al.*, 1987; Ford, 1980; Gundlach *et al.*, 1995; Han *et al.*, 1993; Lawton Smith *et al.*, 1991), and, paradoxically, one of the biggest challenges to collaborations (McFarlan *et al.*, 1995). Indeed, commitment implies making short-term sacrifices for greater long-term gains - a sometimes difficult decision for a firm unsure as to whether the alliance will be successful (Day, 1995; Gundlach *et al.*, 1995). Commitment is believed to have three distinct components: input, attitudinal, and temporal (Gundlach *et al.*, 1995).

Input commitment means taking concrete actions to demonstrate interest in a long-term partnership. Notably, sufficient structural, financial and human resource investments made on behalf of the collaboration early on send a positive message to the partner (Ford, 1980; Gundlach *et al.*, 1995; Littler *et al.*, 1995). In many cases, these up-front investments are irretrievable and, as such, present a great risk to the partners. For example, top management time spent hammering out the contract or the purchase of new facilities specific to the partnership are considered sunk costs whether or not the relationship is a success (Beaton *et al.*, 1995; Ford, 1980; Gundlach *et al.*, 1995). Regardless, each partner must contribute some portion of its distinctive expertise to the relationship as a sign of willingness to cooperate (Hamel *et al.*, 1989).

Attitudinal commitment, or affective commitment (Van Birgelen *et al.*, 1996), involves the behaviour of the partners toward the relationship. It is telling the partner that the relationship is important and then adopting a positive attitude toward making it work. Affective commitment must be demonstrated at all levels of the firm, as much by top management as by team members (Lawton Smith *et al.*, 1991) and both sides must act as if the relationship is permanent (Ohmae, 1989). When the partners believe that each is equally affectively committed to the alliance, they have a stronger intention to stay (Van Birgelen *et al.*, 1996).

Temporal commitment is consistency over the long-term. Although much of the structural commitment may be done up front, on-going commitment must be demonstrated by continuing to invest the time and resources needed to keep the alliance moving forward. It also means forgoing exploring alternative relationships in favour of the current one (Beaton *et al.*, 1995; Dwyer *et al.*, 1987; Gundlach *et al.*, 1995).

Regardless of whether the commitment is structural or attitudinal in nature, mutuality must be respected (Hallén *et al.*, 1991; Littler *et al.*, 1995). When commitment is disproportional it undermines the relationship and can open the door to opportunism (Gundlach *et al.*, 1995). But when commitment is proportional and durable, it has a positive effect on the evaluation of a partner's performance and the value of the relationship in general (Bucklin *et al.*, 1993; Ford, 1980; Holmlund *et al.*, 1995). Higher perceived commitment leads to better perceptions of the partner. Higher perceptions of the partner reduce uncertainty and risk and provoke even greater commitment of

resources to the relationship. A virtuous cycle is thus produced when the credibility of today's commitment impacts future intentions of continued and expanded commitment to the relationship (Gundlach *et al.*, 1995).

When a service is highly intangible (i.e., accounting services or a computer system) it may be difficult for the service firm to demonstrate its structural commitment to the partnership. Unlike goods manufacturers who invest in new machinery or new factories, there may be little new investment on the part of the service firm. In accounting services, for example, some new staff may be hired, but the bulk of the new project team can be drawn from the existing staff. Or, a new information system may be developed directly on the client's mainframe. There are, however, ways that the service firm can demonstrate structural commitment to a client such as the purchase of computers, new office space, or moving facilities closer to the client's place of business (de Brentani *et al.*, 1996).

One author believes that clients may perceive that supplier commitment is waning as time goes along because most of the structural commitment is done up front and, as the project moves into production mode, the supplier's project team may shed members (Ford, 1980). This is probably not the case for service firms given the continued interaction necessary during service delivery. While it may be true that the project team responsible for development shrinks after service implementation, the service firm's delivery team is usually staffed with new members to ensure quality production. Also,

due to the heterogeneity of service experiences, a service firm must continue to focus on the partnership to ensure a level of uniformity and continued client satisfaction.

7. Trust

Trust is the strength of a relationship; the ability of partners to rely on the other's honesty and benevolence (Gummesson, 1995; Van Birgelen *et al.*, 1996). It is the most frequently cited success factor in corporate alliances and its impact on successful partnering cannot be overemphasized. Indeed, it is a, if not the, key element for success (Morgan *et al.*, 1994). And when present in large quantities, it allows the relationship to achieve maximum gains (Dwyer *et al.*, 1987; Han *et al.*, 1993; Holden, 1990; Lawton Smith *et al.*, 1991; Littler *et al.*, 1995). In conjunction with commitment, trust gives an alliance resiliency to help it cope with difficult periods (Day, 1995; Dwyer *et al.*, 1987; Millson *et al.*, 1996) and directly affects the partner's evaluation of relationship quality and subsequent relationship satisfaction (Crosby *et al.*, 1987; Holden, 1990; Morgan *et al.*, 1994; Van Birgelen *et al.*, 1996).

Trust is not something that is immediately present between partners, although a "leap of faith" (Millson *et al.*, 1996; Stump *et al.*, 1996) is needed in the beginning of a partnership by according some initial trust to the other partner if the alliance is to take shape (Ford, 1980). Careful selection of partner firms and prior experience with alliances help ease the initial fear and allow the partners to open up (Dwyer *et al.*, 1987; Littler *et al.*, 1995). It is posited that trust first develops on a personal level (i.e., between employees of the partner firms) as people work together to solve problems. Over time, it

then extends to the organizations as a whole (Berling, 1993; Boström, 1995; Ford, 1980; Freeman, 1991; Hallén *et al.*, 1991; Holmlund *et al.*, 1995; Millson *et al.*, 1996).

As the firms work together to achieve stated goals, the trustworthiness of the partners are evaluated based on performance: i.e., did the partner do what was expected? is the partner operating for the good of the relationship or opportunistically? is the partner really committed to making this relationship work? Affirmative answers reinforce or boost the trust level between the partners, allowing them to take further risks (Millson, 1996) and decreasing the propensity to leave the relationship (Van Birgelen *et al.*, 1996). As such, partners must avoid reactionary maneuvers that "rock the boat", such as testing the other, and should instead demonstrate the type of behaviour that they want to receive (Millson, 1996).

Some of the things that partners can do to nurture trust throughout the collaboration include having open communications, telling the truth, keeping promises, and sharing information by using an "open book" approach for things like financial data on investments (Dahlstrom *et al.*, 1996; Day, 1995; Holden, 1990; McFarlan *et al.*, 1995; Van Birgelen *et al.*, 1996).

As contracts cannot cover all possible scenarios that the alliance encounters, trust is believed to fill in the gaps by offering unstated rules that govern where a contract leaves off (Dwyer *et al.*, 1987). A trusting relationship is one where partners will put the needs of the relationship higher than their own, countering any opportunistic desires of sacrificing the partnership for unilateral gain (i.e., trying to internalize the partner's

competencies) (Beaton *et al.*, 1995; Bucklin *et al.*, 1993; Van Birgelen *et al.*, 1996). Further, the presence of trust between partners also reduces the fear of leakage, a major concern of service firms who often attribute their competitive advantage to "gray matter" (Littler *et al.*, 1995).

The bottom line is that trust necessitates reliability and integrity. Firms that demonstrate these virtues will certainly earn the trust of their partners and greatly enhance the likelihood of success for the alliance (Day, 1995; Holden, 1990; Morgan *et al.*, 1994).

As in any collaborative project, trust during the development of business services, especially at the beginning of a project, is in great demand and in short supply. But the reasons for lack of trust appear to be different for collaborative NSD than for other types of partnerships. In partnerships between firms in the same industry, trust can be feeble on both sides if the partners are afraid of leakage or of future competition from the partner. Between suppliers and buyers of industrial goods, trust can be gained rapidly through tangible product designs, prototypes and inspection of the finished product by the buyer firm prior to delivery.

Collaborative NSD partnerships involve business services which often are highly complex and conceptual. Gaining a client's trust, both initially and throughout design and development, may appear very difficult for the service firm because the client must rely solely on the word of the service provider that the developed service will indeed fulfil its needs. This leap of faith by the client is, thus, greater than that required for manufactured goods partnerships, and the initial trust accorded to the service provider can be neither

deemed appropriate nor inappropriate until the moment of truth arrives - service production. This is not to say that intangibility makes trust impossible to achieve in collaborative NSD. Indeed, there are many firms that successfully co-develop new services by overcoming the barriers to trust. But it is important to highlight that a client's trust may come with more difficulty for service firms due to the highly conceptual nature of business services. The service firm must, therefore, cultivate the client's trust early on so that its assurances that the new service will meet expectations are believed.

When evaluating different service providers for a new project, where service proposals often look the same, a client may choose a provider with whom it has had previous experience. If the client was satisfied during prior service deliveries, some client trust from those experiences can be carried over to the current NSD venture. Especially if the new service is in the same domain as the current offerings (i.e., an extension of a current service), a client who has previous experience with a service provider will be more likely to have initial trust in the service provider's ability to deliver the promised service. On the other hand, if the service firm and client embark on a totally new service idea, the client may be less trusting initially, regardless of past experiences, because the service firm has never proven its competence in this new service arena. If the client has had no prior experience with the service firm, it must rely on the firm's reputation and its perception by other clients. In any case, the service firm must ensure that it has satisfied past clients if it wants to continue winning new ones.

So far, we have spoken of the difficulties that a service firm can have *gaining* client trust because of a service's distinguishing characteristics. But these same characteristics may have a positive impact on *keeping* client trust when service failures occur. Simultaneous production and consumption of services combined with heterogeneity, especially in complex, customized industrial services involving multiple actors, means that a negative encounter is bound to occur. When failures occur in physical goods, often the goods must be recalled and the factory machines re-tooled to correct the problem. This can result in significant down time for the goods provider and client, and a high-profile public relations problem. Service firms, however, have the chance to recover more quickly from a failure. First, service intangibility and heterogeneity mean that problems can be fixed "on the spot", or at least very quickly. There may be some down time if the problem is large, but the service itself remains in place, maybe even operational, while the problems are corrected. Thus, service firms that react quickly to "recover" from production problems limit the negative repercussions (such as client dissatisfaction and the tarnishing of the service firms image) and can quickly restore any client trust that was "shaken" during the failure.

XIV.A. Collaborative NSD Success Factors: Summary

The following summary highlights the factors that make collaborative new service development a success:

- Choosing the right partner: improved by past experiences working together during service delivery; more difficult because of service intangibility; reputation is often proxy for direct experience with a service firm;
- Contractual alliances (the most successful) are the most common for collaborative NSD;
- The contract should focus on the goals of the alliance, not how to get there (due to service intangibility);
- Continued support from all levels of the organization is needed to overcome intangibility during design and development;
- Involving clients early on in the CSD process reduces chances of having to make changes once the service is in production and increases client's "ownership" of the service and loyalty to the service provider;
- Good personal chemistry and the ability to resolve conflicts may already be present if the partners have previous experience together;
- The personification of the service in the service firm's project team means that early bonding with the client is necessary;
- It is important to resolve conflicts prior to production to maximize service quality and customer satisfaction;
- Chances for recovery after a production problem are better for services due to intangibility;
- Service firms must show commitment on various levels, especially if little structural investments are necessary;

- While client firms may perceive a waning of supplier commitment once the project is in production for goods manufacturers, service simultaneity keeps the client and service firm working closely together;
- Service intangibility makes initial trust even more difficult to obtain due to greater risk on the part of the client;
- Trust is generally very good between the service firm and client during delivery due to the need to work together; this trust can then be carried over to new NSD projects
- A service firm gains initial trust from its current partner when it has satisfied past partners. Firms searching for service providers will make their choice based on either direct experience with a service firm, or the service firm's reputation in the market.

XV. Industrial Partnering Models

Up until now we have examined the distinguishing characteristics of services and their impact on the following: the NSD process, inter-firm collaboration advantages and risks, and collaboration success factors. We can now turn our attention to collaborative relationship development models to look at the different stages that firms pass through when they collaborate.

For almost 20 years, researchers have been hypothesizing about how industrial partnering works. In particular, four authors have elaborated industrial partnering models that trace the inputs and the interactions of the partners, as well as the subsequent outcomes, as the partners move through the successive stages of the partnering process. These four industrial partnering models are presented in Table 5 below.

In all four models, collaborative alliances are viewed as processes that move from an initial awareness or identification of a possibility for a mutually beneficial relationship, to the "fleshing out" of the project, then to establishing and maintaining the alliance, and then perhaps to its eventual dissolution. These phases, together with the elements and activities that characterize each, are summarized below.

Table 5: Stages and Characteristics of Collaborative Alliances

Characteristics:	Stages (according to):			
	Millson <i>et al.</i> (1996)	Dwyer <i>et al.</i> (1987)	Ford (1980)	Wilson (1995)
Firm sees internal limitations (lacking skills/knowledge); Management becomes aware of potential partner's competencies; No commitment from either side; Evaluations of potential partners conditioned by experience with past partnerships, uncertainty, social & cultural differences	Awareness	Awareness	Pre-Relationship	Partner Selection; Defining Purpose
Contact is initiated between potential partners and they begin to examine fit; Determination if win-win scenario possible; Testing and evaluation of partner (sample purchases, top management "what if?" discussions); Trust initially confronted (degree of faith and openness necessary since evaluation of trustworthiness not yet possible); Uncertainty is high and potential rewards are difficult to assess; Commitment is low, but initial investments must be proposed; Judgements made about partner based on reputation; Outcome is project proposal	Exploration	Exploration	Early Stage	Setting Relationship Boundaries
Contract signing; Development process accelerates considerably; Norms, procedures, contacts are established; Closer integration among project team which aids mutual problem solving; Trust develops between individuals as personal relationships grow; Trust of partner firm evaluated based on performance - fulfilled expectations reinforce trust; Commitment increases through human and capital resource investments; Satisfaction with partner's performance increases desire to maintain relationship; Other partner options are excluded due to switching costs and satisfaction; Flexibility important to adapt partnership to unforeseen developments (also demonstrates commitment)	Commitment	Expansion & Commitment	Development & Long-Term Stages	Creating Relationship Value; Relationship Maintenance
Trust may be broken by opportunism or a unilateral desire to exit relationship; Other contributing factors: Poor communications, failure to set and/or achieve mutual goals Or, the partnership reaches its natural end and both sides part amicably	Dissolution	Dissolution	-	-

XV.A. Stages and Characteristics of Collaborative Alliances

“Awareness”, “Pre-Relationship” or “Partner Selection”, is the first stage of any alliance. This deals with the mostly unilateral activities that a firm goes through when it thinks that it may want to partner to solve some problem or achieve a benefit. For example, firms often perform analyses that identify internal limitations that could be improved through collaboration. Potential partners are then evaluated on several criteria including their ability to bring to the partnership skills, knowledge or competencies that the firm is lacking in-house, and also for "softer" aspects such as management style and corporate culture. There is no commitment from either side at this stage.

In the “Exploration” stage (also called “Early Stage” or “Setting Relationship Boundaries”), contact is initiated between the prospective partners as both sides attempt to evaluate the fit between the firms and what kind of project would meet their respective needs. Trust usually becomes an issue because each side must be somewhat open about which of its own needs it is seeking to meet through collaboration. Initial purchases (e.g., of a seller’s good or service) might be made and/or initial investments proposed in order to start the relationship moving forward. If a win-win scenario is identified, the partners develop a formal project proposal.

The third stage – “Commitment”, “Expansion”, or “Development and Maintenance” - begins with contract signing. The relationship grows considerably as project teams are formed, additional investments are made, and joint approaches to decision making and problem solving are established and employed. As employees work together, trust develops on a personal level

between individuals, then extends to the organizational level as expectations and promises are fulfilled. In good collaborative arrangements, a virtuous cycle is created whereby commitment and trust are reinforced as the partners perform as expected, each side is satisfied with the relationship performance, and there is a common belief that the partnership is worth continuing. As well, once substantial commitments are made and become irretrievable (i.e., human and capital resource investments), alternative options outside the partnership become less desirable due to high switching costs.

Two of the authors also speak of a “Dissolution” stage, that is, a stage where the partners decide to end the collaborative venture. The reasons given by the authors for dissolution are mostly negative, such as broken promises, lack of trust or poor communications. But an amicable dissolution could also be the result of a natural end to a short-term partnership. Like personal relationships, not all partnerships are meant to last a lifetime. Partners remain committed as long as there is mutual gain. Once the partnership has outlived its useful life, it is seen as healthy for the firms to let it go.

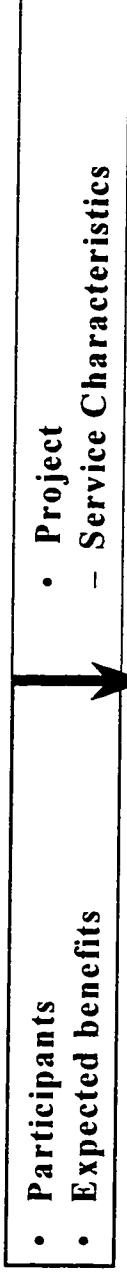
The four industrial partnering models are fairly consistent in their delineation of the different partnering stages and the events that occur in each stage. Overall, the models are of a generic nature in that they were created to apply to a broad spectrum of inter-firm relationships (Dwyer *et al.*, 1987; Ford, 1980; Wilson, 1995). Only the model by Millson *et al.* (1996) specifically addresses new product development partnerships and some of the differences that these collaborations experience vis-à-vis the generic models.

XV.B. Conceptual Model of Collaborative NSD

The distinguishing characteristics of services mean that service firms design, develop, test and market their offerings in sometimes different ways from goods manufacturers. As such, collaboration during new service development may also include certain nuances or adaptations to account for a service's unique qualities. de Brentani (1996) was the first to develop a conceptual model that specifically addresses collaborative new service development. It integrates notions of the four existing models previously presented with the unique characteristics of services and the way they influence NSD and collaboration. What follows is a summary of her model as described in de Brentani and Risen (1997).

Figure 4: Conceptual Model of Collaborative NSD

COLLABORATIVE NEW SERVICE DEVELOPMENT



COLLABORATION PHASES - Generic Process -	COLLABORATIVE NSD PHASES - CSD Process -	CSD "SUCCESS" FACTORS
<p>A. <u>Pre-Agreement Phase</u></p> <ul style="list-style-type: none"> • I.D. Potential/Problem • Assess Benefits/Risks • Initial Proposal <p>B. <u>Establish Relationship</u></p> <ul style="list-style-type: none"> • Develop Agreement • Determine Scope, Character, Limits of Relationship • Determine Commitment <p>C. <u>Project Workings</u></p> <ul style="list-style-type: none"> • Project Management • Manage Interfirm Relations • Manage People <p>D. <u>Performance Evaluation</u></p> <ul style="list-style-type: none"> • Assess Outcome and Potential for Future 	<p>I. <u>Pre-CSD Proposal Phase</u></p> <ol style="list-style-type: none"> 1. Obj/Strategy Setting 2. Idea/Opportunity Identification 3. Preliminary Assessment 4. Concept Development/Assessment <p>II. <u>CSD Proposal & Contract</u></p> <ol style="list-style-type: none"> 5. Business proposal <ul style="list-style-type: none"> - Develop, Assess, Approve 6. CSD Contract <p>III. <u>Implementation Phase</u></p> <ol style="list-style-type: none"> 7. Design & Development 8. Testing 9. Introduction <p>IV. <u>Performance Evaluation</u></p> <ol style="list-style-type: none"> 10. Post-launch Assessment 	<ul style="list-style-type: none"> • Mutual Benefits • Acceptable/Controllable Risk • Partner Fit • Initial trust • Approp. Scope/Character • Commitment : Symmetric / Up-Front • Contract : Clear, Binding, Flexible • Communication • Compatibility • Social Bonds • Openness, Trust • Champions • Adaptability • Continuity: Benefits/Commitment • Performance Satisfaction

As input to the model we find the antecedents of new service collaboration - the participants, expected benefits, and the nature of the project. The client and service firms typically choose each other as potential partners in a collaboration because of certain characteristics that are likely to make the collaboration a success; that is, the extent of synergy between the firms, complementary resources, skills and goals for the partnership, similar communication and management styles, and corporate culture.

Expected project benefits include things like: improvement of skills, knowledge or technology; increased new service development efficiency or reduced risk; better service or marketing opportunities; and an improvement in the new service development process. Key concerns with expected benefits are that they be perceived as mutual and equitable, and that both client and service firm believe that they are entering into a win-win proposition.

The nature of the new service project also determines if and how firms will collaborate. In addition to the main distinguishing characteristics of services - intangibility, simultaneity, variability and perishability - business services tend to be complex and require a good understanding of technology. Service firms and clients that already work together during service delivery may want to collaborate throughout the NSD process for a new service in order to assure that the delivered service will meet the needs of the client.

Intangibility motivates firms to partner as a way to better understand the needs of the customer and to bring some concreteness to the new service being developed. Especially for new-to-the-world services, the risk that the new service will fail or that invested resources will be wasted is diminished when the service firm works closely with a particular lead client to ensure

that the new service corresponds both to the lead user's needs and to the future needs of the general market.

Since simultaneity already invites service firms and clients to work together during delivery, an alliance focused on NSD can be a natural extension of a current relationship. Indeed, bringing the client on board earlier in the NSD process can raise the chances of success for the new service by developing a higher degree of commitment to the new service among client employees whereby the client firm will "do what it takes" to make the new service succeed.

Variability during service delivery can also incite a collaborative effort. If it is seen as a problem (i.e., inconsistency), partnering can serve to reduce variability by co-designing better delivery systems. If variability is used as a competitive advantage by the service firm to customize the offering, client input during the NSD process can help tailor the service according to the specific business operations of the client.

Finally, perishability of services may push a service provider to form a collaborative relationship in order to reduce the opportunity costs associated with excess capacity. In fact, such a scenario may reduce the risk associated with a collaborative relationship since the service provider has already made the resource commitment (in facilities and/or human resources) and the expected return of this new service may be of a more marginal nature.

The main body of the model contains three columns. The first column, the "Collaboration Phases", outlines the generic stages that partners in any collaborative relationship pass through. The second and third columns, "Collaborative NSD Phases" and "Success Factors", respectively, highlight the NSD phases and the CSD (Collaborative New Service Development) success

factors. Together, the three columns show the hypothesized links between the collaboration phases (relationship formation), and the CSD process and Collaboration Success Factors. A detailed explanation of the links between the three different columns follows.

XV.B.1. The Pre-Agreement Phase

In the Pre-Agreement Phase, the firms, acting independently, evaluate new service needs and their ability to develop the new service in-house. Service firms identify new service ideas and screen them for fit with their corporate resources and objectives. On their side, clients identify problems they have and their ability to develop a solution for themselves. If it becomes clear that there is the possibility of a win-win situation through collaboration, the firms begin to search for potential partners. Potential risks and benefits of collaborating are identified on each side.

Trust becomes an issue early in the relationship since the client must reveal its problem to the service firm and more important, the service firm must reveal its proprietary knowledge. In other words, the service company must be open about the key element that gives it a competitive advantage and can bring a solution to the client's problem.

If the project is deemed technically doable (based on NSD assessments), there is good partner fit for such "soft" factors as culture and management style, and the partners perceive mutual benefits, initial trust is developed. The outcome of this phase is the service proposal.

XV.B.2. Establish Relationship Phase

If the initial service proposal is accepted by both partners, the next collaboration phase - the Establishment of the Relationship - commences. Some type of business proposal must be drawn up and agreements are written that outline the goals of the partnership, the responsibilities of each partner, and the necessary commitments (structural and resource) to get the project off the ground. These agreements can respect any number of degrees of formality, depending on the type of NSD project. Generally, the more complex the NSD effort, the more complex the agreement.

Partner commitments must be perceived as being symmetric or in line with the expected benefits, and there should be a willingness to agree to make at least some of these commitments up front. Typically such commitments are irretrievable, especially in the case of management or employee time spent on planning the alliance and/or "structural" purchases (e.g., new facilities, computers, etc.) adapted to the specific needs of the alliance. Typically, in the case of services, much of the up-front commitment takes the form of brainpower and time to analyze how the new service idea will be able to meet client needs.

Contracts must have a certain level of specificity in order to minimize ambiguity, while at the same time remaining flexible enough to allow the partnership to adapt to changes in the marketplace. Often with services, their conceptual nature renders formalizing a specific outcome difficult. The partners may be better off outlining the overall goal without specifically stating how to get there. Also, heterogeneity of services means that a particular service can be adjusted as needed until it solves the client's problems. The partners should leave the contract as flexible

as possible so as not to "box in" the partners by detailing a service that may need to be adjusted during delivery. One area where the contract should be explicit is in the right to ownership or transfer of knowledge. A service firm may want to remain the owner of the service technology or restrict how much know-how a client can formally acquire in order to protect the service firm's proprietary knowledge and its competitive advantage. A contract should be considered a critical tool for solidifying the relationship, but it cannot do everything. Partners must stay committed to the relationship and use common sense to deal with problems that arise which are not specifically identified in the contract.

XV.B.3. Project Workings Phase

The Project Workings phase comprises the bulk of time in the NSD process. It is during this phase that the new service is designed, developed, tested, and implemented. Frequent communication, openness, and continued commitment are necessary to build a solid level of trust between the partners. Regular involvement by top management, project management and collaboration champions is critical to seeing that the project moves along as planned, in the correct direction, and adapt the partnership to unanticipated changes.

Social bonds develop between employees as they work together, reinforcing personal trust. The formation of personal trust between employees, combined with keeping promises and communicating issues quickly between managers, helps build trust at the organizational level. For a collaboration to be successful, both personal and organizational trust are necessary. Trust also takes over where the contract leaves off. Given that especially in new-to-the-world services the contracts are often vague, trust becomes a key element that brings the relationship to fruition.

Instead of saying "It's not in the contract", the partners must take decisions that demonstrate that they trust the other. Good judgement should be used to deal with issues not specifically covered by the contract and to adapt the collaboration to the needs of the partners. Further, during service delivery, trust between the partners positively affects the client's perceptions regarding performance and client satisfaction with the new service.

XV.B.4. Performance Evaluation Phase

The last stage of any collaborative relationship is Performance Evaluation. It is here that the partners assess the outcome of the collaboration and decide if continuation will take place. This phase corresponds to the post-launch audit conducted by both partners to evaluate performance satisfaction of the new service. In cases where the client is not completely satisfied, service heterogeneity and intangibility work to the advantage of the service firm. Modifications to bring the service in line with client expectations can be performed rather quickly which allow the service firm a relatively fast "recovery" from the negative experience and put the relationship back on track.

But the perceived success or failure of the new service is only part of total performance satisfaction. Although the developed service may be a success, it could be that the partners feel that it could have been done quicker or for less money outside of that particular alliance due to the costs associated with managing the alliance or to an excessive loss of time or of company secrets. This could negatively impact any future partnering between the firms. Or the opposite could be true: the partners may have an underperforming service but the overall experience is

judged a success. In this case, the partnership may continue to modify the new service to better meet client needs, and even to start the NSD process over again for another new service.

Having outlined the collaborative NSD (CSD) model that will be used as a basis for data analysis, we can now turn our attention to the specific area of CSD that is under study in this paper: Relationship Marketing.

XVI. Relationship Marketing

Relationship marketing (RM) is a process used by organizations to build and sustain long-term relationships with their clients. It can be used by any type of organization, but is an especially powerful tool for services marketing, industrial marketing, and for developing and maintaining successful collaborative relationships. For services in general, where competitive offerings can be perceived as similar, a service firm that has a good relationship with its clients is more likely to keep them from defecting to the competition (Crosby, 1987). During industrial purchasing, where providers are often viewed as adversaries by the buying firm, a provider with excellent relationship management can transform itself from a client's adversary to its "partner", which may translate into easier negotiations, better problem solving during service delivery, and repeat purchases. Successful industrial collaboration, as seen in the preceding chapter, results to an important degree from a good relationship between the partners. Indeed, without a positive relationship, most collaboration efforts will fail.

The study of RM is, thus, concerned with the elements that make for a good partnership. RM is deemed successful when the following factors are present in a relationship: clear relationship benefits, shared values, open communication, commitment to the relationship, trust, costs associated with terminating the relationship, and an absence of opportunistic behaviour (Morgan *et al.*, 1994). Each of these points will become clearer in the discussion that follows.

XVI.A. Definitions of Relationship Marketing

Several researchers have put forth statements that define what RM is all about. Evans *et al.* (1994 p.440) posit that "relationship marketing is the process whereby a firm builds long-term alliances with both prospective and current customers so that both seller and buyer work together toward a common set of specified goals". Morgan and Hunt (1994, p.22) define it as "all marketing activities directed toward establishing, developing and maintaining successful relationship exchanges". Berry (1995, p.236) describes RM as "attracting, maintaining and - in multi-service organizations - enhancing customer relations" through repeated contact between customers and service providers. The key words in the above definitions are "long-term", "establishing" and "maintaining". First, RM focuses on the long-term. As opposed to single transactions between the firm and its clients, RM seeks to create an ongoing series of purchase exchanges. Next, "establishing" implies that the firm must take an active lead in building a relationship with its customers by expressing an interest in a long-term commitment and then adapting its sales, development and delivery approaches to reflect this interest. Finally, "maintaining" implies that there is work involved in keeping a client relationship going. RM necessitates that the firm regularly "take the pulse" of the relationship and take corrective action where needed to ensure the viability of the relationship (Evans *et al.*, 1994). Why is a firm interested in securing a long-term relationship with a client? Because keeping a client costs less than finding a new one. Today's fierce competition means that it is a buyer's market for most products and firms have to spend small fortunes to either attract new or win back old clients (witness the ubiquitous television commercials for Bell Canada and Sprint Canada). In contrast,

keeping current clients means that, over time, they develop a certain loyalty to the provider and it is likely that they will not only keep buying, but indeed buy more as new products are developed and offered to them (Berry, 1995).

Relationship Marketing as a strategy for finding and keeping clients is not new. Indeed, an ancient Middle Eastern proverb dictates that "as a merchant, you'd better have a friend in every town" (Berry, 1995, p.236). What is recent is the attention paid by researchers and practitioners on the identification of the factors that make for a good relationship. New labels such as "trust", "commitment" and "shared values" are given to the different constructs that identify the attitudes, emotions, activities and gestures that are an important part of successful relationship marketing. From these identified constructs, links are inferred that provide researchers and practitioners with "profiles" of how RM techniques help to build successful relationships. For example, researchers believe that a high level of trust between the partners leads to a greater degree of commitment to the relationship (Morgan *et al.*, 1994)

XVI.B. RM's Role in Industrial Marketing

Beaton *et al.* (1995) argue that effective relationship marketing is the foundation upon which successful industrial marketing is built. Why? First, the number of players in the purchasing process are numerous. Second, the amount of time spent on making the purchase choice, and then on delivery, can be long. And third, industrial markets are typically characterized by a relatively small number of high-value clients.

In many organizational purchases, the provider must interact with different client representatives over a period of time: the ultimate end users, to whom products are proposed and

delivered; the purchasing department, to negotiate the deal; and middle and top management, to convince them why the provider's offering is the best choice. Having a close working relationship with all of the interested parties in the buying organization, whereby all agree on the same provider, can expedite the purchasing process. Also, things like modifications to adapt the product to a client's particular needs, contract negotiations and after-sales service may be more easily negotiated when they are approached as win-win scenarios, instead of the typical win-lose situation that many buyers and suppliers confront.

Product delivery can be extended over a period of time. For goods (e.g., computers) a client might take delivery of 50 now, and another 50 in each of the proceeding six months as it hires new staff or upgrades its existing technology. For business services, delivery can be almost infinitely on-going, as is the case with an information system used daily by a client. This phased or on-going delivery means that multiple actors may be involved from both sides over a long period of time. Building a relationship with the client employees involved in delivery can help avoid problems by closely coordinating delivery procedures between the two firms. Inevitably a delivery experience will be deemed less than perfect. When the channels of communication are open and the buyer feels comfortable approaching the provider, little issues can be dealt with quickly before they escalate to higher management. Clients who have good relationships with their providers are less apt to scream, as they would at an adversary, and more likely to remain calm and allow the provider the chance to fix the problem.

RM is also important to industrial marketers due to their relatively small client base. If problems occur and the firm does not have a close relationship with the client, the client may take its business elsewhere. The revenue lost from even one customer could prove difficult to

overcome. When a strong relationship exists, however, it is easier to keep current customers happy and buying from the provider.

In summary, industrial marketing is dependent on RM as a means to build good relationships with client firms so that the current purchase and delivery experience is positive enough to gain repeat business. Future sales are, thus, dependent on the quality of the current relationship (Crosby, 1990).

XVI.C. RM's Role in Services

Service firms are especially interested in RM as a way to master the distinguishing characteristics of services (Gummesson, 1995), and remain competitive in the face of technological advances and increasing competition (Berry, 1995).

Probably the classic area for service firms to implement RM is during service delivery. Simultaneity of production and consumption means that the service delivery process can be improved when service provider and client work closely together (Berry, 1995). This is especially true for high involvement, complex business services which necessitate constant interaction between service provider and client representatives. A RM approach in this case involves considering everyone in the service firm that has regular client contact to be a "relationship manager". As such, service firm employees working in delivery should approach each service encounter as a chance to solidify the relationship with the client (Crosby, 1990).

Heterogeneity of services motivates service providers to implement RM as a way to deliver services to suit the client and to overcome any delivery inconsistencies. Service providers that have formed close relationships with clients can be more "in touch" with the client's way of

doing business. As such, service delivery adaptations can be proposed which permit the service to integrate with other client systems and processes more smoothly. As well, the on-going delivery of many business services means that a continued good relationship with the client depends on service delivery excellence. RM during service delivery encourages the service provider to listen to its customers in order to consistently respond to customers' needs. The benefit to the service provider is higher levels of customer satisfaction and customer loyalty (Berry, 1995).

Conversely, RM can be used to minimize the repercussions of a negative service encounter. An open relationship by giving the customer a channel by which to provide feedback gives the service firm the opportunity to rapidly correct the situation (Berry, 1995). As well, an on-going relationship means that a customer, disappointed with a particular service encounter, will not call into question the entire relationship, but will instead see the one encounter as an isolated incident in an otherwise beneficial relationship.

Certain drawbacks associated with service intangibility may be overcome through RM. In many service markets, there are few barriers to entry; thus, competitors abound. Technology is advancing rapidly to the point where shortly after commercialization of a given service, competitors are offering similar services using more advanced technology (e.g., mobile phone technology). This means that service firms may find it difficult to sustain a competitive advantage on a technical level. Moreover, service intangibility can make it hard for customers to evaluate service quality given that the different offerings appear to be the same. In cases where offerings appear similar, and with no way to inspect the service prior to purchase, customers are inclined to choose based on price (Perrien *et al.*, 1995). This is not ideal for the service firm

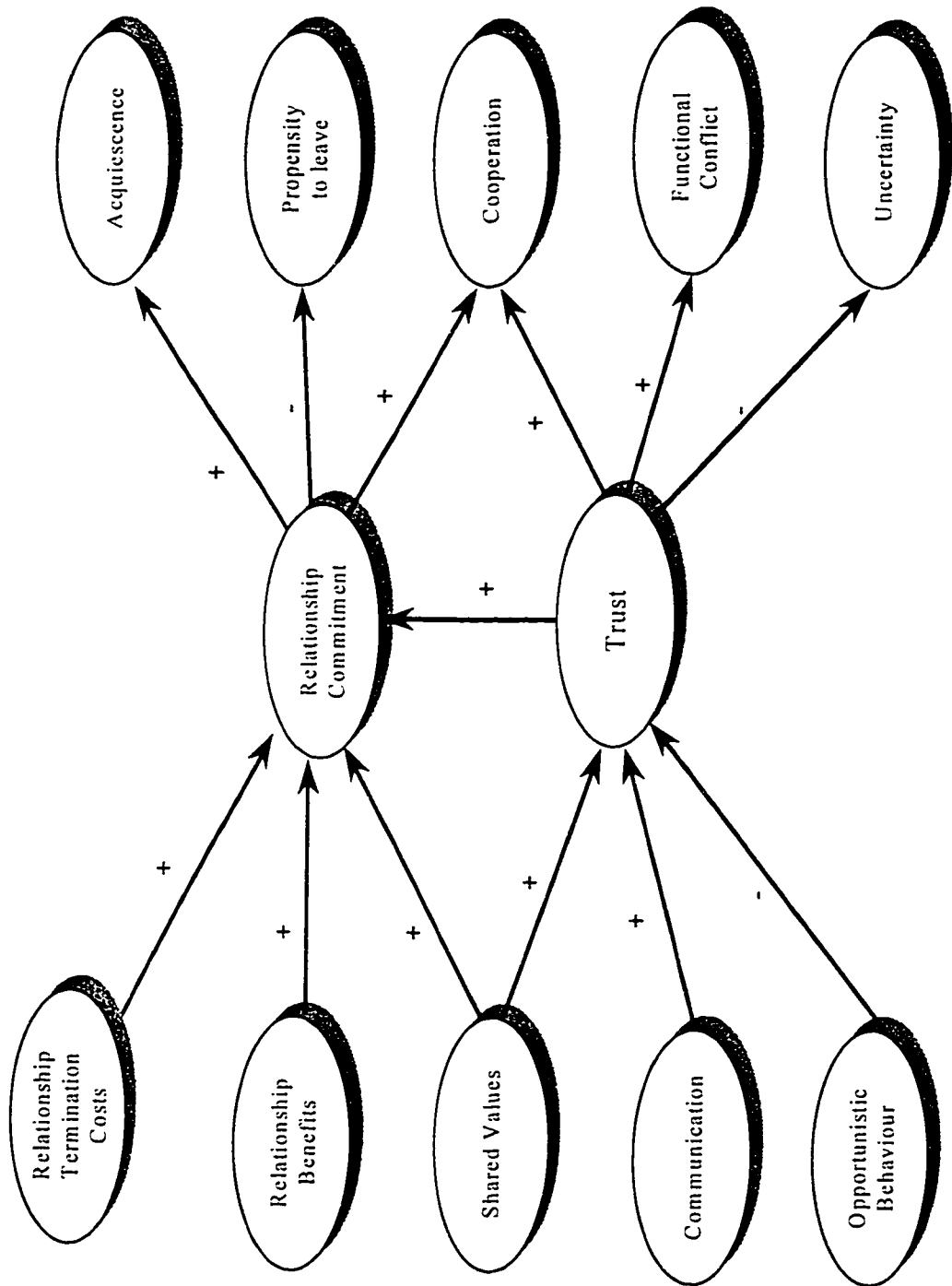
because price wars between competing service providers usually only result in reduced margins. Through RM, however, the service provider can "add value" to the delivered service and prevent a customer from switching to a competing firm that offers a lower price (Crosby, 1987; Evans *et al.*, 1994). Indeed, effective RM demonstrates to clients that a productive relationship with a service provider has worth, although its value may be difficult to quantify in monetary terms. When customers believe that the relationship adds value to the service purchased, not only will they be more likely to resist the courting by the service provider's competitors, but they might even be willing to pay slightly more for the service than the price offered by competitors (Crosby, 1987; Perrien *et al.*, 1995). In short, a relationship advantage becomes a sustainable competitive advantage for the service provider because it is not easy for competition to replicate (Beaton *et al.*, 1995; Berling, 1993).

Perishability of services can also be reduced when RM is present. One solution for a service firm facing service perishability is to propose the excess capacity to a larger client base. Needless to say, already established customers would be important potential prospects. Service firms that already have a positive relationship with a client due to past RM efforts may find it easier to cross-sell (i.e., sell services from another department in the services firm) or to get the client to try new services. For example, an accounting firm such as Deloitte & Touche could propose its management consulting services to its current accounting clients.

XVI.D. Conceptual Model of Industrial Relationship Marketing

Given the importance of RM, several researchers have undertaken the challenge to identify the constructs that lead to successful RM (some of these constructs were touched upon previously) (Gummesson, 1995; Morgan *et al.*, 1994; Stump *et al.*, 1996). One of the most complete models in the RM literature is the Key Mediating Variable model (KMV), proposed by Morgan and Hunt (1994), which identifies the key variables that are believed to impact, in a cause-and-effect fashion, a successful industrial relationship. The KMV model is based on an extensive review of RM literature and has been successfully tested using a large sample of suppliers and buyers in one manufactured goods industry (Morgan *et al.*, 1994). Because the KMV model is so complete and has been to some degree validated, this paper uses it as a basis to describe the constructs of RM and their interrelation. The complete model follows:

Figure 5: Conceptual model of Industrial Relationship Marketing



It is no coincidence that the constructs that comprise the KMV model of relationship marketing are very similar to the success/failure factors that have been identified in the collaboration literature. The goal of RM is to create loyalty to a particular provider by building structural and affective links with the client. Companies are more likely to achieve this goal in cases of a collaborative partnership, where a good working relationship is a critical factor to a successful outcome. Indeed, a collaborative relationship is the ultimate example of RM in practice. When the client is eager to see the collaboration succeed, the job of forming a solid relationship is easier on the provider. Instead of giving the provider a luke-warm reception to the idea of a close relationship, clients that partner with their providers normally welcome the idea of a close relationship with open arms.

The KMV model posits that the Relationship Commitment and Trust constructs are central to successful RM (Morgan *et al.*, 1994). These constraints are considered "key" because without commitment and trust, RM does not work. Not unlike a marriage between individuals, when commitment and trust are present, the partners are encouraged to work at preserving the relationship, to focus on long-term benefits instead of seemingly attractive short-term alternatives outside the relationship, and to take risky actions without apprehension that the other partner will take advantage of the situation (Morgan *et al.*, 1994, p.22).

In addition to Trust and Relationship Commitment, the KMV model proposes certain constructs which are considered to be antecedents (i.e., that must be in place prior) to the development of Commitment and Trust, and others which are seen as consequences of the relationship when both Commitment and Trust are present. Below is a more detailed discussion of the KMV model's constructs.

XVI.D.1. Relationship Commitment

Relationship Commitment involves the willingness of the partners to do what it takes to see that the relationship endures, including putting in the required effort to maintain it (Morgan *et al.*, 1994). As such, the KMV model can be interpreted as proposing that Relationship Commitment is central both to RM and for services relationships. Indeed, Berry and Parasuraman (1991, p.139) maintain that "[service] relationships are built on the foundation of mutual commitment."

For a CSD effort, Relationship Commitment can be viewed as meaning two things: 1. doing what is necessary to keep the relationship going; *and* 2. working within the relationship to transform a new service idea into a working solution. In other words, CSD partners must not only commit to maintaining the relationship itself, but both parties must pledge to invest the time, energy and resources (human, financial, equipment) to see the NSD project to fruition. This is different from other types of collaborative relationships (i.e., joint marketing ventures) where most of the effort is put into sustaining the relationship. With CSD, the effort must be equally divided between sustaining the relationship and developing the new service. Both of these were identified in the previous chapter as "collaboration success factors".

XVI.D.2. Trust

Trust exists when one party has confidence in the partner's reliability and integrity. The KMV model holds that the presence of Trust in a relationship positively influences the partners' up-front and on-going Commitment to the relationship. Thus, the more Trust that is present, the greater the partners' Relationship Commitment. The KMV model posits that Trust influences

Relationship Commitment (and not vice-versa) because commitment entails a certain degree of vulnerability (i.e., irretrievable investments into the partnership), and firms will only commit to relationships involving partners that are deemed trustworthy (Morgan *et al.*, 1994). In other words, without Trust, there is no Relationship Commitment.

It was seen how trust is an essential ingredient in a successful relationship in the chapter on "Inter-firm Collaboration". For services, trust in the service provider is needed because customers typically must buy a service before experiencing it. As such, customers tend to rely heavily on the service provider's reputation and promises that are made prior to service delivery. For business services, gaining a client's trust may be of even greater importance given the costs of some business services and their potentially large impact on the client's business (Berry and Parasuraman, 1991; de Brentani, 1989). Indeed, clients that trust their service providers tend to be more cooperative, more open in communications and, overall, more satisfied with the quality of the relationship and the service itself (Holden, 1990). How can a service provider gain client trust? In addition to the ways outlined under "Collaboration Success Factors" (e.g., open communications, telling the truth, and keeping promises), pundits advocate that business-to-business service providers can develop trust among their clients through strong product expertise and general technical competence, and excellent customer service (McFarlan *et al.*, 1995; Holden, 1990).

As previously mentioned (see "Inter-firm Collaboration"), collaborative NSD implies that the customer is involved throughout the development and delivery processes. Moreover, trust is something that is built over time, first on the personal level between employees, then on the organizational level. Hence, by working closely together during the NSD process, clients and

service providers build trust as they cooperate to solve problems and move the new service idea through the different stages. During service implementation and delivery, trust already developed can make production run smoother (by signaling problems in a non-adversarial manner) and boost client satisfaction with service delivery. Moreover, high levels of trust built up on a current NSD project may incite the client to purchase additional services from or agree to co-develop other new service ideas with the same service provider (i.e., continued commitment to the relationship) (Athaide *et al.*, 1996).

XVI.D.3. Antecedents to Relationship Commitment and Trust

The KMV model posits that there are five constructs that directly impact Relationship Commitment and Trust. These are: Relationship Termination Costs, Relationship Benefits, Shared Values, Communications, and Opportunistic Behaviour. Each is briefly discussed below.

Relationship Termination Costs

The KMV model proposes that high expected Relationship Termination Costs will lead to continued Commitment to the relationship. The RM literature includes a large number of articles that speak of "switching costs" or the costs associated with changing partners. The more integrated the partners are, the higher the costs associated with separating since structural investments are often irretrievable (Gundlach *et al.*, 1995; Stump *et al.*, 1996). For example, constructing new facilities or acquiring new equipment such as computers are structural investments that are often made up-front by the collaborative partners. If the relationship ends, these structural investments may be lost if they cannot be transferred and used elsewhere in the

organization. Indeed, the higher the cost of switching, the more likely that the partners will keep an interest in maintaining the current relationship (Dwyer *et al.*, 1987).

For collaborative NSD ventures, there may also be important structural investments made by the partners which push them to remain committed to the relationship. In some business services, such as professional services, little structural investment is involved. A service provider may have invested large quantities of time over the course of the NSD collaboration to develop an intimate knowledge of the client's business. Knowing "the way we do things around here" (including certain client procedures or terminology) is something that the service provider only learns over time, and is not usually written down. There may also be a certain complicity between employees of the service provider and the client which facilitates relationship exchanges. These intangible aspects of a relationship are not immediately replaceable if the client were to choose a new service provider. Therefore, in the case of business services, "costs" associated with relationship termination can be monetary (i.e., structural) *or* more intangible such as lost time "showing the ropes" to a new service provider.

Relationship Benefits

The KMV model proposes that perceived Relationship Benefits boost the partners' Relationship Commitment. When both partners perceive a win-win situation, they are more likely to stick with the relationship (Morgan *et al.*, 1994).

Relationship benefits are just as important for collaborative NSD as for other types of partnering. As we have seen before, service intangibility and complexity may push service firms to partner with their clients. Especially for new-to-the-world services, working closely with a client guarantees at least one sale of the new service, and more importantly, helps ensure that the new service performs to client expectations. For the client, getting involved up front means that there is a better chance that the new service will indeed meet its needs. Thus, if the chances of new service success increase through a close collaboration between the service provider and the client, both will remain committed to the relationship.

Shared values

Shared Values is defined as the extent to which partners have common beliefs about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong (Morgan *et al.*, 1994). A synonym for shared values is "norms" - appropriate actions or ways of operating that emerge between the partners as the relationship progresses (Heide *et al.*, 1992). The KMV model posits that Shared Values positively affects both Trust and Relationship Commitment. Of course, one of the factors that makes for a successful collaboration is choosing the "right" partner. While a firm may choose a partner that has similar culture,

management style, etc., it is difficult to find a perfect match. It is thus during the workings of the relationship that a certain harmonization of these Shared Values emerge. In other words, relationships work best when firms come together with already similar operational beliefs, and then further harmonize these beliefs throughout the course of the relationship. Indeed, collaborating firms that have similar management styles, business practices and corporate cultures are more likely to "understand each other" and exhibit greater degrees of Trust and Commitment to the relationship (Dwyer *et al.*, 1987).

For collaborative NSD, shared values are also important between the firms. In addition to the above, the partners must share a common belief in the NSD process. Successful services can be in part attributed to the service firm's use of a formal process. Service firms that partner with clients must ensure that the client is willing to subject the new service idea to the entire NSD process. Haphazard service development could result in a service that does not meet client needs, provoking a quick end to the relationship.

Communication

The KMV model posits that good Communication positively influences Trust. Communication can be both formal and informal, but the accent is on timeliness (Morgan *et al.*, 1994). When a partner believes that Communications during the relationship have been frequent, relevant, timely and reliable, there is likely to be a greater level of Trust between the partners.

Good communication is especially necessary in new service development due to the distinguishing characteristics of services. Intangibility can render a new service idea difficult to

conceptualize, and hence, difficult to design and development. Frequent communication with the client during NSD can boost the likelihood that the service provider is "on the same wavelength" as the client so that the developed service will, indeed, meet client expectations. Simultaneity of production and consumption means that regular communication is necessary to ensure quality service delivery. When the service provider has an open channel with the client, feedback can be immediate and any problems can be taken care of as they show up. Thanks to heterogeneity, service modifications can be performed as necessary to continue to meet client needs over the long-term. Making the proper modifications means that the service provider and client must have on-going, regular communication even after the service is developed and has been in production for some time.

Opportunistic Behaviour

The KMV model proposes that Opportunistic Behaviour *negatively* impacts on relationship Trust. As Trust is considered such a key element of a good relationship, when it is broken through, the long-term viability of the relationship is usually jeopardized (Morgan *et al.*, 1994). Indeed, the more one partner believes that the other party will put its own needs ahead of those of the partnership, the less the partner trusts the other party's intentions. As seen earlier, firms will only continue to commit to relationships involving trustworthy partners. When one party acts in a self-serving fashion to achieve short-term gains, breaking Trust, Relationship Commitment is, by consequence, also reduced.

Opportunistic Behaviour in CSD could come from either the service provider or the client. In some cases, the service under development or in production is critical to the client's

business (e.g., order processing, logistics, or accounting systems). A client may feel vulnerable in such a case because it is heavily reliant on the service provider for the expertise necessary to get the system up and to keep it running. Service firms may try to capitalize on their position of power by demanding that certain contract provisions be changed to their advantage. Service firms should think twice before acting in such a way, however, because it may lead to a dissatisfied client and a tarnished reputation.

For client firms, Opportunistic Behaviour could involve intentional or unintentional "leakage" of a service firm's proprietary knowledge. As seen in the chapter "Risks of Collaboration", clients may want to absorb a service firm's expertise in an effort to "squeeze out" the service firm or eventually compete with it. Service providers normally try to minimize leakage through strict rules in the partnership contract, but a service provider feels that it is being "used" by the client may be inclined to break off the relationship.

XVI.D.4. Outcomes of Relationship Commitment and Trust

The KMV model proposes that five constructs are the direct result of Relationship Commitment and Trust among the partners. The presence of Relationship Commitment enhances Acquiescence and diminishes the Propensity to Leave the relationship. Cooperation is positively affected by both Relationship Commitment and Trust. Further, Trust is needed to improve Functional_Conflict among the partners, and reduce Decision-making Uncertainty. The five outcome constructs are briefly described below.

Acquiescence and Propensity to Leave

Acquiescence, or the degree to which a partner accepts or adheres to another's specific requests or policies, is considered to be a positive result of Relationship Commitment (Morgan *et al.*, 1994). This is because partners that are committed to the longevity of the relationship (i.e., high Relationship Commitment) are more likely to adopt similar policies (Meyers *et al.*, 1991) or to cede policy or decision making in certain areas to the other. It should be noted that firms committed to the relationship acquiesce because they *want* to do so. It is not a question of coercive power that makes partners Acquiesce, but the presence of Commitment. In fact, while some researchers speak of power and the need to balance it within the relationship (Freeman, 1991; Hallén *et al.*, 1991; Krapfel *et al.*, 1991), the KMV model implies that the existence of coercive power between the partners (and its potential to lead to opportunistic behaviour) diminishes both Trust and Relationship Commitment, which in turn is likely to bring an end to the relationship (Morgan *et al.*, 1994).

Propensity to Leave the relationship refers to the likelihood that a partner will terminate the relationship in the near future. In the KMV model, Propensity to Leave is negatively related to Relationship Commitment. In other words, when Relationship Commitment from the partners is high, they are less inclined to think about leaving the relationship for another opportunity elsewhere (Morgan *et al.*, 1994).

Cooperation

Cooperation means working together to achieve common goals. In the KMV model, it is presumed to be an outcome of both Relationship Commitment and Trust. Indeed, Cooperation is influenced by both Relationship Commitment and Trust since: 1. A partner committed to the relationship may be more willing to cooperate to make the relationship work; and 2. Cooperation where risky decisions must be made to advance the relationship can happen only when Trust is present (Morgan *et al.*, 1994). Cooperation is different from Acquiescence in that it is proactive on the part of both partners instead of reactive. In other words, Cooperation occurs when the partners actively take decisions together instead of just accepting one or the other's opinion.

Functional Conflict

Even among firms that normally get along well, there is always the possibility of some type of conflict (Dwyer *et al.*, 1987). What matters in RM is not conflict, *per se*, but the *type* of conflict that arises. Dysfunctional conflict, that is, hostility and bitterness that results from unresolved disagreements, should be avoided. Disputes resolved quickly and amicably, or from which the partnership learns to function better, are termed Functional Conflict. Learning to deal with functional conflict can lead to a better understanding by the partners of each other's needs and wants from the relationship and is ultimately linked to a greater likelihood of success for the relationship (Morgan *et al.*, 1994).

According to the KMV model, Trust determines whether a conflict is viewed as functional or dysfunctional by the partners. In the presence of Trust, partners are more apt to believe that the conflict will be resolved and end in a win-win situation. When Trust is weak or

nonexistent, partners may perceive conflict as resulting from opportunistic behaviour or "jockeying" for the upper hand in the alliance. In effect, when a high level of Trust is present, disagreements are perceived by the partners to be Functional Conflict that will ultimately be resolved to the benefit of the relationship.

Decision-making Uncertainty

Decision-making Uncertainty refers to the extent to which a partner: 1. has enough information to make important decisions; 2. can predict the consequences of those decisions; and 3. has confidence in those decisions (Morgan *et al.*, 1994). The KMV model posits that the presence of Trust decreases a partner's Decision-making Uncertainty because the trusting partner has confidence that the trustworthy partner can be relied on. In other words, Trust reassures the partners that decisions can be taken for the good of the partnership without worrying about how the other partner might take advantage of any decisions (i.e., opportunistic behaviour).

XVI.E. Operationalizing Relationship Marketing Constructs

Prior to the KMV model, most research into RM tended to look at how an individual construct (i.e., Trust, Opportunistic Behaviour) affected a relationship. Now, the KMV model permits us to see all the different identified constructs and make hypothesized links between them. One problem with the KMV model, and also with other models of RM, is that it addresses only the question "What is Relationship Marketing?" at the construct level (Athaide *et al.*, 1996; Perrien *et al.*, 1995). As mentioned previously, the KMV was tested and found valid in a particular business relationship scenario. But the model was tested on a sample of *buyers*, not *sellers*. Thus, we know that the KMV constructs are important to good RM because the buyers said so. For example, industrial buyers indicated that they had a good relationship with their supplier in part because trust was present (i.e., the supplier was deemed trustworthy). What we do *not* know is what exactly the providers did to gain this trust. For marketing managers and researchers studying the phenomenon, it is not enough to say that trust and relationship commitment are key variables to successful RM. Nor is it very helpful to tell managers that good communications positively affect trust. Instead, managers need an inventory of relationship activities, a "best practices list" for RM, that operationalizes the RM constructs in terms of concrete behaviour and attitudes that can be used to improve relationships (Athaide *et al.*, 1996; Evans *et al.*, 1994; Gummesson, 1995; Morgan *et al.*, 1994; Perrien *et al.*, 1995). Indeed, Gummesson (1990), a pioneer in the area of RM, argues that researchers spend too much time identifying constructs instead of looking at the specific behaviours that make for good RM (p.10).

Only a small amount of research has looked at industrial RM on an operational level. Specifically, two studies were found that evaluated the behaviour and actions of providers and the consequences of these behaviours and actions on the client relationship. One study explored the influence of a provider's RM actions on clients for relationships that were already established to see how RM would affect on-going interaction between the firms. The other looked at RM in conjunction with the development and early commercialization phases of the new product development process. These two studies are described below.

The first study, by Evans *et al.* (1994), evaluated the RM activities undertaken by firms in the automated immunochemistry testing products industry and their impact on on-going client relationships. A questionnaire, based on a RM model developed by the researchers, were sent to "chemistry supervisors" at various hospitals and laboratories. The questionnaire asked the respondents to agree or disagree (using Likert-type scales) to the presence and importance of the constructs in the researchers' model (e.g., customer satisfaction, total quality management, understanding customer expectations, etc.) The study resulted in a series of recommendations that providers should follow to build better relations with their clients. The list of recommendations included the following:

- RM should be conducted as a continuous and systematic process;
- RM needs top management support and the entire corporate culture should be RM oriented;
- A firm should build in customer expectations at all stages of product development and market planning;
- Front-line employees should be empowered to exercise initiative to solve customer problems;
- A Total Quality Management program should be implemented to improve product quality;

- Regular customer surveys should be performed to gauge satisfaction levels and determine which aspects of a relationship are most important to them;
- The RM process should be periodically assessed based on customer feedback.

For the most part, the above list of RM best practices could be generalizable to other scenarios, including collaborative NSD. Indeed, things like involving the customer during development is to make sure that the new product meets client needs is precisely the reason why service firms seek client partners. However, the recommendations are rather general and do not take into account how RM should be used at different *stages* of a collaborative relationship. Indeed, a firm would not survey its partner for satisfaction at the beginning of the relationship, but would still be working on planting the seeds that will allow the relationship to blossom over time. As well, the findings are product-based and may not take into account how the distinguishing characteristics of services impact a relationship.

A second study (Athaide *et al.*, 1996) did focus on the management of seller-buyer relations during the development and early commercialization of high-tech goods and services. Initial exploratory interviews using a list of constructs derived from current literature were conducted. The results yielded 34 activities (i.e., operationalized items) that sellers used to manage relations with buyers. These 34 activities were then included as part of a larger questionnaire that measured sellers' perceptions regarding their relationship management practices. Factor analysis on the returned questionnaires produced 8 different constructs and their corresponding activities that positively influenced relationships:

1. Product customization (co-design, co-develop product with customer; work closely with customer to correct problems)
2. Information generation on product performance (seek input on product modifications [after installation]); seek feedback on additional features desired by customer)
3. Product education/training (provide hands-on training; instruction manuals; demonstrations of product features)
4. Ongoing product support (service contracts; product upgrades)
5. Proactive political involvement (negotiate with different factions in buying organization; understand client's internal politics)
6. Product demonstration/trial (offered trials to customer; sold product in stages)
7. Real-time problem solving assistance (open communications (email, 800 number, fax, etc.); respond quickly)
8. Clarification of the product's relative advantage (results of product tests; on-site service support)

The conclusions drawn from the results of this study are that: 1. effective management of the relationship between the provider and client is necessary for successful high-technology process innovations; and 2. ineffective relationship management can lead to relationship failure (p.418). While the Athaide *et al.* (1996) study adds information to the literature about RM activities that is both important and relevant for managers and researchers, it focuses only on relationship activities undertaken during the development and early commercialization processes (p.408). If we are to understand the whole collaboration process as it relates to new product/service development, the stages prior to development (idea screening, business analysis, design, etc.) and after market launch (post-launch assessment) must also be investigated. Moreover, as already shown, RM becomes important from the very beginning of a relationship to

get it off the ground and stays important even after production. As such, RM should be looked at throughout the entire NPD/NSD process to see how it can be used in the different stages and in different situations (i.e., how the provider uses different tactics) as the partners move through the development process.

Missing entirely from the current literature is a study that focuses on the main constructs of RM as they pertain to collaborative new service development. Making a contribution in this regard is one of the objectives of this study.

XVI.F. Operationalizing Trust and Relationship Commitment in the Collaborative CSD Process

As the number of new service development collaborations grows, so does the need to better understand the role played by relationship marketing in each stage of the NSD process beginning with idea generation and continuing on through the post-launch review. Moreover, advancing the current research on RM means continuing to operationalize the list of RM constructs so that we are better aware of the role of RM in the forming and maintaining of a collaborative relationship. Indeed, in Berry's (1995) list of critical RM issues requiring more research, identifying the characteristics of a successful RM program ranks among the top (p.243).

To create a list of RM's "best practices" in CSD, three case studies of collaborative NSD efforts will be analyzed using the conceptual model of collaborative NSD developed by de Brentani (1996) as a base, as well as the KMV model of relationship marketing (Morgan *et al.*, 1994). The best practices list will identify the actions of the service providers by stage in the NSD process and will show RM's role in successfully moving the relationship through the CSD process. As building Trust and demonstrating Relationship Commitment are key elements in any successful marketing relationship, it is these two constructs that should be at the centre of any RM study (Freeman, 1991; Morgan *et al.*, 1994; Stump *et al.*, 1996). Hence, the rest of this paper seeks to create a list of RM's "best practices" by responding to the following questions:

1. How did the service provider use different activities, circumstances or environmental factors with respect to the antecedents to Trust and Relationship Commitment (i.e., Relationship Benefits, Shared Values, Communications, Relationship Termination Costs, and reducing Opportunistic Behaviour) to form and improve upon the relationship with the client firm as the CSD effort moved through its different phases?
2. In what specific activities did the service provider engage during each phase of the CSD process to *demonstrate* its Trust and Relationship Commitment to the client firm, and to *foster and maintain* the client's Trust and Commitment to the relationship?
3. What new constructs might be present in a CSD relationship that the current KMV Relationship Marketing model does not account for?

XVII. Research Methodology

This research was conducted and analyzed using a qualitative, in-depth multiple case study approach. Three collaborative NSD (CSD) projects were investigated, each coming from different industries and involving different types of services. The three CSD scenarios were:

1. “SuperTankTrain”: The development of a "pipeline on wheels" involving a large rail transportation firm ("RAIL") and a petroleum products manufacturer ("PETROL").
2. “StratMark”: The customization and extension of a computerized market planning software between a small consultancy ("FORESIGHT") and a large health and beauty aids company ("HAIR").
3. “Outsource”: An information systems outsourcing alliance involving the data management division of a large telecommunications company ("DataServices") and a large manufacturer of jet engines ("JetEngine Corp.").

XVII.A. The Advantages to Case Studies

Qualitative methods are most appropriate when researchers are exploring "hunches" or ideas about certain scenarios that have not yet undergone extensive research (Yin, 1989). As few researchers have looked at relationship marketing's effect on CSD, an exploratory study in this area appears to be called for. Indeed, research has just begun to explore RM at its lowest, most operational level; and yet this type of research seems to be highest in demand by marketing managers (Berry, 1995; Anderson, 1995). An

empirical inquiry using case studies can help fill this gap by identifying the activities that compose the relatively broad RM constructs, and by providing explanations to some of RM's complex causal links, such as those associated with the development of trust and commitment between two industrial partners (Yin, 1989).

A researcher can decide to undertake exploratory research when he or she is confronted with a relatively new problem or situation that warrants investigation and for which, consequently, no research propositions have yet been expounded. In other words, a primary goal of case study research is to build and expand new theory that will eventually lead to more concrete, "flushed out" hypotheses (Yin, 1989). Indeed, it is argued that theory-building research should begin as close as possible to the ideal of no theory under consideration and no specific hypotheses to test (Eisenhardt, 1989). As such, this paper uses an exploratory case study approach as a means of *discovering* how a service provider can use RM to build trust and commitment during the different CSD stages. The results of this research are the identified actions and activities that the service provider employed to develop a good relationship with the client in each of the different CSD stages.

Precedence for this type of theory-building approach for investigating inter-firm collaboration is substantial (Athaide *et al.*, 1996; Bonaccorsi *et al.*, 1994; de Brentani *et al.*, 1996; Lawton Smith *et al.*, 1991; Meyers *et al.*, 1991). Particularly for RM, several researchers in the area specifically call for case studies as a way to better understand these complex industrial relationship issues because only case studies are capable of capturing the longitudinal component of a relationship that directly affects the development of trust

and commitment (Athaide *et al.*, 1996; Anderson, 1995; Freeman, 1991). Indeed, case studies appear to be a very effective method for analyzing RM during CSD due to CSD's distinct, time-based phases. It would make sense that RM activities would have to be adapted to fit each phase to account for the amount of time lapsed in the relationship (i.e., the actions required by the service provider to instill trust at the beginning of a collaborative relationship are probably not the same as later on, when the relationship has been in existence for some time). Thus, a case study approach is necessary to not only create a list of RM activities, but to place these activities in their proper sequence that follows the development of the relationship during the various CSD phases.

The outcome of these case studies can help to build a descriptive framework of RM content (i.e., activities), which currently does not exist. Indeed, it is hoped that other researchers can use the identified RM activities and actions from the cases in this research to shape new RM theories and to generate specific hypotheses, which can then be tested on larger samples.

XVII.B. Creating the Protocol

Having a case study protocol increases reliability (Yin, 1989). A Partnership New Service Development Interview Guide was developed by de Brentani (1996) based on her previous work into new service development success factors and a review of the collaboration literature. The guide is broken down into 5 sections with both closed- and open-ended questions that address the following subjects:

1. Company characteristics (Who?)

- This section explores partner attitudes toward NSD & collaboration, such as: the firms' active or passive role in the creation of the partnership, their corporate culture's openness to and the importance placed on innovation, new product development and collaborative ventures partnering, and how these cultures compare with that of the industry at large.

2. The project (What?)

- This section identifies the new product's technology, innovativeness, cost, complexity and benefits as compared to past products developed by the firms. Firms are also questioned about project fit and necessary investments: How did this collaborative project fit with the firms' general business, expertise and capital resources? What types of investments were needed in the different project stages, and what risk level was associated with the investment.

3. Expected benefits & risks (Why?)

- This section asks the partner firms to speak to the benefits they hoped to acquire through the collaboration and what risks were involved. For example, researchers have previously identified such benefits as access to skills, knowledge and technology, increased NSD speed and efficiency, and market factors as reasons for collaborating. As well, risks previously identified with collaboration include potential for leakage of sensitive corporate information, costs, and the uncertainty involved in working with a partner.

4. Character of the project (How?)

- This section explores the scope of the project, the negotiated contract, the partners' commitment to the alliance and how this commitment was demonstrated. The questions about "scope" were designed to solicit information on the degree of collaboration throughout the different NSD stages (ex. A little or a lot) and whether or not other collaborative ventures would be explored within the current partnership. "Contract" questions help gauge the degree of formality of the contract, its precision, and its flexibility to deal with changing circumstances. Finally, the area of "commitment" explores the types and values of the resource (human, financial, and managerial) and capital investments made by each partner during the project, how symmetrical the commitments were, and how much of the investments were irretrievable if the partnership ended.

5. Project workings (How?)

- This final section investigates the interorganizational relations between the partner firms. Topics such as alliance management, project evaluations, managerial relations, inter-personal relations, conflict resolution, and trust and openness between the partners are covered. Research indicates that these types of interorganizational relations change and grow throughout the project life as the partners get to know each other better and work more closely together. Thus, exploration of these areas includes asking the partners to "set the scene" as it was during the initial contacts, and then describe how these relations changed over time.

This guide was then used with each interviewee to assure consistency of questioning across the interviews and across cases. Some tailoring of the questions was necessary to account for the fact that each respondent had a different role in the CSD project and would, therefore, be able to provide information only on some of the above five sections. Thus, the respondent's knowledge determined which sections of the guide were used during the interviews.

XVII.C. Selecting the Sites

The use of multiple cases, in combination with a common research protocol, helps boost external validity (Yin, 1989). Selecting the cases in this study involved "theoretical sampling" by the researchers, meaning that the cases were not chosen at random, but were selected to conform to the purpose of this research. The theoretical sampling approach is supported by experts in qualitative methodology (Eisenhardt, 1989; Loffland *et al.*, 1984; Yin, 1989) as a way to give the researchers a certain latitude so that the chosen scenarios do indeed contain the elements under investigation.

For this study, the focus was on successful CSD projects. Thus, all three cases involve an industrial service that was successfully developed and implemented. The researchers also wanted to explore successful CSD in a variety of service settings. As demonstrated previously, the three scenarios are quite diverse in industry and type of service developed. The services themselves are also fairly distinct with respect to the degree in which they exhibit the different distinguishing characteristics of services (namely, intangibility, inseparability of production and consumption, and heterogeneity of delivery). Diversity in this respect was planned because the researchers wanted to explore whether differing degrees in the distinguishing characteristics of services affect the CSD process. The distinctions in the three cases under study are outlined below:

1. The alliance between RAIL and PETROL to build a "pipeline on wheels" involved the development of a "tank train" to carry petroleum products from the refinery to a distribution centre.

Intangibility: lower. While the intangible portion of this service is primarily moving the train from origin to destination, the project has some highly tangible components, such as the tank train itself.

Simultaneity of production and consumption: higher. The bulk of the service is produced and consumed as the service provider and client work together to load the cars with fuel, move them to the distribution centre, and then unload them.

Heterogeneity of delivery: lower. The tank train is supposed to function in a highly standardized manner 365 days a year. Only under exceptional circumstances (e.g., weather, mechanical problems) will the delivery be affected. However, because of RAIL's extensive track system, the service offers substantial variety in terms of future destinations.

2. FORESIGHT's and HAIR's partnership to customize and extend the MarkStrat market planning software.

Intangibility: higher. The software is a representation of a specific marketing strategy developed by the consultant that integrates the expertise in market planning of its health and beauty aids client. In addition, using the software requires that the client learn become adept at applying the consultant's vision of strategic marketing planning. This "tacit knowledge", modeled in the software and transferred to the client, is highly intangible.

Simultaneity of production and consumption: medium. Although the software can be used without direct involvement from the service provider, an in-depth training process is required following delivery in which the consulting firm works directly with the client to demonstrate the software workings and to explain the business concepts behind the software so that the client can properly use the software. There is, however, a direct data link between the service provider and client permitting real-time software changes and upgrades.

Heterogeneity of delivery: lower. The software functions in the same manner for all users. Only for specific problems or scenarios does the service provider continue to modify the software for the client.

3. The outsourcing alliance involves transferring responsibility for running a computer mainframe data centre from the client to an outsourcer.

Intangibility: higher. While the mainframe itself is tangible, the processing that goes on inside is highly intangible. Nevertheless, a key factor in prompting this outsourcing idea was the cost of the highly tangible computer facilities.

Simultaneity of production and consumption: higher. The mainframe is used constantly by the client's employees and must be constantly monitored by the outsourcer's computer operators to ensure that the system is available when needed.

Heterogeneity of delivery: lower. There are certain mainframe processes that occur on a regular basis and for which the outsourcer has the responsibility to execute. Only in exceptional circumstances should these normal processes be replaced by other, one-off processes.

Using multiple cases that look at different CSD scenarios that are reasonably typical of the business-to-business services sector may lead to a certain degree of generalizability of the findings. The researchers are aware, however, that this particular research is more focused on exploration than hypothesis confirmation. But if certain outcomes are found to be true across the cases, it would be reasonable to assume some applicability to the general industrial service sector because of the variety of scenarios under study. Further, any similar across-case outcomes could serve as good starting points for future theories.

XVII.D. Gathering the Data

Each scenario included between 5 and 6 face-to-face interviews (tape recorded), lasting from 1 to 1 1/2 hours each with personnel who had been intimately involved in the CSD project. This includes those that worked in the initial planning stage, service design and development, delivery, project management and senior management. As the focus of the study is on the service provider, the majority of the interviews were with employees of the service firm. At least one interview per case was with a member of the client firm who had worked or was working closely with the service firm in order to cross check information obtained from the service provider (i.e., triangulation) (Grove *et al.*, 1992; Yin, 1989).

For the "pipeline on wheels" service case, two researchers were present for the interviews (de Brentani and a Master's student who has since graduated). The second case involving the customization and extension of a marketing software involved primarily

one interviewer (de Brentani) due to the rapid scheduling of interviews, which occurred when no student researchers were available. However, this author, as well as another M.Sc. (Admin) student, took part in the interview with the client project champion. The third case of computer services outsourcing had three interviewers present for all of the interviews (de Brentani, this author, and another M.Sc. (Admin) student). We believe that this less than 100% consistency during the interviews does not negatively impact on reliability or validity. Qualitative theorists do advocate the use of multiple investigators to establish construct validity (Grove *et al.*, 1992; Yin, 1989) and this was the case here. Moreover, all of the interviews were conducted using the same protocol, were taped, with transcripts made available to all of the different researchers, and with coding of the transcripts harmonized across researchers. In addition, supporting information describing the companies and projects was obtained (i.e., brochures, press releases, company newsletter articles), thus conforming to triangulation techniques of gathering data from different sources (Grove *et al.*, 1992; Yin, 1989).

XVII.E. Data Analysis

Based on the suggested methods for coding data by qualitative method researchers (Loffland *et al.*, 1984; Spradley, 1980), a coding scheme was developed using the content of the original case study protocol (i.e., interview guide). The interviews were read and codes were assigned to the respondents' comments as appropriate. Because the protocol covers a range of research areas, only some of it directly pertaining to the identification of relationship trust and commitment, all the different coded responses were "rolled up"

under their appropriate high level code (e.g., Trust, CSD success factor, Contract) so that analysis could focus specifically on the relationship marketing elements under investigation in this paper.

This researcher then compared his coded interviews, line by line, with those of Dr. de Brentani and the other M.Sc. (Admin) student working on the team to ensure that the observations matched across researchers. Modifications were made where necessary so that all three researchers agreed on the observations and the assigned codes.

Once coding of the interviews was completed, the next step was the within-case analysis (Eisenhardt, 1989). Detailed write-ups were done for each site which help the researcher to "set the scene" for the reader (Golden-Biddle *et al.*, 1993). This within-case analysis allows the unique patterns of each individual scenario to emerge prior to attempting to generalize patterns across cases.

Cross-case patterns were then identified, which serve to compare and contrast the findings of the within-case analyses (Eisenhardt, 1989). As it pertains to this paper, there are certain actions taken by the service providers which lead to the establishment of trust and commitment that are similar in all three cases. Conversely, as each case touches a different industry and type of service, there are particular actions that were not present in all cases, but specific to a scenario. Cross-case comparisons boost internal validity - the establishment of causal relationships - through pattern matching. It is these new patterns that then lead to the creation of new theory (Yin, 1989).

XVII.F. Observer Bias

A good case study is one in which observer bias is reduced to a minimum (Golden-Biddle *et al.*, 1993). As such, this author should mention his prior professional experiences that could have influenced the data analysis due to *a priori* ideas and how this issue was dealt with.

For eight years this author has been working in the information systems consulting field. The need to form lasting relationships with clients has always been present, and I had taken for granted that all firms were now operating in relationship marketing mode. Not only have I realized that many managers need a blueprint to improve their client relations (hence this study), but that earning trust and commitment from a client in information systems, where the service is highly intangible, is not necessarily done in the same manner in other industries where services might include a large tangible component or require massive up-front capital investments. Therefore, when analyzing the data I had to hold in check my prior experience as a client manager and let the data tell me what trust and commitment meant within each of the three scenarios. I am confident that my own beliefs about relationship marketing have not tainted the results of this study because I attempted to remain as objective as possible, and because the data analysis was confirmed by my co-researchers.

XVIII. Data Display Matrix

Due to the large quantity of data gathered and analyzed within these three case studies, a data display matrix follows which provides an overview of the findings, summarizes the similarities and differences between the cases, and highlights some of the prime Relationship Marketing activities that helped make the CSD process a success.

Figure 6: Data Display Matrix

CSD Relationship stage	“Outsource”	“SuperTankTrain”	“StratMark”
Description	An information systems outsourcing alliance between JetEngine (JEC) and DataServices (DS).	A partnership to create a “pipeline on wheels” between RAIL and PETROL to transport oil using rail cars.	An alliance between HAIR and FORESIGHT to extend a market planning approach and software tool.
Early Pre-Agreement	DataServices responded to an emergency situation and quickly installed additional mainframe capacity. JEC’s main service provider said it could not be done. DS proposed an outsourcing deal for JEC’s full mainframe operations, but it was turned down at the time.	The idea of an alternative to maritime-based transportation was proposed on several occasions by RAIL and rejected by PETROL. RAIL transported PETROL’s product during an emergency situation when the maritime shipper was unable to function due to a frozen waterway.	FORESIGHT was hired by HAIR to perform a market study. FORESIGHT demonstrated an earlier, more basic version of StratMark. HAIR said no. FORESIGHT met with HAIR in the context of another market study, and proposed a newer, more advanced version of StratMark.
Later Pre-Agreement	JetEngine decided to outsource its mainframe operations. DataServices, having established a relationship and proven its capabilities to the project champion (the IS manager), bid on the contract and won.	A senior manager within PETROL believed that the tank train was a viable idea and agreed to write a new proposal with RAIL. The advantages of using rail transport demonstrated and PETROL agreed to project.	Two senior HAIR marketing managers met with FORESIGHT and “test drove” the current version of the software. HAIR agreed to buy the software if FORESIGHT enhanced it to meet HAIR’s specific needs.
Establish Relationship	Financial commitments large for DS. Flexibility and “open book” pricing were used to find a win-win situation. Service guarantees and financial penalties for underperformance were offered and included in the contract.	Both sides committed large capital and resource expenditures. “Open book” pricing used. Contract includes service guarantees & the re-opening of the contract if the service is deemed uncompetitive.	FORESIGHT committed more financially, but HAIR had to adopt FORESIGHT’s marketing approach. Contract stated that FORESIGHT would develop the missing module needed to meet HAIR’s needs.
Project Workings	Project teams were formed and members worked closely together. Some conflict arose due to different project management styles. DS worked on-site at JEC to boost comfort levels. The new service was jointly tested over a long weekend prior to full implementation.	Project teams were formed and members worked closely together. Some conflict arose due to different project management styles and personnel turnover at RAIL. This was resolved when RAIL adopted PETROL’s project mgt. style. The new service was jointly tested over 1-month prior to production.	The design was done jointly to “flesh out” the required modifications. FORESIGHT was responsible for all development, but checked in frequently with HAIR managers. Joint testing assured that the service met HAIR’s needs prior to full production. Training & support were given to all HAIR marketing staff.
Project Evaluation	Negotiations underway to outsource other JEC computer services to DS.	In discussions to expand the service to PETROL’s other distribution areas.	Project underway to install StratMark worldwide within HAIR’s parent corp.

XIX. DataSystems (DS) and JetEngine Corp. (JEC) - An outsourcing alliance

XIX.A. Case background and partner descriptions

The “Outsource” case describes an information systems outsourcing alliance involving the data management division of a large telecommunications company (“DataServices”) and a large manufacturer of jet engines (“JetEngine Corp.”).

DataServices (DS), the service provider, is a wholly-owned subsidiary of a large telecommunications firm Telecom Inc. (TI). It was created in late 1992 when TI spun off its information processing group in order to expand TI’s service offerings to include both telecommunications and information services. TI had noticed that its corporate network services clients were often looking for an information services provider as well, and that in many cases a client firm’s information services provider had a significant influence over which telecommunications firm was chosen to manage its corporate network. DataServices was thus created to protect TI’s current customer base and to allow TI to compete for a greater share of the very competitive information systems and telecommunications markets. Indeed, Telecom Inc. proposed information services via DataServices to its clients and DS would, in turn, recommend that its clients retain Telecom Inc. as their preferred network provider. Thus, DataServices was formed by transferring a large part of TI’s internal information systems staff to the new company and permitting the new company to look for new sources of revenue beyond its exclusive

contract with Telecom Inc. However, up until this particular CSD project with JetEngine, Telecom Inc. remained by far DS's largest client.

As an independent company, most of DS's revenue has come from providing data centre (i.e., mainframe) services through outsourcing. Indeed, it is able to leverage the expertise of its staff in running TI's very large data centre. However, DS believes that it cannot forever offer exclusively mainframe services, since with the advent of new technologies such as personal computers, network computers, and client\server architecture, mainframe operations are becoming a commodity. In 1996 DataServices had revenues of \$200 million from its data centre outsourcing business with sales growth of over 10% per year and approximately 1000 employees.

With mainframe services as its primary business, DS often must invest large amounts of capital prior to taking on a new client: the mainframe computer itself, the space to house it, the power and cooling systems, data storage, and qualified personnel to run the operations are all very costly. Thus, DS sees entering into an outsourcing agreement as a long-term venture because it is only over the long-term that the firm is able to recuperate its initial investments.

Because DS was working to gain other clients besides just TI, it had gained a certain amount of CSD partnering experience. Still, its previous clients had been relatively small in comparison to JEC, and the outsourcing projects relatively routine.

JetEngine Corp. (JEC), the client firm, is a large manufacturer of jet engines with a multinational presence. There are only a handful of companies worldwide that design and build jet engines, but the competition between the key players is very intense. In its core business, JEC is very innovative and uses the latest technologies available to design and build larger, but quieter and more fuel efficient, engines. As such, it relies heavily on its information systems structure to the point where its operations would cease if ever its systems were unavailable.

The market for jet engines is directly related to the market for new airplanes, and thus tends to be highly cyclical. Return on investment for developing a new engine can come in two ways: direct sales of the engines, and long-term maintenance contracts. It is the latter that somewhat insulates JetEngine and its competitors from market downturns.

The JetEngine site in this case study employs about 3000 employees and generates over \$700 million in revenue. Although the firm has been doing quite well in the past few years, JEC has been undergoing a lengthy downsizing process since the beginning of the decade. In an attempt to insulate itself even more from market swings, it is attempting to reduce its operating expenses by outsourcing certain support services. Up until this particular CSD project, JEC had not thought seriously about outsourcing its Information Systems (IS) department because of its strategic importance to the firm and its impression that the department was already cost-effective. Indeed, a few years prior to this outsourcing project an independent audit of JetEngine's IS department revealed that its costs were already below the industry average. Still, JEC's mainframe operations alone at this one site were costing \$9 million per year, and it had a yearly software bill of

\$3 million, mostly in licensing fees, not to mention the cost of the capital tied up in JEC's existing IS infrastructure.

Because JEC has always supplied its information services internally, its managers were not well experienced in CSD projects. Of course, the IS department often worked with outside vendors to supply hardware and software, but almost all development and maintenance of JEC's systems were performed in-house using internal procedures.

XIX.B. Pre-Agreement Phase

XIX.C. Early Pre-Agreement

XIX.C.1. Relationship Benefits for DataServices

By late 1993/early 1994, DataServices was looking to change its image in the marketplace. Having Telecom Inc. as its largest client (70% of its revenues) was considered somewhat of a drawback. Other companies were often reluctant to do business with DataServices for fear that its strong ties to Telecom Inc. would mean that its other client systems would "play second fiddle". Further, they doubted that DataServices had sufficient expertise beyond the telecommunications sector. Although DS did have a few client systems to manage in addition to TI, these were relatively small and considered peripheral to the client's main business. DataServices knew that if the market was to take it more seriously as an independent information services provider, it would have to be successful in winning a major client account.

DS began its search for this new client with some fairly broad criteria in mind: a large corporation, preferably located in Telecom Inc.'s geographical territory, that was

financially able to sign a relatively long-term (i.e., 5-year) contract. In addition, DS was searching for a client for whom computer technology was at the core of its business. Finding such a client would give a boost to the reputation of DS, since service intangibility often means that a service provider's reputation is largely a function of its list of current (and satisfied) clients.

Other partner aspects such as organizational compatibility (culture, management style, use of a formal NSD process, etc.) were only marginally considered, meaning that the service firm did not believe shared values to be a main criterion for partner choice. As one DS manager put it, "We were like blind dogs in a meat factory", meaning that the firm had few shared value preferences as long as the client was large, technology-driven and financially stable. Indeed, while the DS managers believed that *client* firms must take into account compatibility (i.e., shared values) when choosing a service provider, the service firm, on the other hand, should be able to work with any client. The DS client manager believed that the onus was on the service firm to "get along" with any client by finding the right people to work with in the client organization.

XIX.D. A Relationship Forms with JetEngine Corp.

Following a client lead given to it by the Telecom Inc. network services representative, DS contacted the JEC Information Systems (I/S) department and set up a meeting to discuss JEC's mainframe capacity problem. It was during this meeting that DS took the JEC I/S management on a tour of DS's data centre (to add tangibility to the DS

service offerings) and informally proposed the idea of outsourcing. JEC's reply was that, for the time being, its immediate need was for extra mainframe capacity in its own data centre. JEC explained that it had already contacted the mainframe computer maker, International Computers (IC), but was unsatisfied with IC's proposed solution to the space problem. IC said that the current mainframe could not be fitted with additional capacity and that the only solution was to upgrade the machine, at a cost of several million dollars. This was not a viable option for JEC, not only because of price, but also because JEC had intentions of eventually (over the following 5 years) replacing the entire mainframe with a distributed client/server system. Indeed, investing in a larger machine would run counter to JEC's plan of moving off of the mainframe. However, in the immediate future, instead of coming down, JEC's mainframe usage was expected to increase, and something had to be done. DS realized that if it could come up with a creative solution to JEC's mainframe capacity problem, it would have its "foot in the door" for further projects with JEC.

XIX.D.1. Relationship Benefits

The relationship benefits to working with JEC were obvious to DS: JEC corresponded quite nicely to the type of "key" client that DS was searching for in order to boost its reputation. DS took advantage of this window of opportunity and, after studying the problem, came up with a solution: install a smaller mainframe next to the current IC machine and hook the two machines together. The advantages of this solution for the client were numerous. DS would lease the small mainframe, not from International

Computers itself, but from a vendor of IC-compatible mainframes, which would reduce the cost. As opposed to buying a new machine, JEC would pay DataServices a fair price to cover the leasing costs and support. Indeed, in comparison to the sole solution proposed by IC, this DS solution had three distinct advantages: 1. it was fast - the time required to install a parallel machine is less than for replacing an existing one; 2. it was relatively inexpensive; and 3. it was "flexible", meaning that JEC's usage could go up or down and the mainframe capacity could be adjusted as necessary. DS, thus, was able to take advantage of service intangibility and variability to tailor the offering to meet the exact needs of JEC. JEC accepted DS's proposed solution and the second, smaller mainframe was installed.

XIX.D.2. Shared Values

For DS, winning this first contract with JEC meant adapting some of its business practices. Normally when DS provides computing services, it does so from its in-house data centre. The JEC contract was the first time that DS took on the responsibility of installing and maintaining a system that was located at the *client's* site (i.e., "insourcing"). Further, once the new mainframe was installed, DS dedicated several technicians to work at JEC's offices in conjunction with the JEC I/S team to keep the mainframes running smoothly, taking advantage of service simultaneity to have a continued presence at the client site. This willingness to adapt its values (i.e., the way it does business) to meet the needs of the client reveals how committed DS was to forming a relationship with JEC.

XIX.D.3. Trust

This first project received the complete satisfaction of JetEngine's I/S staff. JEC was also pleasantly surprised at DS's technical abilities, given that DS was relatively unknown compared to its parent company, Telecom Inc. This first project, while deemed small and unprofitable by DS, permitted DS to establish a good relationship with JEC ("we sacrificed money to get the partnership going"). In particular, throughout the course of the first contract DS built trust with the client by demonstrating its technical competence, consistently keeping its word when promises were made, and quickly correcting any problems encountered.

XIX.E. Later Pre-Agreement

XIX.E.1. Relationship Benefits

When JetEngine decided to explore outsourcing, DS knew that winning the contract would be a major step ahead in growing its business. The outsourcing alliance could be held up as a reference to show that DS was no longer dominated by Telecom Inc.'s business. Beyond winning a key client, this new project would allow DS to develop other types of information technology expertise, notably in engineering and manufacturing, and then market this new expertise elsewhere. In addition, DS hoped to acquire specific knowledge of the aerospace industry that could position it as a key service provider in this growing market.

JetEngine, on the other hand, was still rather skeptical about the financial benefits of outsourcing. Indeed, its RFI & RFQ included a challenge to would-be bidders: you

must demonstrate your added value in order to win this contract. For JEC, demonstrating added value meant that the outsourcer had to prove that monetary savings would be possible. In addition, JEC was looking for outsourcers to offer flexible pricing based on usage (i.e., JEC could lower its payments as usage went down), and to guarantee regular upgrading of hardware and software to current releases.

Out of the five candidates that JEC selected, only DS succeeded in demonstrating relationship benefits to JEC's satisfaction. In the original proposal and in subsequent meetings, DS used a series of possible contract scenarios to show cost savings for JEC. DS outlined what type of equipment would be used, its growth capabilities, how much the extra capacity would cost, and the type of coverage (i.e., manpower) that it would commit to running JEC's data centre. These cost-saving scenarios were an excellent tool to reduce the intangibility of the proposed service. Indeed, many of the proposals looked similar - a frequent occurrence in business services due to intangibility. DS distinguished itself from the other bidders by not just promising savings, but proving to JEC that it would profit from outsourcing.

DS also agreed to offer flexible pricing which would allow JEC to decrease its usage over time (conforming to its plan to leave the mainframe) and its monthly payments would be reduced accordingly. Further, DS agreed to take over both the hardware and software used by the mainframe systems, pay JEC a fair price for them, and then bring/keep them up-to-date by renewing any necessary licenses. In all, DS was able to reduce service intangibility by concretely demonstrating to JEC that it would benefit from the relationship, but also used service intangibility and variability to its advantage

during this phase by continuing to modify the service proposal to fit the client's specific needs.

XIX.E.2. Communication

DS had the sole responsibility for writing the proposal. Writing it in conjunction with JEC staff was not an option because JEC had asked for competing bids. This did not stop DS from frequently communicating, both formally and informally, with JEC during the bidding process. The success of this first project with JEC meant that DS had succeeded in building good communications with the I/S staff. Indeed, DS personnel were at the JEC site and interacted regularly given the need for the service provider to work closely with the client during delivery (i.e., simultaneity). The social bonds that developed allowed DS to have informal conversations with I/S employees about the outsourcing project and to feed this information back to the account manager. As well, the account manager assigned to JEC at the start of the first contract in 1994 remained in place throughout the proposal process. This consistency was beneficial to DS because there was a certain intimacy that had developed between the account manager and the I/S department managers, which helped the I/S managers speak more freely about their needs. To build the user's perspective into the proposal, the account manager was able to contact some old schoolmates now working at JEC and ask them informal questions about their system needs. In addition, the account manager knew the client well and had learned a great deal about JEC's culture and its business as a result of the initial

relationship, which helped a great deal in tailoring the proposal to match the needs of JEC.

XIX.E.3. Shared Values

Only in one area did JetEngine specifically compare its values with that of the outsourcers: policies concerning the welfare of employees. JEC was very concerned about what would happen to its I/S employees that would eventually be transferred to the outsourcer. As such, JEC looked for a partner that would guarantee full employment to displaced JEC workers and also keep them in the same city. JEC responded to this concern by outlining the different types of positions that it could offer to JEC staff and how their careers could progress at JEC by working with other client systems and different technologies in addition to that of JEC.

Certain shared values, such as corporate culture and management style, did not play a great role in partner choice. Perhaps JetEngine did not focus more heavily on this aspect because it had already worked with DS in the past, and so felt that the two firms could continue to work together in the future. But even prior to the first small contract between the firms, JEC tended not to weigh shared values as heavily as it did the costs and benefits of the proposed solution. The same was true for the service provider who hardly took into account the issue of shared values in its search for clients. Instead, DS was more concerned about how a certain client could add to its own reputation in the marketplace and was willing to modify its values - in terms of the way it does business - to conform to the will of the client.

XIX.E.4. Trust

Having already worked together during the first smaller contract, JEC had developed a certain level of initial trust in the capabilities of DS. Indeed, it was quite content with the service provided so far and respected the expertise that DS had in mainframe operations. Because DS had performed to expectations during the first contract, JEC favourably evaluated both its prior service satisfaction and DS's expertise. This positive evaluation proved critical to winning this new outsourcing contract.

One criterion used to evaluate the outsourcers was financial viability. Indeed, providing I/S services of this type required on-going service delivery and simultaneous service production and consumption. Thus for JEC, reducing its risk of outsourcing in the long-term was to choose a partner that would be in the outsourcing business for the duration of the JEC contract. JEC quickly eliminated firms that it deemed either too small or who were not making money because JEC did not completely trust the long-term viability of these firms. By contrast, DS had the financial backing of Telecom Inc., which reassured JEC that DS would be around and able to provide the necessary outsourcing services over the long-term.

Throughout the proposal development period, DS focused on building trust with the I/S department. As seen above, it spent a lot of time both prior to and during the proposal writing phase asking about JEC's needs and listening to the answers. At one point the competition boiled down to only two outsourcing contenders - DataSystems and International Computers (the firm that lost the first contract for the mainframe expansion, but was still the dominant technology provider at JetEngine). Eventually, International

Computers was rejected because the company did not appear to listen to JEC and did not want to adapt its proposal to the client's needs as specified by the I/S department. Indeed, International Computers was once again seen as inflexible. They had a "monopoly attitude" towards outsourcing which was akin to "We know what's best for you". The I/S managers also perceived a threat by International Computers that if the I/S department did not choose IC and conduct the outsourcing deal the way IC felt it should be conducted, the representatives would go over their heads and deal directly with the CEO as they had done when the outsourcing idea was initially proposed by IC. This was a mistake. Had International Computers taken the time to learn how JetEngine operates, it would have realized that, while the CEO may have given his approval for the initial idea of outsourcing, the ultimate decision makers were the I/S managers regarding the details of this undertaking.¹

As is the case for many business services, the data centre was seen as critical to JEC's operations. For example, its Computer-Aided Design software, used to design new airplane engines, ran on the mainframe. Any down time would mean substantial lost revenues for the firm. JEC perceived that the risk of service inconsistency or failure might be higher in the hands of an outsourcer than it was as an in-house service. Thus, JEC asked the bidders to offer some sort of service guarantee and how much in penalties

¹Although the strategy of dealing directly with top management to obtain a "handshake deal" did not win International Computers the JEC contract, getting to know the client's top management early on in the Pre-Agreement phase can be vital. As fate would have it, both DS and IC found themselves once again the last two candidates for an outsourcing contract with a major North American airline. Both bids were competitive, but International Computers was chosen because it had formed a relationship early on with the airline's CEO. As a result of this lost bid, DataServices top management now also routinely cultivates relations with the client top management from the beginning of the proposal process.

they were willing to pay if their service level fell below the guaranteed level. Only DataServices offered to accept up to a 100% penalty (the equivalent of several hundred thousand dollars) in any month that system availability or performance fell below the guaranteed levels. In addition, DataServices reminded JEC that it had consistently kept its promises during the first contract. In effect, DS was promising to reduce service variability in production to an absolute minimum in order to provide JEC with totally dependable mainframe operations. Indeed, to minimize the risk to JEC, DataServices itself took on a significant risk by guaranteeing a service availability level of 99.6%, the highest it had ever agreed to. (99.6% availability is equivalent to less than 3 hours of down time in a month that has 720 hours). This up-front service guarantee was necessary, however, in order to win the trust of JEC.

Further, DS also arranged meetings between JEC managers and current outsourcing clients of DS (DS was not present at these meetings) so that JEC could find out first hand what other companies thought of DataServices. Meeting current clients was deemed important by both firms given that outsourcing services, like many services, cannot be inspected prior to purchase. Reassurance that DS's current outsourcing clients were satisfied served as a proxy for future satisfaction and permitted JetEngine to feel more secure about choosing DS as its long-term partner.

JEC chose DataServices as its outsourcing services provider because the JEC I/S director "felt more comfortable" with the offer by DS because DS was more "flexible" than the other contenders and because it offered services that truly corresponded to the needs of JEC. The director added that, "Our relationship with DataServices during

[proposal] negotiations was a lot better [than with International Computers]" because DS was willing to be flexible.

XIX.E.5. Commitment

During the late Pre-Agreement phase, commitment played an important role and was demonstrated by DataServices primarily through personal commitment to the outsourcing idea and through a willingness to satisfy all customer needs. DataServices used the same management team to write and negotiate the proposal that had been there throughout the first project. This showed a certain consistency. Further, DS spent many months working on the proposal. In the words of the DS project manager, "Responding to the RFI and RFQ were time-consuming, but necessary". Indeed, the time spent on the proposal and subsequent modifications demonstrated DS's commitment to wanting to work with JEC.

XIX.F. Establish Relationship

XIX.F.1. Relationship Benefits

After issuing the Letter of Intent, the JetEngine purchasing department now became involved in the relationship. One of the first orders of business was to call a "confidential" meeting between itself and the DS managers. It turned out that there was a gap between the *real* wants and needs of JEC and what they *said* they wanted and needed. According to Purchasing, the requirements stated in the RFQ had been quite unrealistic and too expensive for the company, and they had to be changed. For instance, the RFQ had called for the building of a new data centre in close proximity to JEC's current offices. Now, in order to reduce costs, the purchasing department was willing to look at operating the data centre from DS's offices on the other side of the city. Further, whereas the RFQ/RFI had called for upgrading JEC's data centre to include leading-edge technology, now the client believed that it would not have the funding for this option. This change meant that DataServices would not have responsibility for installing and maintaining new applications (which would have been an excellent skill for DS to acquire), but instead DS would only be responsible for keeping the existing software current, a much more mundane assignment. In the words of one DS manager, "[JEC] went from [buying] a Cadillac to a Chevrolet". These changes to the outsourcing mandate meant that both sides needed to rework the potential partnership given the new monetary constraints. Indeed, the biggest challenge facing the partnership was to find a way to decrease JEC's computing costs while still allowing DS to earn a financial return. Instead

of refusing a contract that was surely much less lucrative than first believed, DS kept in mind its initial reasons for partnering with JetEngine, namely the boost to the service provider's reputation through this association, as well as the possibility of future contracts with JetEngine. Although disappointed that the new partnership would be less comprehensive, DS agreed to keep working with both the I/S department and Purchasing to find a new win-win situation. Once again, DS could leverage the intangibility and variability of its services by proposing a new solution that was acceptable to both the I/S and purchasing departments.

XIX.F.2. Trust

Given that JEC was under severe budget constraints, both sides decided to use an "open book" approach to discuss financial information. The partners agreed on what should be considered a "fair" profit for DS and "fair" savings for JEC, and then priced the services accordingly. DS detailed both the capital expenditures it would incur to transfer the data centre to its own facilities and how it proposed to recuperate the costs of these investments. JEC revealed confidential information such as I/S employee salaries to substantiate JEC's current expenditures and to help DS plan expenses associated with any employees transferred from JEC.

In part because DS had not yet developed a relationship with the purchasing department, the first three weeks of contract negotiations were named the "testing" period. While during the earlier phases a close and informal relationship was the norm, now formality reigned and people spoke in terms of what the "companies" would or

would not accept. Firm reputation played a key role. For instance, the customer might say, "JetEngine is a large firm and DataServices must provide us with dedicated personnel round-the-clock." After this initial testing period, however, the DS managers remarked that negotiations became more conciliatory and personal, and a level of trust developed between the individuals. The two sides compromised more easily and were more apt to say things like, "Dave (the name of one of the managers), help me out here, and I'll help you out there." This development of trust was due in part to the managers' empowerment to take decisions during negotiation meetings, instead of having to verify everything first with top management. Thus, if a DS manager promised something, JEC could count on this promise. Trust between the partners enabled compromise and the belief that the result would indeed be win-win. In the end, DS agreed to reduce the amount of money that it would earn from the contract in order to conform to JEC's available budget; in return, JEC agreed not to "nickel and dime" the amounts proposed for different types of services and accepted with little question the service prices quoted by DS.

XIX.F.3. Communications

Up until this stage, DS had had very good relations with the JEC I/S department in part because communications had been very open. Once Purchasing became involved in the contract negotiations however, the decision was made by JEC to heavily restrict communications between DS and anyone at JEC until the contract was signed. All communications relating to the outsourcing venture had to go through Purchasing; direct

contact with the I/S staff was no longer permitted. This represented a big change for DS since the relationship up until this point had been almost exclusively with the I/S department. This "gag order" by Purchasing made life difficult for DS. Whereas DS technicians once had had free access to the building, now all visits had to be announced and their reasons stated ahead of time. Indeed, the DS project manager said that this sudden change in communications hurt the relationship. Whereas the personal trust level was high between the employees of DS and JEC's I/S department, communications with Purchasing were strained in the beginning. In contrast to the prior relationship with the I/S department, with Purchasing, DS found itself having to deal with a group of clients that did not have a high level of technical knowledge and who had difficulty conceptualizing the intangible computing services proposed by DS. For instance, conflicts arose during contract negotiations often due to misunderstandings over statements made orally because Purchasing did not "speak the same language" as DS. To correct the situation, DS began regularly documenting all conversations and distributing these "minutes" to all concerned parties.

As contract negotiations got under way, DS top management began cultivating the trust of JEC senior executives. For example, the two CEOs met shortly after the Letter of Intent was signed to set the tone for the relationship. Moreover, DS top management became involved in the negotiations when it signed on to the up-front financial commitments that would be necessary for moving the project forward. Both top managements agreed to meet quarterly so that they could discuss project progress, the status of the relationship, and its future direction.

XIX.F.4. Opportunistic Behaviour

Time became an issue in this Establish Relationship phase because contract negotiation was taking longer than anticipated. Originally slated for signing in November 1995, in January 1996 there were still contract issues to be resolved. JEC had committed itself to a “cut-over” (i.e., moving from the old system to the new) date of April 1996 for several reasons and DS estimated that the project would take a minimum of three months to complete. JEC's pressing need to wrap up contract negotiations and begin the actual project workings put DataServices in a position of power. Indeed, DS managers acknowledged that certain issues were resolved in DS's favour because JEC could not afford to negotiate any longer. However, DS did not use its new found power in an opportunistic way. On the contrary, although they received some concessions from the client, the DS managers believed that the outcome of the negotiations was quite fair for both sides. Trust was, therefore, maintained between the partners because DS resisted taking advantage of its advantageous position.

XIX.F.5. Commitment

The contract that was eventually signed was deemed to be an accurate representation of the required solution to JEC's needs and was very explicit as to the responsibilities of each party. For example, the contract clearly stated what level of service was to be provided, how performance was to be measured, and what penalties DS would incur if the system underperformed in any period. Nevertheless, despite a service scenario which was quite explicit, DS noted that it was difficult to write a complete and

exact contract because there were still several issues that appeared during the Project Workings which were not included in the original contract.

The contract itself had a duration of five years, with two more years on option. DataServices committed itself to a \$10 million up-front capital investment for things such as new hardware and data lines, and software upgrades. This commitment was not considered completely irretrievable by DS managers. In principle, if the contract was terminated with JEC, the equipment could be transferred to other clients or returned to the vendor. In practice, however, there was likely to be large monetary relationship termination costs for DS; for example, breaking equipment leases would mean paying stiff penalties, and transferring equipment elsewhere in the organization would only work if there was identified undercapacity elsewhere.

The partners agreed on a fair price that DS would pay JEC to take over its existing data centre equipment (terminals, printers, computers, etc.) and software licenses. JEC had no up-front capital commitment, but agreed to a “due diligence” process whereby the service provider verifies the existence and condition of the data centre equipment and software prior to taking them over. Any discrepancies between the agreed price and the estimated value after inspection could have affected the final price paid for the equipment by DS to JEC.

To reduce the risk to DS due to the unequal up-front capital commitment, JEC agreed to a yearly minimum payment scheme independent of the service usage level. This was critical for DS because it could now plan the period (i.e., 5-7 years) over which it would recuperate its up-front investment. Without some guarantee of a minimum price,

DS would not have agreed to its initial capital investment. The minimum payment scheme was considered win-win by both partners. In the first year of the contract, for example, DS was guaranteed a minimum payment of \$7M, while previous to outsourcing, the data centre had cost JetEngine \$9M a year to run. Moreover, to allow JEC to achieve its objective of reducing its mainframe costs as usage dropped, the contract specified that each year the partners would review the usage level and set new prices accordingly. It is thanks to service intangibility and variability that this flexible pricing idea could be put into practice. Indeed, as the computing needs of JEC changed over time, DS could not only modify the services it provided to JEC fairly easily, but it could shift the use of its operating capacity to other customers.

Certain commitments agreed to by the partners dealt with human resources. At first, JEC wanted contract stipulations whereby it had the power to approve or refuse any future changes made to the DS personnel assigned to the JEC contract. This demand implies that JEC staff had developed trust in certain DS employees and that there was some perceived risk associated with transferring these DS employees off of the JEC project. Indeed, service continuity was perceived as being at risk if certain DS staff left the project after having developed an expertise or "tacit knowledge" with the JEC data centre that could not be immediately replaced when newer employees joined the team. While DS recognized the risk facing JEC, it did not want to give JEC authority over staffing, arguing that it needed full control over the assignment of its employees in order to respond to all of its customers. As a compromise, DS gave JEC the right to identify certain key project people that would need JEC's approval prior to their reassignment. As

well, JEC obtained the right to ask that a DS employee be removed from the project if relations with that employee are not satisfactory. All in all, DataServices believes that it made "substantial" commitments at the human resource level, especially during the transition period (i.e., 6-12 months after cut-over), not to ensure that its operators were well versed in running the JEC data centre but to alleviate perceived risks surrounding service implementation.

XIX.G. Project Workings

XIX.G.1. Commitment

Once design and development began, DS put together a project team of its "best" technicians. To ensure consistency and continuity, both the project manager responsible for the first contract and the client manager continued in their roles during this new contract. In this way, the project manager could "remain close" to the client throughout the development, testing and implementation phases. A project plan was jointly developed by the two project managers which outlined the specific objectives and benchmarks, and their completion dates. According to the DS project manager, it was this high level of personal commitment on the part of the DS staff to the successful implementation of the project that spilled over onto the JEC staff, who initially had been quite resistant to the idea of outsourcing. By the time the project was in the full "workings" phase, both sides were equally committed to seeing it through to fruition.

XIX.G.2. Trust

According to the DS managers interviewed, it is largely the interpersonal relationships that make or break a collaborative project. If the relationship between the managers and staff of the service provider and those of the client is good, the relationship between the organizations will also be good, and the project will succeed. Thus, the two teams were encouraged to work closely together during this Project Workings phase in order to build social bonds and mutual trust.

Moving from the contract signing phase to actually developing the precise service offering created some important risks for JetEngine. First, sensitive information regarding JEC business processes (including its proprietary knowledge regarding engine designs) had to be turned over to DS during the data transfer, or "cloning", process. The chances for leakage of this information was greater under outsourcing because the information was no longer under the sole control of JEC. DS undertook to minimize the potential risk to JEC by conducting both an internal and an external (by hiring an outside firm) audit of its security measures, the results of which were shared with JetEngine. Moreover, DS agreed to obtain security clearances for employees that were responsible for manipulating JEC data both before and after cut-over. Following these gestures, JEC was satisfied that DS had done what was necessary to demonstrate responsible data handling procedures.

As the development phase ended with the "cloning" of the data at the DS site, the partners worked together to develop test cases to ensure that the new mainframe had indeed transferred the complete data set from the JEC computer. Four stages of testing took place over a period of several weeks: testing the basic system functionality; testing the enhanced features; an "end-to-end" test where all of the processes that would normally be run in a 24-hour period are executed; and the final full system test over the aforementioned 4-day holiday weekend. In each testing stage the DS operators would run the necessary processes and JEC I/S employees and other JEC mainframe users would verify the results. To further boost the client's confidence that the newly outsourced service would perform properly, DS invited JEC I/S managers to the DS site to watch as the DS operators performed the various tasks. Indeed, this type of testing mirrored the

service simultaneity that would occur in production. Performing the steps ahead of time permit DS a practice run at actual service delivery and also showed JEC that it would perform at the promised consistency level.

XIX.G.3. Shared Values

One way for an IT outsourcer to avoid production failures is to become intimately familiar with the client's data and data processing procedures. This familiarity is best gained through some type of knowledge transfer from the client to the service provider. As the development moved forward in this CSD scenario, it became evident that the project plan elaborated at the beginning of the Project Workings phase did not sufficiently benchmark the knowledge transfer process that had to occur prior to implementation. Moreover, the two sides had different perceptions of how the knowledge transfer should be undertaken. DS believed that this outsourcing project was relatively "standard", no more complex than others it had handled in the past, and that it could approach the service development effort by assigning human resources only as needed and according to the specific task to be completed. JEC, on the other hand, believed that the project was quite complex and that DS should approach it in the same manner as JEC: that is, with a dedicated project team. Indeed, JEC management expected to see DS technicians regularly in the JEC data centre during the development phase, working along side current JEC I/S employees. When this did not occur, the JEC project manager expressed his dissatisfaction. DS replied that it believed that all of the necessary information for running the data centre was contained in JEC's data centre operations

manuals, which was serving as a "How To" guide for all of the necessary processing. DS had reviewed the manuals early on and it appeared that there were relatively few new procedures used at JEC with which the DS staff was not already familiar. Therefore, as far as DS was concerned, for knowledge transfer to take place it was not necessary to spend time at the client site. It was more important to become familiar with the instructions in the manuals.

JEC accepted the DS argument at first, but as time went by the DS project manager sensed that JEC was still worried about the quality of knowledge transfer that was taking place. When the issue was raised again between the project managers, the JEC manager admitted that he was, indeed, concerned. The manuals, after all, contained only the basic procedures, and did not begin to capture the tacit knowledge of an I/S department employee who had been working with the JEC mainframe for years. Without transfer of this tacit knowledge, JEC perceived a risk that something would go wrong, at which point top management at JEC would come looking for answers.

When confronted with this perceived risk of service failure due to insufficient knowledge transfer, DS modified its project management approach and committed staff to the project on a more full-time basis. The DS project manager set up a schedule, in conjunction with JEC, whereby the DS operators that were to be responsible for running the system after cut-over would spend several weeks working side-by-side with the JEC operators to facilitate knowledge transfer. The regular presence of the DS personnel at JEC's site greatly improved the client's comfort level and was successful in reducing the fear of service failure.

XIX.G.4. Communication

Throughout the Project Workings phase the DS and JEC project managers met weekly to update each other and to track progress of the service development plan. To keep control over communication flows, the project managers were designated as “key contacts”. In other words, issues were first raised with the project managers in order to keep them well informed. Then the team members assigned to the task from both sides would become involved and work closely with one another find a solution to the problem.

Other means were implemented to facilitate communication between the two project teams. An 800 number was installed that linked the client to the service provider 24-hours a day throughout the CSD process. As well, DataServices communicated the name and phone number of managers in its hierarchy to their counterparts at JEC. For example, when a JEC vice president had a particular issue to discuss, for example, she was able to go directly to her counterpart at DS to resolve it. On the whole, the DS managers spent much of their time simply talking to the different players on both sides and smoothing over any conflicts or problems that arose.

DS project management stressed joint decision making and problem solving as a means to boost the client's commitment to the solution. Indeed, DS regularly consulted JEC prior to taking any important decisions. For example, DS selected hardware (mainframe processor and disk storage devices) in conjunction with JEC, although contractually DS had sole discretion over this area. DS always had to keep in mind that, while its own people may have felt quite comfortable with certain steps that had to be

performed during service development, due to a lower level of experience, the client felt less assured. As such, keeping the client aware of what was going on, asking for client input, and involving the client in as much decision making as possible reinforced JEC's confidence that the project was moving ahead as planned. As well, joint decision making and frequent project updates reduced service intangibility for the client. Although JEC could not physically inspect the service under development, it was able to follow the development effort very closely, which led to a basic trust that DS would deliver what it had promised.

XIX.G.5. Relationship Termination Costs

As the new hardware was being installed at the DS site and as JEC data centre files were being transferred to DS, the relationship termination costs increased for both sides. Had the new service not worked properly to the point where the relationship was jeopardized or even terminated, DS would have lost the better part of its up-front financial commitment. As well, its longer term sales might have been affected because it would no longer have a satisfied "key" client to serve as a reference. Nevertheless, for the service provider the potential for relationship termination can be reduced due to service variability. Had a problem occurred in production, DS could have "recovered" from the service failure by continuing to modify the service until the problem was corrected and the client satisfied.

JEC would also have incurred large monetary losses had the service not performed as expected. Production downtime would mean lost productivity and

potentially lost sales. Had the relationship with DS been completely severed, JEC would face the costs of “re-insourcing” its data centre, or finding another outsourcer to take DS’s place. What was perceived by JEC as more risky than a service failure was the long-term loss of expertise that would occur due to outsourcing. As noted above, the transfer of responsibility for the data centre from JEC to DS also involved a transfer of tacit knowledge about how to run it. As time goes by, the remaining I/S employees would lose this knowledge as they are reassigned to other JEC systems. This knowledge loss greatly increased the chances of JEC becoming dependent on DS. In other words, the longer the relationship with the outsourcer, the more expertise JEC would lose concerning its own systems, which in turn would lead to higher relationship termination costs for JEC. DS was able to do relatively little to reduce this risk for JEC. In fact, DS was counting on this type of dependency on the part of JEC to ensure a long-term relationship. JEC, on the other hand, was aware of this relationship termination cost, but hoped to reduce it by eventually moving off of the mainframe.

XIX.H. Performance Evaluation

The system cut-over went as scheduled following the holiday weekend testing phase. One year after implementation both sides believed that the project was “win-win” to the point that they were actually talking about extending the outsourcing relationship to include other JEC systems which are less “commodity-like” and use more leading-edge technology. As well, JEC has been pleased enough with the services provided by DS that it has recommended DS to some of its other industrial partners. Other outsourcing contract negotiations with these new client-prospects of DS are underway.

XX. RAIL and PETROL - the development of the SuperTankTrain

XX.A. Case background and partner descriptions

The “SuperTankTrain” case describes the development of a "pipeline on wheels" involving a large rail transportation firm ("RAIL") and a petroleum products manufacturer ("PETROL").

The service provider, RAIL, is one of the largest railways in North America, with a strong presence in the northeast part of the continent. It employs 25,000 people and has revenues of over \$4 billion. While its primary business - transportation - is quite homogenous, its services can be highly specialized, with specific rail cars and procedures for moving goods developed to meet the needs of its different clients. Before privatization, RAIL was committed to “universal service” including continued service to areas that were not financially viable. Since full privatization in 1995, the firm has been working to streamline and rationalize its operations to improve its competitiveness. Top management listed three primary ways to achieve this objective: 1. Selling unprofitable lines; 2. increasing capacity on its existing track; and 3. focusing on acquiring expertise in certain types of transportation, which will enable RAIL to grow its current market. Indeed, as a mature industry with a high degree of competition, railway companies are becoming more aware that the way to grow the business in the future is to offer specialized services that no one else in the market has. Thus, its business managers spend a good amount of time reflecting on what types of new services RAIL could offer which

would allow the firm to develop an expertise and to offer a unique service to its customers.

As an organization, RAIL is well respected by its peers and enjoys a reputation for excellent technical competency and customer service. RAIL had been involved in numerous collaborative projects prior to the SuperTankTrain, involving its suppliers, competitors and customers. RAIL did not, however, have much experience with PETROL prior to this CSD venture.

PETROL, the client firm, is a refiner and marketer of petroleum products with operations concentrated in the northeast part of North America and in California. With revenues of \$2.5 billion and a staff of 1000, it is a relatively small company compared with its peers.

The petroleum industry is quite competitive and capital-intensive in the areas of plant and process, distribution, and marketing. While technical expertise is certainly required to maximize the complex refinement process, there are less than ten product types in all, and these are largely undifferentiated from competitors' products. Moreover, the growth potential is limited in North America given that society is already accustomed to using petroleum (heating, gasoline, motor oil, etc.) and new products are generally extensions or improvements on existing ones (e.g., cleaner burning gasoline).

The key to improving profitability is to focus on market development and on reducing distribution costs. Expanding geographically to other parts of the continent would help grow PETROL's business, although it would face stiff competition from the

established players. More important is to focus on cost reduction. Already its main refinery is among the most efficient in North America. Another big area for improvement is in shipping. Indeed, in a commodity industry, these variable costs directly affect the firm's bottom line. For many years PETROL had relied on a simple maritime shipping route to move its product from its refinery to its primary distribution centre. It had, however, reevaluated the competitiveness of its maritime shipper vis-à-vis other potential shippers each time the contract was up for renegotiation. Although half-hearted, this reevaluation did serve, in the eyes of PETROL, to "keep them [the maritime company] honest" during the course of their relationship.

XX.B. Pre-Agreement Phase

XX.C. Early Pre-Agreement

XX.C.1. Relationship Benefits

After privatization, RAIL changed its focus from universal service (even on money-losing routes) to revenue generation and profits. One way for RAIL to generate more revenue was to run more trains over its network, thereby reducing surplus capacity (i.e., reducing the negative effects of service perishability). In particular, finding new ways of using the excess capacity on RAIL's extensive Eastern network became a principal objective. In its organization, RAIL uses a Business Unit structure whereby employees are grouped according to the industries they serve. Faced with the challenge of finding new clients for its excess capacity, RAIL's Petroleum Industry business unit

brainstormed numerous projects and possible clients, including the “tank train” for PETROL.

The tank train idea had initially been discussed with PETROL during the 1980s, but had been rejected for a number of reasons. First, PETROL had always used a maritime shipper to transport its products from its refinery to its major city destinations. Thus, PETROL’s view of its market included only those cities with water ports. Second, PETROL’s maritime shipper had a long-term exclusive contract with PETROL and PETROL’s infrastructure and logistical systems were set up to use water transport. Thus, the costs associated with changing to a rail-based system were seen as prohibitive by PETROL. Third, the benefits of switching to this new tank car service were not entirely clear. Indeed, using rail transport was not typical for the petroleum industry and PETROL had trouble imagining how such a service would function.

Now in 1993, the account manager for RAIL felt that PETROL might see the benefits of changing shipping methods. First, she knew that the latest round of contract negotiations were not going well with between PETROL and its shipper, leaving the door open to other service providers. Second, in early 1993, one of PETROL’s ships sank in the North Sea while transporting crude oil to its refinery. Environmentalists, citing this accident as well as the Exxon Valdez spill in 1989, raised the public’s concern over the possibility of a similar disaster occurring on the major seaway that connected PETROL’s refinery to its main large city destination. PETROL, now facing a public relations challenge, might begin to question the safety of maritime transport and see that shipping by train would pose fewer environmental risks. Investing in the tank train concept might

still be an issue for PETROL, but so would improving the safety of its shipping vessels: new double-hulled ships, while reducing the risk of a spill, would require a large investment by both PETROL and its shipper.

Convinced that the tank train could work, the RAIL account manager formally proposed the tank train to PETROL, even though it seemed to be a "longshot". The idea was once again rejected by PETROL for being too expensive. Indeed, although RAIL's account manager had some knowledge of the petroleum industry, and thus knew that the tank train was a feasible option, she failed to tailor the proposal in accordance with how petroleum companies make their profits. Margins on petroleum products are relatively thin. As such, it is often more advantageous to perform "product swaps" than it is to transport the product outright. For example, Halifax-based Company X agrees to supply petroleum products to Vancouver-based Company Y's eastern clients (and vice versa), which eliminates the expense of transporting the product across the country. Product swapping is common in this industry because the commodity-like nature of petroleum products.

XX.C.2. Communications

Communications in this early pre-agreement phase were regular, but infrequent. PETROL was one of RAIL's customers, and although they did little business together, RAIL's account manager checked in with PETROL managers regularly to see if any new business opportunities were possible. When the account manager wanted to approach PETROL more seriously about the tank train idea, she first used some contacts at

PETROL to informally talk about the idea with a "key" distribution manager. Talking about the idea with someone who knew PETROL and the petroleum industry gave the RAIL account manager additional information which she used to add a bit more tangibility to the tank train idea. The positive feedback and suggestions from the distribution manager incited the RAIL account manager to formally propose the tank train idea to PETROL's top management. When this latest proposal was rejected, however, RAIL did not further pursue the idea.

XX.D. Later Pre-Agreement

XX.D.1. Relationship Benefits

Several months later, the tank train idea was renewed, this time by PETROL. In particular, two events sparked PETROL's interest in exploring the train option. The first was an "impassioned" letter written to PETROL's president from a RAIL yard worker that spoke of the advantages of rail transport and how it could serve the interests of PETROL better than a maritime option. This succeeded in gaining the attention of PETROL's top management. More important, PETROL's ships had difficulty navigating during the severe winter of 1993-1994 and PETROL found itself unable to deliver its product during the peak home-heating season. In this "emergency" situation, RAIL had agreed to step in and move product for PETROL until its ships could once again function normally.

This culmination of events transformed one of PETROL's top managers, the Director of Corporate Planning, into a champion of the tank train option and he

committed himself to making the idea work. He convinced PETROL's top management that the time was right to reevaluate the company's shipping options since the contract with its maritime shipper was due to expire in August 1996. In mid-1994, PETROL decided to launch an internal competition. Teams would be created to draft proposals for the three alternative transportation options: maritime, pipeline, and train. The Director of Corporate Planning had himself put in charge of the train option. With this mandate, he approached RAIL's account manager to discuss a potential partnership.

To win the competition, both project champions (i.e., PETROL's director and RAIL's account manager) had to identify a win-win situation. Working directly with a PETROL manager permitted RAIL to identify synergies that it was incapable of identifying on its own. For instance, it was clear that while PETROL would be required to pay RAIL for product transport, eventually some agreement about exchanging transportation services for fuel could be arranged. For RAIL, the benefits of working with PETROL were evident: it would permit RAIL to increase its revenues by increasing the use level of its capacity on its Eastern network (i.e., reduce service perishability); it could open new markets for RAIL by running tank trains to new destinations, and it would build a new area of expertise - the development and operation of a cutting-edge high-tech train - that it could later use with other clients. In fact, the intangibility aspect of the tank train idea could be substantially reduced in the future by having the physical tank car unit and a demonstratable working service. RAIL knew that the tank car concept could work - a much simpler version had been functioning in other countries for several years - but it did not want to develop the new service on its own because of the high risks associated

with such a venture. The costs were huge, involving tens of millions of dollars for both the service provider (to buy or lease the tank cars) and the client (changed loading and unloading facilities), and the service, as well as the tank cars themselves, had to be precisely designed to meet the short- and longer-term needs. In addition, although RAIL had had some previous experience in moving petroleum products, it lacked the expertise to implement such a high-tech solution (e.g., working with combustibles, pumping systems, etc.). It wanted a client-partner with whom it could work closely to plan and implement the practicalities of the new service (i.e., make the new service more tangible and develop an effective delivery system). Indeed, PETROL would be RAIL's "lead" user for the tank car concept, which it could then market to other potential clients.

The project champions believed that there were benefits for PETROL, but the complex and high-tech nature of this new service idea meant that the benefits had to be fully fleshed out if the idea was to gain the buy-in of the executive committee. One of the main benefits identified, in addition to the added safety of shipping by land, was access to new markets for PETROL. Prior to the tank train idea, PETROL had a relatively narrow view of its markets. It saw its main markets as major East Coast port cities to which it had access via maritime transport. Train transportation, however, would permit PETROL to expand its markets inland and reach areas and customers which could not be economically served by vessel. As well, RAIL could bring new customers to PETROL. As one of North America's largest railways, it had a very large client base and was willing to lobby on PETROL's behalf to its current clients. For example, one of the by-products of petroleum distillation is "coke", which is regularly used in aluminum

production. PETROL had not been selling its coke because the cost of transporting it to the nearest smelter was more than its market price. Since RAIL already had a direct rail link with a major aluminum producer's large smelter, it was able to devise a plan whereby PETROL could profitably transport its coke to this smelter by train.

In addition, by collaborating with RAIL in the actual development of this new service, PETROL would be in a position to ensure that the design fit its precise needs. Indeed, RAIL was almost offering a "carte blanche" to PETROL since service intangibility and variability not only allowed a customized solution at an acceptable cost, but increased the likelihood of success of the new service.

To "sweeten" the offer even more, RAIL proposed to save PETROL money by giving PETROL access to its sophisticated information systems and telecommunications network. For example, PETROL could use RAIL's local data collection centres to transmit "point of sale" transactions from retail gas stations, thereby eliminating long distance charges. As well, RAIL offered its on-line real-time movement tracking system to PETROL. In exchange, RAIL would receive diesel fuel used to power its locomotives at a reduced price.

XX.D.2. Trust

In this later Pre-Agreement phase, PETROL's project champion chose RAIL as a partner without asking for bids from other railways primarily because a certain level of initial trust in RAIL had already been established. RAIL had the largest presence and the most extensive operations of any rail transporter in the East. Given that most of

PETROL's operations were also in the East, the PETROL manager believed that RAIL would better understand the needs of PETROL and be able to better respond to these needs than other railways. In addition, RAIL had built a reputation for offering superior customer service to its clients. And, RAIL's performance during the "emergency" situation of the past winter proved that RAIL was capable of moving PETROL's product. Thus, RAIL's reputation for excellence and expertise, both of which are critical if a service provider wants to win new clients, were important factors in gaining the PETROL project champion's initial trust.

To win the contract, RAIL would also have to gain the trust of the PETROL executive committee that was ultimately responsible for choosing the transportation supplier. In particular, RAIL had to build up PETROL's trust in both RAIL and the rail solution in order to counter PETROL's increased risk due to dependence if the tank train CSD project went forward. As PETROL was intimately linked through its infrastructure and operations to its maritime shipper, so it would be to train transport and RAIL's services. Indeed, the tank train idea necessitated that service delivery (i.e., transporting fuel) be continually on-going and involve a close working relationship between RAIL and PETROL to move the fuel. Further, the proposed service would be critical to PETROL's business, as 40% of its total refinery production would be moved by train. This almost complete dependence led to an evaluation of the risk associated with the long-term viability of RAIL. During its years as a public corporation, RAIL had incurred sizeable financial losses and a significant amount of debt. Since privatization, the company had improved its balance sheet by shedding staff and closing unprofitable routes. But there

was still a concern among PETROL managers that RAIL might not be able to turn its financial situation around and might continue to cut services or even go bankrupt. Once the conversion to rail transport had been completed, PETROL's future, for better or for worse, would be linked to that of RAIL. And if RAIL was unable to provide services, PETROL's entire business could be at stake. To minimize PETROL's risk in this respect, the project team pointed out that RAIL was certainly on its way to transforming itself into a profitable enterprise and would be able to provide its services to PETROL now and in the longer-term. Moreover, PETROL was already heavily dependent on its maritime shipper and already believed that a collaborative relationship to move its products by rail was less risky (and less costly) than other forms of movement, such as a pipeline.

Another risk that RAIL had to address was the possibility that the new service would encounter problems once in production. PETROL would need to operate the tank train 365 days a year and needed some guarantees that RAIL would be able to respond to this need. RAIL reduced the risk associated with service failure by proposing three different routes that the tank train could take - a principal route, and two alternates in case of problems. Any three of the routes would permit the train to leave the refinery and arrive at the distribution centre with plenty of time for unloading prior to returning the empty train back to the refinery for the next run.

XX.D.3. Communications

Most of the communications in the Pre-Agreement phase of the project were between the project champions, as well as with the other RAIL employees who were working on creating the proposal. Indeed, frequent communication between the project champions aided in the development of personal trust and respect for one another.

XX.D.4. Shared Values

In this early phase, neither firm expressly looked at things such as corporate culture or management style as grounds for partner choice even though the two firms were quite different in many respects. RAIL had just started to adopt a competitive mentality, which was absent from the firm during its many years as a government-owned company, while PETROL was well versed in how to run a business in an aggressive market environment. Instead, what appeared to count most for RAIL was, not shared values, but finding clients with significant operations in its Eastern territory. In PETROL's case, the project champion was attracted to RAIL, partly because of its past experience with the company, and because of RAIL's reputation and stature in the industry. In other words, the idea of shared values as a basis for forging a collaborative relationship was not particularly relevant.

XX.D.5. Relationship Commitment

Almost all of the displayed commitment to the project in this phase was of an individual nature: the RAIL account manager's conviction that the train was a superior alternative to maritime transport; the letter written by the RAIL yard worker which, at least in part, appeared to spark PETROL top management's attention; and the personal commitment of the PETROL project champion when he convinced management of the viability of the tank train idea. Indeed, without this on-going personal commitment to the idea, the tank train service would not have been explored at that time. It was this early personal commitment that helped to reduce service intangibility in certain respects. PETROL's management had already rejected the idea twice before because it was not entirely clear on the idea or its benefits. Persistence on the part of RAIL personnel convinced at least the PETROL champion that the idea could work, and this helped persuade PETROL's top management that the tank train idea was worth a closer look.

XX.E. Establish Relationship

PETROL's top management officially selected RAIL as the firm's new transportation partner at the end of 1994. This was the result of a convincing proposal of the numerous benefits of using rail transport; a certain confidence in RAIL's long-term viability; and the belief that RAIL would be able to develop a successful service. The new service was baptized the SuperTankTrain.

XX.E.1. Relationship Commitment

The two partners immediately created the SuperTankTrain project team including a team leader from each firm. An organization chart describing the individuals involved and their roles was drawn up and circulated around both firms. As well, a project timetable was established that included the activities to be performed, those responsible for the activities, and specific milestones that had to be achieved if the service was to be ready for testing in August, 1996.

Internal marketing was undertaken by both companies in order to boost employee support and commitment for the SuperTankTrain. At RAIL, an article describing the SuperTankTrain in exciting and high-tech terms was published in the company's internal newspaper. At PETROL, top management held a meeting with all of the employees at the refinery to announce the new partnership. In addition, RAIL sent PETROL pictures of trains to post around its refinery and receiving station in order to generate added enthusiasm for the SuperTankTrain.

The up-front investments required by both RAIL and PETROL to develop the service were considerable: almost \$10M for RAIL (not counting the cost of the new tank cars) and \$12M for PETROL for such things as loading/unloading facilities, rail terminals and the like. The majority of these funds would be used to adapt the partners' corresponding infrastructures to work with the new tank train. These investments carried a high degree of risk since they were considered irretrievable if the project did not succeed. This risk would not stop the partners from continuing the project since the benefits of the relationship had been shown to outweigh the risks for both sides. Neither side, however, was willing to make the investment unilaterally. Both partners would have to commit up front to allow the project to move forward.

Both project champions reiterated to each other their commitment to making the idea work, and then they went in search of top management approval to invest the necessary resources. For PETROL's project champion, it was vital to have confirmation from RAIL senior management that the company would commit its share up front. Top management from both sides met on several occasions to discuss the required investments. These meetings were important in building trust at the highest corporate level and also in making the new service less conceptual: It now embodied the commitment of the top managers who "got to know" each other and exchanged ideas about how the new service would benefit both partners. The outcome of these meetings was a bilateral agreement to commit the necessary funds and to move ahead with the collaborative relationship.

A formal contract was written that outlined the type of transportation services to be provided, the equipment to be used, and the investments necessary by both partners to develop and implement the new service. When specific numbers were known, such as the cost of certain infrastructure improvements, they were listed as such in the contract. When amounts were not known, the partners agreed to certain percentages that each would pay (i.e., 60% RAIL, 40% PETROL). More general statements were used in order to describe how the partnership would evolve in the future (e.g., in penetrating new markets, gaining new customers, and increasing market share for each partner). Leakage of proprietary information was not considered a great problem - since the two companies were in very different industries and there were substantial barriers to entry to each - and there were relatively few contract provisions to prevent it. Neither firm feared that the other would one day become a direct competitor, and RAIL was fairly certain that it would be impossible for PETROL to "squeeze out" RAIL from the delivery process. RAIL agreed to keep certain sensitive information confidential, such as the quantity of fuel to be moved, while PETROL - now clear about the competitive advantage that the tank train could bring - asked that RAIL not promote the service to any of PETROL's direct competitors for the first five years.

So that RAIL could recuperate its initial investments, PETROL committed itself to the partnership for a minimum of 15 years and agreed to move all of its refinery output destined for its main market (40% of the total) using RAIL's services. At the same time, to reduce the risk of complete dependency on RAIL, PETROL obtained the right to be released from the agreement in the event that RAIL could not continue to maintain

competitive pricing compared to other, less expensive, alternatives that might appear over the life of the partnership.

To proceed with the project, RAIL accepted a high degree of risk and agreed to certain conditions that it normally would not have. For example, for this project RAIL had responsibility for the acquisition and maintenance of the tank cars (above and beyond the initial \$10M investment); railcar acquisition is normally the responsibility of the client. RAIL also agreed to undertake infrastructure improvements (i.e., track construction) at both PETROL's refinery (the loading point) and the train yard where the fuel will be unloaded. This is also normally the responsibility of the client. RAIL dedicated two locomotives to the SuperTankTrain and agreed to purchase an extra "string" of cars to meet peak demand or to replace another string in times of maintenance. RAIL categorized these various financial investments as "an informed business risk" and stressed that it was making them to show its commitment to a long-term relationship with PETROL. RAIL was able to somewhat reduce its risks by leasing the tank cars instead of purchasing them outright. There would be, however, large penalties for RAIL if it broke the lease with the car supplier. Moreover, RAIL agreed to commit certain personnel, with whom PETROL employees had already established a working relationship and personal trust, to the project.

Both sides categorized the final contract as equitable, although RAIL believes that it may have given a bit little too much away in its zeal to collaborate with PETROL. The contract stipulates that either partner can request that service rates be renegotiated if it

believes that one party is favoured over the other. Indeed, in the words of one RAIL manager, "If it is not win-win, everyone loses."

XX.E.2. Communications

During contract negotiations communications were mostly concentrated at the higher levels of the organization: that is, between project champions and top management. Because the project champions had developed a certain rapport from having worked so closely together during the proposal phase, it was natural to allow them to be involved in putting together the contract. A final contract would not have been possible, however, without the buy-in of top management. Indeed, top management had selected RAIL as its new service provider, but neither side had yet established any kind of affective links at this level. As previously mentioned, having the partners' top management meet regularly during contract negotiations made the negotiation process run smoother because trust was developed at this highest level, which translated into increased commitment to making the project work.

XX.E.3. Trust

During this Establish Relationship phase, an "open book" approach was used for financial discussions as a way to continue to build trust between the partners. It was important to both sides to find the synergy between the cost saving objectives of PETROL and the profit objectives of RAIL, and it was believed that honesty in financial matters would bring about this synergy. Indeed, using an open book approach would allow the partners to find a win-win situation which was deemed "fair" and "made sense"

to both sides. Using this type of approach was new to both firms and, while they consider it a learning experience, both doubt if they would use it again in the future. RAIL agreed that having open books inspires trust, but "too much openness can cause misunderstandings, especially if the firms cannot agree on profit margins." Thus, there were difficulties deciding what was fair when the firms had little knowledge of the financial norms in the other's industry. Indeed, RAIL suggested that in the future, a better approach might be to have top management of both firms agree on profit margins and then let each firm do what is necessary on its own to adapt its costs to fit the margins.

XX.F. Project Workings

XX.F.1. Shared Values

Throughout this phase both partners agreed that the teams would have to work very closely together due to the complexity of the new service. However, the two firms did not approach the managing of the CSD process in the same manner. PETROL normally used project teams composed of a full-time leader and dedicated team members. RAIL, on the other hand, preferred more of a "virtual" team approach, whereby all of the members, including the leader, are part-time and work on several projects at once. Having similar approaches to NSD is considered an advantage when undertaking the collaborative development of a new service (de Brentani, 1991; Easingwood, 1986). As the two partners entered into the project workings phase using substantially different project management styles, some problems were encountered that slowed down the CSD process.

Throughout this CSD effort, while PETROL committed a full-time team, RAIL dedicated only one full-time resource to the project - a project assistant. The RAIL team leader handled the project on a part-time basis and was responsible for a variety of account management duties - involving several different customers - at the same time. In addition to using a "virtual" team, RAIL's corporate culture encourages relatively frequent assignment changes. Indeed, the RAIL team leader changed three times over the course of the two-year project, and the last team leader responsible for service testing and production had eight other clients to manage in addition to PETROL. This

"inconsistency" in approach was not well perceived by PETROL and forced RAIL to make adaptations as the project went along. Indeed, especially during the final development and testing phases, RAIL saw the advantages of more project consistency and adopted a project management style more in line with that of PETROL. With RAIL's resources spending more time on the SuperTankTrain, problems encountered or last-minute changes could be resolved quickly.

Several other events also demonstrated how the lack of shared values made the relationship difficult at times. PETROL was used to performing NSD/NPD in-house, where it had complete control over things such as timetables and project approach. RAIL, on the other hand, was much more accustomed to undertaking NSD in collaboration with customers and, therefore, knew that delays are a normal part of the process due to the often numerous organizations that are involved in developing a new rail service (e.g., government agencies, rail car builders, other railways, etc.). For example, after the contract had been signed, there was a brief period when not much observable activity happened on the project. PETROL interpreted this lull as a lack of commitment on the part of RAIL and criticized it for not moving quickly enough to get the project off the ground. PETROL's confidence was shaken at another point when RAIL was late delivering the service's key item: the tank car. RAIL admitted that it delivered the cars late because it took longer than anticipated to negotiate the contract with the car maker, but retorted that this delay did not adversely impact the ultimate production date. In a third incident, RAIL had to apply for government approval and funding for infrastructure development in the industrial park where PETROL's distribution facilities were located.

Approval and funding were eventually received from the government, but this infrastructure improvement was delayed until the authorization arrived. Once again, PETROL had difficulty adapting its idea of how a project schedule should work to account for these external developments. The partners worked through these value differences in large part by learning from the other and adapting their styles to take the best from each partner. RAIL realized that it needed to deliver on time or explain early on why delays were encountered if it was to keep PETROL's trust in its capacity to deliver the service. PETROL, meanwhile, learned to accept certain delays as part of the CSD process and to value the inputs of committed experts even when these were provided only on a "part-time" basis.

XX.F.2. Communications

Once the contract was signed and the Project Workings phase began, both team leaders agreed on a formal communications method. PETROL's on-line project planning tool was implemented at RAIL so that both team leaders could continually track progress. In exchange, RAIL's electronic mail system was extended to include the PETROL team so that communications were faster and less paper-intensive. In order to keep the team leaders aware of what was going on, communications between lower level team members initially had to include a "cc", or a carbon copy, to the team leaders. As the partners advanced in the Project Workings phase, this policy was eventually revised to only "cc" the team leaders when the issue under discussion was deemed "important" enough to

warrant their attention because as lower level employees became familiar with the project and used to working together, it was less necessary to monitor their every exchange.

The two team leaders spoke to each other often to share information and to keep each other up to date on project progress. At least once a month the team leaders would also meet with the "project owners" - that is, the vice presidents in each firm who held ultimate responsibility for the project - to discuss progress toward milestones, problems encountered, and next steps. Also present at these meetings were any team members that had a specific input to the items on the agenda. These meetings were very important in helping overcome the intangibility of the new service. Since the new service could not be inspected as development continued, frequent project meetings served to keep everyone up to date with the accomplishments of the past month, and the activities to complete in the coming month. Minutes of these regular project meetings were distributed to keep everyone on the team up to date.

In addition, these meetings were used as a forum to resolve conflict between the project leaders. The leaders had agreed that, since they had to work together every day and did not want to jeopardize their relationship, any unresolvable conflicts would be escalated to the level of the project owners. It was especially helpful to have the regular presence of the project owners when decisions concerning expenditures were required. These frequent meetings between the project owners allowed trust to develop between them. Funding decisions were taken based on this mutual trust while always keeping in mind what was needed for the good of the relationship.

Quarterly top management meetings were also agreed to right from the beginning of the Project Workings phase. This was done to maintain trust and an on-going relationship at this highest level, and to render service development more concrete for this group that normally did not follow the daily advances of the project. The top management of both RAIL and PETROL would choose meeting dates in advance for the coming year so as to prevent scheduling conflicts later on.

Things moved more slowly in the very beginning of the project because team members did not "speak the same language". RAIL did not fully understand the petroleum industry, and PETROL had limited knowledge of rail concepts and terminology. This meant that each side had to go into substantial detail to explain concepts that were foreign to the other. This caused some frustration because the team members had to avoid common industry jargon and regularly ask for clarifications when they did not understand what the other was saying. The RAIL team members, in particular, made a conscious effort to rapidly build an understanding of PETROL's business so that they could properly develop the new rail service. Indeed, although the partners were jointly designing and developing the service, RAIL clearly had the obligation to build an expertise in the movement of petroleum so that it could build a service that would respond to PETROL's needs. Over time, this problem of different languages was reduced as the team members from both sides developed a strong sense of trust for each other's abilities and began to understand and feel comfortable with the terminology norms of both industries.

Not only was terminology/language a factor in this collaborative project, but RAIL also had to adapt its style of communication. Many of RAIL's team members, especially those in technical areas, had had little experience working directly with clients. In the past, exchanges between the team members and the client had always passed through a team leader. Thus, among the RAIL team, there was an initial resistance to "going external" and speaking directly with the PETROL counterparts. However, the SuperTankTrain was too complex a project and too many decisions had to be taken in a relatively short period of time for the RAIL team leader to act as the sole go-between with PETROL. Thus, the RAIL team leader insisted that the team members communicate directly with their PETROL counterparts during service design, development and implementation as a way to speed up the decision making process. Over time, external communications became much more natural for the RAIL team, although early on in the Project Workings phase the team leader spent a fair amount of time keeping peace between the two sides: "We've got to work together" was a favourite phrase to remind the RAIL team members that they were responsible for dealing directly with the PETROL team to make this project successful. By the end of this phase, the RAIL team had become very client-focused. Indeed, part of the SuperTankTrain's success was the rapid resolution of problems because RAIL employees learned to listen more closely and to hear client concerns. In hindsight, RAIL managers said relations with PETROL went "very well" in part because employees were empowered to discuss issues with the client and to take the necessary decisions. Regular communications among team members at

these lower levels helped in establishing trust between the team members and mutual respect for the expertise that each individual brought to the project.

The complexity of this new service meant that communication regarding its delivery had to be provided in meticulous detail. As the new service development stage neared its end, implementation plans had to be made that were highly specific about every action that needed to be taken during pre- and post-implementation, when to take each action, and who was responsible for each task. In fact, during implementation, a RAIL representative was placed on-site at PETROL's refinery. As issues came up, these face-to-face talks permitted RAIL and PETROL to take fast corrective action.

The fact that the new service involved simultaneous production and consumption meant that both partners had to have a complete understanding of the delivery process. Further, service variability had to be addressed. For the SuperTankTrain, variability was both a desired and an unwanted feature. Variability was clearly helpful at the time that the service moved from development to testing and production in that the partners could continue to modify the service as necessary so that it exactly met the needs of PETROL. At the same time, the service had to be designed to operate in a highly standardized fashion so that consistent service performance could be counted on each and every time. Any unwanted variability had to be identified early on and then eliminated from the ongoing delivery process.

XX.F.3. Opportunistic Behaviour

The lack of consistency in project management outlined above left RAIL open to opportunistic behaviour by PETROL. As with many new service development projects, unforeseen expenses occurred during project development that were not specifically outlined in the contract. With the RAIL team leader's average tenure being only nine months and with other project members being assigned only as needed, there was often a reduced "collective project memory" for past events and decisions. In some instances, RAIL felt that PETROL was had used this turnover to its advantage to obtain additional concessions by claiming that previous RAIL personnel had made verbal commitments that RAIL was now obliged to uphold. In hindsight, RAIL admits that had it had more project team consistency, it would have been in a better position vis-à-vis the on-going negotiations with PETROL.

These instances of perceived opportunistic behaviour did not have long-term damaging effects on the relationship. They did, however, convince RAIL of the need for things such as a dedicated team leader during CSD. Indeed, because service intangibility meant that the partners were unable to capture all of the required commitments in the original contract, having a dedicated team leader and/or team members would have helped RAIL to better negotiate any unforeseen expenses or activities needed to see the project to fruition.

XX.F.4. Trust

As mentioned above, both sides started working together very early on in the Project Workings phase. One of the first concerns was the design of the new tank car. The tank car was a key and highly tangible component of the new service, and had to meet both the needs of PETROL and the specifications of RAIL. Working together on the design to get it right was the best option in this case because RAIL knew train cars, and PETROL knew how to handle and move petroleum. In addition, RAIL brought in an expert train car designer - the designer of the original version of the tank car used in other countries - to work with the project team. This, together with the finished tank car design, substantially helped to reduce the intangibility of the new service, thus boosting PETROL's trust in RAIL's ability to develop the new service.

Further, RAIL believed that having the team members work closely right from the start of this Project Workings phase would build personal trust between the team members, which was deemed critical to the success of the project. Indeed, one RAIL manager remarked that, "partners mean people; it doesn't mean companies, it means people; understanding and agreeing". In addition to building trust, this manager added that working together helped to establish a camaraderie between the team members, which made problem resolution much easier.

Trust was also important between the team leaders. For PETROL, working with a competent team leader from RAIL meant that decisions were made faster and that the project moved ahead as planned. Because of RAIL's policy of rotating employees, some of this much-needed trust between the team leaders was lost each time a new team leader

arrived. Indeed, a team leader that works with the same client for an extended period of time gains intimate knowledge about that client and the client's business. Frequent team leader changes caused frustration at PETROL because it resulted in a slowdown in the project while the new RAIL team leader came up to speed. As such, it was sometimes difficult for PETROL to continue to depend on the expertise of these new team leaders¹.

Trust between the organizations was also a necessary ingredient in order to resolve issues that were not explicitly covered by the contract. For matters such as unforeseen expenses, the two sides focused on the expected relationship benefits (i.e., why they agreed to partner in the first place) and normally compromised to do what was fair for the relationship. Although the contract had provisions for things like arbitration and legal action, neither side wanted to use them. RAIL and PETROL both believed that trust, not lawyers, did a better job at solving unplanned problems.

Since RAIL was the service provider, to a certain extent it had the primary responsibility for driving the project during the Project Workings phase. Regardless, RAIL sought PETROL's input on virtually all major decisions that were taken, even those decisions which affected RAIL most directly. For instance, both partners worked together to negotiate the price of the tank cars (for which RAIL was paying). This type of joint decision making and negotiation continued throughout the project and actively demonstrated to PETROL that RAIL was indeed acting for the good of the partnership.

¹Since implementation of the SuperTankTrain, RAIL has adapted its project management style more to that of PETROL, and has assigned a full-time team leader to the service.

XX.F.5. Relationship Commitment

A strong and early bilateral top management commitment to the project set the tone for the Project Workings phase. Indeed, RAIL's top management commitment was very strong for the project in the beginning and its attitude was very much "whatever you need, let me know". There was a period, however, when RAIL's senior management became less enthusiastic about the project, namely when the organization shifted its strategy from growth to cost reduction. About mid-way through the SuperTankTrain development, senior management began to re-evaluate when such costly projects were appropriate for the firm. Nevertheless, RAIL's tradition of strong customer orientation and the continued support by the project owner (i.e., champion) ensured continued commitment to the project on the part of top management, even if this group was slightly less jubilant than at the beginning.

As noted above, RAIL's team leader changes were, at times, perceived by PETROL as a lack of commitment to the project. This perception, however, was not strong enough to substantially harm the relationship. There were, in fact, few doubts about the team members' *personal* commitment to the project. Indeed, just about everyone at RAIL wanted to work on the SuperTankTrain. Thus, part of the success of the project was due to a high degree of *personal* dedication to the project by the team members and project champions.

XX.F.6. Relationship Termination Costs

For this project, once the infrastructure investments were made, each side faced relationship termination costs equaling several million dollars. While the possibility of these lost capital investments may have had some impact on keeping the partners in the relationship, it appears that other types termination costs were more important. Particular for PETROL, the relationship termination costs grew as the production date (and the expiration of PETROL's maritime shipping contract) arrived. At that stage, PETROL would pass the "point of no return" and its relationship termination costs increased by the lost revenues that it would incur if it could not move its fuel to market. With its business on the line, its commitment to the partnership became total. It was very likely for this reason that PETROL looked to RAIL for frequent reconfirmation of its complete commitment to the project. As one RAIL employee put it, "They were looking for us to provide 'anytime, anywhere' service". Indeed, receiving affirmations from all project levels that RAIL would deliver the right service on time was critical to reducing PETROL's anxiety in the final weeks. One way that both companies successfully reduced the risk of new service failure was to test the new service in close collaboration with each other. The testing took place during the entire month of August 1996 to coincide with the last month of PETROL's maritime shipping contract. The two systems (rail and maritime) were run in parallel, which allowed PETROL and RAIL to "iron out the kinks" in the new service delivery while PETROL still had an alternative means to delivery its product to market. It was during this stage that collaboration between the two partners became the

closest and most intense in order to guarantee a flawless cut-over to the SuperTankTrain on the first of September 1996.

XX.G. Performance Evaluation

Both team leaders reported that the SuperTankTrain was and continues to be a success. For PETROL, it is providing a highly reliable and cost-effective shipping system; for RAIL, the new service is contributing to increased revenues and enhanced use of its rail network. A year later, the two firms were looking carefully at undertaking the longer-term phase of the collaboration - expanding geographically to new markets. The project has been a “win-win” for both partners.

XXI. FORESIGHT and HAIR - the extension of the StratMark market planning software

XXI.A. Case background and partner descriptions

The “StratMark” case involves the customization and extension of a computerized market planning software between a small consultancy (“FORESIGHT”) and a large health and beauty aids company (“HAIR”).

FORESIGHT, the service provider in this case, is a small, 30-person marketing consulting firm founded in 1981 by its marketing consultant president. His objective is to position his firm as the worldwide uncontested leader in product marketing strategy. Given such a lofty goal and the firm’s current small size (although it is growing at over 25% per year), it has concentrated on developing an innovative market planning tool and approach to product management called StratMark that it believes is superior to any other offering on the market. FORESIGHT uses a series of analytical steps that have become its “universal model” of product marketing, something that few competitors have. This model is derived from some tried-and-true marketing/management concepts, such as the product life cycle and portfolio planning, integrated with the founder’s own vision of how good marketing should be approached. This analytical approach to marketing is then translated into a user-friendly computer program that captures inputs to the various models, performs simulations on the data, and provides marketing managers with expected outcomes. That these often nebulous marketing concepts have been captured in

a computer program is FORESIGHT's second market advantage. Indeed, its software is believed to be the most advanced in the industry.

It is this unique approach to market planning that, the president believes, will propel the firm to international recognition. Instead of seizing every opportunity to promote StratMark and its technological and analytical advantages, however, FORESIGHT has remained relatively quiet and secretive about its offering. This is mostly out of fear of losing its competitive advantage through leakage of its model and software to competition. Indeed, the firm faces much competition, both from other specialized marketing consulting firms (most of which, it believes, might have a similar approach, but not the software), and from large, multinational consulting firms - such as Arthur Andersen and MacKenzie - that would have the deep pockets necessary to develop a competing product, should they so choose.

FORESIGHT's approach to selling its services reflects its belief in the "stealth" approach to becoming a market leader. Whereas its multinational competitors open client doors by virtue of their reputation and past relations with clients and tend to make deals with top-level client management, FORESIGHT, on the other hand, prefers to target mid-level line managers and marketing vice-presidents; those capable of looking beyond purchasing services from a small niche player and, instead, seeing the advantages that StratMark can have on their product marketing activities.

Being a small firm with limited cash reserves and wanting to continually enhance StratMark to stay one step ahead of the competition, FORESIGHT has regularly looked for strategic partnerships that permit the firm to develop new enhancements for a

particular client (and thus receive some up-front capital investment) that can then be generalized to fit the overall model. This is an important point. Given its size and ambitions, FORESIGHT only partners with clients that are willing to accept its market planning vision and model. The service provider categorically rejects offers to modify its model to fit a particular client situation, saying that it has too few resources to invest in one-time projects that do not add value to its universal model. This intransigence has not prevented FORESIGHT from finding client-partners and creating successive generations of StratMark based on these alliances. Indeed, virtually no enhancements have been added to StratMark, now in its 4th generation, without having had at least one client “signed on” prior to undertaking the project. In sum, FORESIGHT is well experienced in collaborative new service development projects, and seeks them out as a means to ensure that the developed product meets customer requirements, both for the client-partner and for the market in general.

HAIR, the client, is a consumer products firm in the health and beauty aids industry which manufactures and markets everything from shampoo to hair colouring to soaps and make-up. The particular office in this case study has 80 employees, revenues of \$100 million, and year-over-year sales growth of over 10%. HAIR is a fully-owned subsidiary of a large pharmaceuticals company which has worldwide sales of \$15 billion.

In terms of size, HAIR is among the top 5 in its industry, but operates in a very competitive environment where the number of products on the market has exploded over the years. Indeed, with all the companies with their relatively large product lines vying

for consumer attention, there is a fair amount of market “noise” which can make the products of one firm fairly indistinguishable from those of another. HAIR believes that it can gain a competitive advantage in the marketplace and position its products above the “noise” through improved strategic brand and category planning.

In 1995, when the CSD effort was first proposed, HAIR’s marketing department was struggling to find a way to better coordinate market planning which would counter the negative effects of relatively high product manager turnover. Product managers were often transferred just as they became familiar with their products and market categories. The incoming managers were required to create marketing plans, but had access to little historical knowledge about such things as past promotions and their effectiveness or product positioning. Product managers at HAIR have a good amount of autonomy and things such as market planning approaches were not standardized across the department. Thus, each manager had his/her personal method and home-grown tool for market planning. Existing planning information that passed from the outgoing to the incoming product manager could be of any format (hand-written on paper, spreadsheet files, etc.), and had varying degrees of completeness and understandability. Furthermore, this market planning information was not centralized and there was no simple way for the managers to verify their market plans with one another. This lack of coordination sometimes resulted in the cannibalization of one HAIR product under one manager by another product under a different manager.

Even with these market planning problems, HAIR was and is considered to be an industry-leader in marketing and believes in the virtues of well-done market planning. The timing was, therefore, excellent when FORESIGHT proposed its StratMark software.

HAIR had past experience with collaboration, namely through working with outside firms which supply market research or consulting. Thus, it was reasonably comfortable with entering into a CSD venture, provided that HAIR was assured that the product under development would be worthwhile and merited the investment of time and money.

XXI.B. Pre-Agreement

XXI.B.1. Relationship Benefits

HAIR was originally searching for an outside consultancy to run a series of focus groups, not for a new marketing tool. FORESIGHT's name turned up on the candidate list because a HAIR employee had had a good experience working with FORESIGHT in the past (while he was with another consumer goods firm). FORESIGHT presented itself to HAIR for this marketing research project, and during the course of the meeting, spoke of its market planning software StratMark. While FORESIGHT was not chosen for the focus group project, its software did spark the curiosity of the HAIR marketing team who thought that the software might be able to respond to certain other needs that HAIR had¹. HAIR asked FORESIGHT to give a demonstration of the software and, pleased with what

¹ This was not the first time that the two firms had done business together. Two years prior, HAIR had contracted FORESIGHT to perform some marketing research. At that time, FORESIGHT had proposed an earlier generation of its StratMark software. HAIR had deemed the software too unsophisticated for its needs at that time.

it saw, two senior HAIR project managers became involved in evaluating more closely if the software could meet HAIR's needs.

Working together, FORESIGHT and HAIR discussed the problems that HAIR was facing and how the software might be able to respond. HAIR had known for some time that it needed a solution that would permit the firm to better understand and track the pricing and the distribution of its brands. As it was, each manager had his or her own method for market planning, of which no two systems were alike. When a change in brand manager occurred (as it did frequently), the new manager often had difficulty deciphering the strategy previously used and its effectiveness. In other words, there was a lack of planning continuity among the brand managers which was not good for HAIR's business. FORESIGHT demonstrated that StratMark not only used a dynamic planning system, but that it had the capacity to store historical planning data, which would permit HAIR to rotate brand managers without losing continuity.

HAIR also wanted to make better strategic plans. If all of the different marketing plans were integrated in the same system, things such as brand cannibalization could be reduced (because the different managers would know the plans of the others) and higher levels of the organization would be able to better control what was going on below and adapt overall corporate strategy accordingly. StratMark allowed for multiple brands and brand managers within the same database and could "roll up" lower level information for senior managers.

Further, a computer-based market planning tool would reduce the amount of staff and time necessary to get the same results as individual systems. This was important for HAIR given that the marketing department was chronically understaffed.

HAIR liked the software, but one particular area of functionality which was deemed critical for HAIR was not yet part of StratMark: the ability to input and track the firm's marketing mix decisions. A "gentleperson's" agreement" was thus proposed by HAIR: It would buy the software in its current state if FORESIGHT agreed to develop and incorporate this new marketing mix module. FORESIGHT responded that it had already started working on a marketing mix model (i.e., module) for StratMark, but that this new model was only in the conceptual stage. FORESIGHT had been aware that there was a need for such an enhancement and that, with the new model, its software would continue to be the most advanced available. In the words of one FORESIGHT manager, the marketing mix "was a model that was missing in our arsenal". FORESIGHT thus proposed that the two firms work together to create the new model. The advantage for HAIR of collaborating with FORESIGHT would be that, through its input, the model was more likely to meet HAIR's specific needs.

The advantages for FORESIGHT to partner with HAIR were several. FORESIGHT had always used quasi-partnerships with clients to make improvements to the software since it considered it too expensive to perform NSD without having at least one customer already on board. Basically, the "lead" customer provided the cash flow to fund the work which led to a product that could be marketed to other clients. As such, working with HAIR would allow FORESIGHT to continue the development that it had

started on the marketing mix model because the money paid by HAIR for the base software license would, to some extent, defray the costs of development.

Much more than the financial incentive, FORESIGHT wanted to work with HAIR because FORESIGHT believed that HAIR's marketing managers were both very experienced and competent. Thus, collaborating with HAIR would reduce the risk of NSD failure since it allowed FORESIGHT to tap the knowledge of HAIR's marketing managers and to gain a better understanding of exactly how the new model should respond to "real world" situations. Once the new model was in place, the enhanced software package would be easier to sell to other perspective clients. Indeed, having HAIR as a "lead" user would make FORESIGHT's service offering more tangible, because HAIR was providing a live reference for the software's performance. A final benefit to partnering with HAIR would be that, as part of a large multi-national firm, a successful CSD project with HAIR could open the door to implementing StratMark throughout the entire organization.

To increase the relationship advantages for both sides, FORESIGHT offered to develop the new model for free. In other words, HAIR's reward for collaborating would be to receive the enhancements free of charge. For HAIR, this reduced the risk associated with agreeing to pay up front for delivery of a service that it could not inspect prior to production (i.e., intangibility). For FORESIGHT, giving away the modifications meant that it did not have to deal with the normal buying process of the organization - purchase orders, fixed delivery dates, etc. Even more important, the contract could be stated in terms of a general outcome - that is, what the software should be able to do - and not in

terms of the specific design details. This gave FORESIGHT a broad creative license and better protected its proprietary expertise. Moreover, avoiding purchasing formalities would enable the CSD project to begin almost right away. And, because of the intangible nature of the planned enhancement, it was difficult to set an exact project completion date. Since FORESIGHT was effectively offering the new model to HAIR for free, the delivery date became less important.

XXI.B.2. Shared Values

Certain shared values were important during this Pre-Agreement phase to gain the trust and relationship commitment necessary from both sides in order to move the project forward. In general terms, both firms believed that they shared similar attitudes regarding the marketing process, the need to be better marketers, and the importance of strategic marketing planning. Moreover, both sides valued recent advances in computer technology: HAIR's marketing people all made use of the latest notebook computers and FORESIGHT's model was PC-based. Because of these shared values, both sides felt that their collaboration would be successful.

Like many consulting firms, FORESIGHT's expertise was based on a certain proprietary model (in this case, a model for market planning) that it shared with its clients to help them make better decisions. Thus, to build the enhancement that would integrate completely into its existing model, FORESIGHT needed a "lead user" that was willing to accept and apply its established model of market planning. Indeed, FORESIGHT had no intention of changing its model to adapt it to HAIR's marketing paradigm, but rather

required HAIR to adapt its marketing practices in accordance with FORESIGHT's model. Conversely, building a successful enhancement meant working with a client that already had certain "good" marketing practices on which FORESIGHT could base its new model. Indeed, building this new model required translating HAIR's marketing knowledge, which was very intangible, into a "universal" model that could apply to a range of marketing mix decisions for firms in a broad array of industries. In other words, both FORESIGHT and HAIR had to be able to communicate "on the same wavelength" during the CSD process to ensure that the new functionality was developed successfully. The two firms had such similar values concerning the importance of marketing that FORESIGHT categorized the HAIR product managers as "professional soul mates".

XXI.B.3. Communications

Most communications in this Pre-Agreement phase were between the FORESIGHT project management team and the HAIR senior product managers. Because of the complexity of its marketing mix decision process, HAIR at first had difficulty clearly articulating what its precise needs were and how the software could meet them (i.e., service intangibility made it hard for HAIR to concretely describe what it needed). FORESIGHT was able to obtain a relatively clear understanding of HAIR's needs by first listening closely to HAIR managers' description of how they determined their marketing mix, and then translating these diverse activities into a series of systematic processes. Good personal relationships developed over the course of these early meetings to discuss the new service idea. As well, HAIR's trust in FORESIGHT's marketing expertise grew

as FORESIGHT was able to correctly translate HAIR's sometimes vague statements about marketing mix into a more tangible statement of needs and project description. Indeed, FORESIGHT won the respect of the HAIR managers early on by demonstrating that it had the in-house expertise necessary to correctly develop the new module. HAIR's trust that the NSD effort would be successful was now growing. This demonstration of expertise early on was critical in reducing any perceived risk of service failure.

As discussions continued, the HAIR managers became more convinced that working together with FORESIGHT was a good idea. Indeed, these managers took on the role of project champion within their organization. From the perspective of FORESIGHT, the HAIR managers would make ideal project champions: they were highly intelligent mid-level managers, well respected by their peers and by top management, and had the persistence necessary to promote the benefits of the project. Indeed, it would now be up to these project champions to sell the idea internally at HAIR.

Communications at the top management level also helped bring HAIR on board for this CSD effort. In attendance at one of the first meetings was a HAIR vice president who had worked with the CEO of FORESIGHT several years earlier. According to FORESIGHT's president, there was instant mutual respect and trust between the two top managers because their past working relationship had been very good. This prior relationship, combined with the software demonstration, allowed the HAIR vice president to take the initiative of looking more closely at FORESIGHT's offering. When the project champions decided that they believed enough in the idea to push for the project's acceptance, this vice president was one of the first to give support.

XXI.B.4. Trust

Some conflict existed between the two sides during the initial meetings due to a lack of personal trust, and was compounded by the intangible nature of StratMark. On the one hand, FORESIGHT did not want to discuss StratMark without some knowledge of HAIR's strategic process and needs. Moreover, the majority of FORESIGHT's competitive advantage was due to its highly conceptual proprietary knowledge which was embedded in StratMark. FORESIGHT's fear of leakage of this know-how meant that it did not want to divulge too much information about the software even if HAIR was serious buyer. In the words of FORESIGHT's president, "We want to expand as quickly but as quietly as possible so that we have a strong market position before someone copies our system."

HAIR managers, on the other hand, felt that they needed to test the base software *before* agreeing to buy it and they also wanted to have an idea of how the enhances system would work. Moreover, they were reluctant to speak openly about their current products and needs without getting a better understand of the specific service FORESIGHT was promising to provide.

In other words, at the beginning of the relationship there was somewhat of an impasse: each side feared exposing itself too much to the other. The solution to this impasse was personal trust. Over the course of the first few meetings, as the players got to know each other better, both sides were willing to share more and more. To spark this personal trust, the FORESIGHT managers had to risk some leakage and demonstrate good faith in the HAIR managers by allowing them to try out StratMark to some degree.

The reward for taking this risk was, of course, a greater openness by HAIR and a stronger desire to commit to the relationship.

By going forward with this CSD project, HAIR also took certain risks. The most obvious was that if the project did not deliver a new model that fit HAIR's needs, it would lose its initial investment and the project champions would "lose face". FORESIGHT's president acknowledged that the highly intangible nature of his service made selling CSD difficult because FORESIGHT must convince the customer to have faith and invest now, and then wait until the end of the project to see if this faith was well founded. Indeed, the HAIR project champion said that even after testing parts of the software and discussing HAIR's needs on several occasions with FORESIGHT, the new model that was to be developed remained "fuzzy" (i.e., intangible). In fact, FORESIGHT frequently had to emphasize the good fit between its expertise and the marketing needs of HAIR as a way of reducing the risk that the developed model might not fit HAIR's needs. In addition, the HAIR project champions increasingly realized that it was in both firms' best interests that the enhanced model did meet HAIR's needs since this would provide FORESIGHT with the springboard to expand beyond HAIR with a new version of StratMark. As a result, HAIR perceived less risk of service failure and more of a win-win scenario. In summary, if the HAIR project champions were finally able to make this "leap of faith" and commit to the project, it was because they came to trust the expertise of FORESIGHT and believe that the FORESIGHT managers would deliver an appropriate model because it would be a success for both sides.

XXI.B.5. Relationship Commitment

Commitment during the Pre-Agreement phase was mostly on a personal level. For FORESIGHT, its managers were convinced that the CSD effort would be successful and they remained committed to this idea throughout the initial meetings. For the HAIR managers, they committed quite a bit of time in order to learn the StratMark process and base software, and then to sell the CSD idea internally.

The outcome of this phase was a verbal "good faith" agreement to work together to develop the new marketing mix model followed by a formal proposal from FORESIGHT which promised to develop an enhanced version that would meet the needs of HAIR.

XXI.C. Establish Relationship

XXI.C.1. Relationship Commitment

A contract was drawn up that outlined the different commitments to be made to the project. Unlike other CSD scenarios, however, the contract between FORESIGHT and HAIR only covered a minimum amount of terms. It stated the expectations of the project quite clearly, but due to the highly conceptual and intangible nature of this new model, it defined only vaguely the kind of deliverables that would emerge and how the final service would function. In addition, the delivery dates were purposefully left rather loose to permit the partners to take the time necessary to develop the model correctly. Although the responsibilities of each of the partners were discussed during this phase, including what HAIR was expected to contribute to the model development, these were not written into the contract. There was a minimum amount of documentation for things such as project tasks and schedules. Two main reasons accounted for this rather “loose” contract. First, HAIR's financial risk in this CSD effort was rather small (see below) and, thus, there was less need to hold FORESIGHT accountable contractually as there would have been had the investment been large. Second, and probably more important, the highly intangible nature of the model to be developed made writing a contract very difficult. Indeed, it was best to leave things vague than to try to force service development to fit a contract that is too rigid.

HAIR agreed to buy the license for the current version of StratMark for \$50,000, participate in the development process, and also pay FORESIGHT to train HAIR's

marketing staff and executives once the modified software was implemented. All in all, the up-front financial commitments made by HAIR were considered extremely small for a multi-national firm. In terms of human resources, most of HAIR's commitment would be during the implementation phase, when its entire marketing department would train on the StratMark software. During design and development, the two project champions would work with FORESIGHT, but only on a part-time basis.

The up-front resource commitment by FORESIGHT was substantially larger than that of HAIR (almost 10 times as much). Specifically, FORESIGHT's commitment to the CSD project included the time spent by managers designing the new model and the salaries for the software programmers. Few new capital investments were required by FORESIGHT, but it had to continue to provide its employees with an appropriate work environment - office space, computers and the like. Like its financial commitment, FORESIGHT's human resource commitment was heavier during design and development (where numerous people were involved) than during implementation (only two or three trainers would be necessary).

Although it was not formally included in the contract, FORESIGHT did have a clear development plan that outlined the project mission and objectives, and the different milestones. This plan was kept internal primarily because the vast majority of the development (i.e., programming) was the responsibility of FORESIGHT.

XXI.C.2. Communications

As in the prior Pre-Agreement phase, most of the communication during the Relationship Commitment phase was between the FORESIGHT managers and the HAIR project champions. Although the contract was relatively simple and the financial risk small, FORESIGHT's president continued to have frequent contact with HAIR's marketing vice president and CEO in order to ensure the continued buy-in of HAIR's top management.

XXI.C.3. Relationship Termination Costs

The costs of relationship termination were beginning to grow. Whereas the Pre-Agreement phase entailed little, if any, termination costs, if the project were to be aborted at this stage, the main risk to HAIR was its up-front financial investment and the time that its project champions had given thus far. HAIR would continue to have the same market planning problems as before, but would not be worse off if the relationship with FORESIGHT did not work out.

For FORESIGHT, the relationship termination costs would be of both an immediate and longer-term nature. First, FORESIGHT would no longer have access to HAIR's marketing managers and their marketing mix know-how. Continuing development of the new model on its own was risky because, without a lead user, the enhanced software was less likely to meet market needs and thus was more likely to fail. If FORESIGHT put the new model development on hold until it found a new lead user, it risked losing sales in the interim because its software would not be as complete as

possible and this development lag could give its competitors a window of opportunity to improve their own products.

XXI.C.4. Trust

The more closely the firms worked together, the more chances there were for leakage. As mentioned earlier, FORESIGHT had to safeguard its intellectual property as much as possible or risk losing its competitive advantage. The contract was very clear about intellectual property ownership. Although HAIR would provide input into the model and have the right to use it as part of the StratMark software, the model itself (i.e., the intellectual property) would belong to FORESIGHT. HAIR would not be able to lay claim to the model nor demand that FORESIGHT limit its sale to other clients (even to HAIR's competitors). Further, the StratMark software and accompanying documentation would be licensed to individual employees at HAIR and could not be copied or transferred elsewhere in the company without the consent of FORESIGHT. By agreeing to these conditions, HAIR proved itself trustworthy and allowed FORESIGHT to move forward with a certain assurance that its proprietary knowledge would be protected.

For HAIR, the main concern was that it would need to furnish live marketing data (e.g., long-term strategic plans) to FORESIGHT in order to properly design, build and test the new model. Further, HAIR knew that another of FORESIGHT's clients was HAIR's direct competitor. To reassure HAIR that any sensitive information would be kept secret, FORESIGHT signed a confidentiality agreement and verbally promised to act in a professional manner regarding access to client secrets.

XXI.D. Project Workings

XXI.D.1. Relationship Commitment

FORESIGHT established a project team that consisted mostly of software developers. For sake of consistency, the project managers were the same individuals that had been working from the beginning with the HAIR project champions. As well, FORESIGHT's president remained involved and often reiterated the importance of this CSD project and his commitment to making it a success.

Throughout this phase HAIR's project champions maintained their personal commitment to the StratMark enhancement. Indeed, the project champions' on-going commitment was seen as critical to keeping the project alive because they continued to sell FORESIGHT's marketing approach and the advantages of its software both to their peers and to HAIR top management. Having these collaborative project champions enabled FORESIGHT to better counter what was considered to be normal resistance to a project that would require changes on the part of HAIR staff who would have to learn to properly use StratMark. The adoption of StratMark forces the firm to look at strategic marketing in a new way and necessitates a shift in the way the business approaches marketing planning. This shift in thinking is not always easy and HAIR's middle management occasionally questioned the need to change approaches. Without the on-going support of the project champions this resistance could have grown, prompting HAIR to abandon the project as too complicated and controversial.

XXI.D.2. Communications

FORESIGHT believed that the more that HAIR was involved in the development process, the more it would buy into the project and continue to see the long-term benefits of using StratMark. Hence, FORESIGHT tried to involve the HAIR project champions as soon as the design phase started. FORESIGHT asked the HAIR project champions to create a list of needs for the new marketing mix model. FORESIGHT also asked HAIR to provide it with mock-ups of the different marketing mix information and report layouts that the software should be able to produce. On several occasions the partners met to brainstorm the new model through in-depth discussions about the processes that HAIR went through to create the optimum marketing mix. In other words, the two sides met so that FORESIGHT could better learn HAIR's strategic rationale behind its marketing mix decision making. FORESIGHT incorporated these conceptual ideas into its model design and then asked HAIR to meet again to review the design and to fill in any missing pieces. To add some tangibility to the model design, FORESIGHT asked HAIR to verify the model using real sales figures so that the partners could verify that the model correctly captured the strategic marketing mix process.

Development (i.e., programming the software) was exclusively the domain of FORESIGHT. As such, there were no face-to-face meetings with HAIR while the programmers were translating the model design into software (about 6 months time). However, to keep the project champions "in the loop", the FORESIGHT project manager called often to let them know how development was proceeding. Not only did this

reinforce the champions' trust that the project was moving ahead as planned, but also helped to make the process more tangible and people-based. While HAIR could not inspect the progress, it was able to hear from the project manager that progress was occurring.

HAIR once again collaborated with FORESIGHT once the initial software development was completed and a prototype was ready for testing. FORESIGHT invited the HAIR project champions to test the prototype and provide feedback on things such as applicability to HAIR's needs, user friendliness, and layout. Getting a test version of the software to the clients as soon as possible greatly added tangibility to the CSD effort and reinforced HAIR's trust that the new software was well on its way to meeting HAIR's needs.

Based on the feedback from the prototype testing, more software development was done, and subsequent changes were again tested by HAIR. This iterative process (made possible by service variability) continued until the project champions deemed the software production-ready. In hindsight, one HAIR project champion agreed that this on-going personal contact with FORESIGHT during design and development greatly increased her comfort level with the software prior to its rollout to the entire HAIR marketing department.

In this CSD case, delivery of the new service was on-going. Installing the software in the HAIR marketing department was only the beginning of the implementation phase. The bulk of implementation included activities that involved service simultaneity, like training users, putting into place a customer support program,

and continuing to make software adjustments as unforeseen scenarios were encountered (also possible due to variability). Over time, service simultaneity would decrease as the users became more familiar with the techniques and the software stabilized. But for early production, service simultaneity was an important attribute to extending trust in FORESIGHT and StratMark throughout the entire HAIR marketing organization.

A training program was agreed to whereby regular users of StratMark would spend six complete days with the FORESIGHT training staff. In addition, FORESIGHT believed that it was necessary to have HAIR top management participate in a 1-2 day training session. Indeed, it was important for all levels of HAIR to be involved in training. Through training, many client users were coming into contact with FORESIGHT for the first time. As the two groups spent time learning and practicing FORESIGHT's strategic marketing approach and using the software, service intangibility is reduced, making it easier for clients to accept the new software. As well, FORESIGHT believed that regular users of StratMark needed sufficient training to understand and integrate the new marketing approach. When the users became comfortable with the approach, they saw the benefits of the software and were anxious to begin using it in their work. Finally, training allowed FORESIGHT to demonstrate its marketing expertise to the entire client organization, boosting HAIR's trust in FORESIGHT and the chosen solution. In short, sufficient training at all levels of the client company helped achieve a successful service implementation.

In addition to the face-to-face training sessions, FORESIGHT reduced service intangibility by providing the HAIR users with a detailed manual which is regularly updated to reflect feedback received from FORESIGHT's many clients.

Because of the complexity of the StratMark approach and the novelty of the marketing mix model, FORESIGHT and HAIR negotiated a service contract to provide HAIR with on-going customer support (i.e., service simultaneity). To facilitate communications after training was completed, HAIR linked certain FORESIGHT employees to its electronic mail system. HAIR employees thus had direct access to FORESIGHT staff (by phone or by email) to receive help or signal a problem. In addition, a computer modem link was installed so that any changes made to the software by FORESIGHT could be immediately uploaded to HAIR's PC server.

XXI.D.3. Trust

FORESIGHT fulfilled the promises it made during the Pre-Agreement phase and delivered a solution that worked for HAIR. Indeed, FORESIGHT not only delivered a model that met HAIR's needs, but added attributes to the model that went beyond HAIR's expectations. HAIR's project champions were extremely impressed with FORESIGHT's ingenuity and were very comfortable implementing the software in their firm and encouraging HAIR marketing staff to use it.

XXI.D.4. Relationship Termination Costs

Relationship termination costs for HAIR were present throughout the Project Workings phase. Throughout the design and development stages these costs were the same as during the previous phase; that is, the lost investment of time and money in the software enhancement. Once the software was in production, however, the costs of terminating the relationship changed and became more “knowledge” based. On the one hand, with the new software in its possession and its users trained, HAIR could terminate the relationship with FORESIGHT and continue to benefit from the fruits of the CSD process - the StratMark software. In the sense of correctly operating the base software, service “delivery” was not on-going. On the other hand, terminating the relationship meant that HAIR would be unable to make any additional changes to the software. The prospect of having a “stagnant” software did not appeal to HAIR given that, over time, its market planning needs might change and it would want to see StratMark adapted to these new needs. Moreover, FORESIGHT had developed a strong understanding of how HAIR performed its market planning. This greatly facilitated exchanges between the HAIR marketing staff and FORESIGHT employees when questions or problems arose. For example, a HAIR manager that wanted to use StratMark in a way that had not been tried before could easily consult a FORESIGHT specialist for assistance. The latter, already quite familiar with HAIR’s organization and processes, would be able to provide a more rapid response and explain how the software could be programmed without the need to spend time familiarizing herself on the client and its way of doing business.

FORESIGHT, as well, had extensive relationship termination costs, but of another sort. Had the relationship ended, FORESIGHT might have lost HAIR as its key reference site, and would most probably have lost the opportunity to implement StratMark throughout the parent company. Indeed, the dominant cost of a terminated relationship with HAIR was the lost opportunity to boost its reputation as an expert in market planning for large, multi-national corporations. Faced with this potential relationship termination cost, FORESIGHT did everything that it could to keep the relationship going such as continuing to adjust the service to satisfy the project champions as problems or new ideas arose.

XXI.E. Performance Evaluation

The HAIR project champions are still extremely satisfied with both the performance of StratMark and the continued support provided by FORESIGHT. Since the implementation stage, HAIR has signed a multi-year software maintenance contract with FORESIGHT and has provided numerous references on behalf of FORESIGHT to other large firms looking at the possibility of purchasing StratMark. As well, negotiations are well underway with HAIR's parent company to perform a world-wide implementation of StratMark throughout the parent company's different businesses.

XXII. Discussion

XXII.A. The KMV Model: Application to CSD

One of the objectives of this paper is to address the relevance of the Key Mediating Variable (KMV) Relationship Marketing model on collaborative new service development. In particular, an important goal is to identify how RM might be successfully implemented throughout the CSD process. As a reminder, the KMV model outlines the RM constructs necessary to keep already established industrial partnerships going over the long-term. But how useful is the KMV model in depicting the complexity of a CSD relationship given that this type of relationship goes through several mutations as the CSD project progresses? The KMV model captures the essential ingredients of good RM found in already developed, mature and on-going business relationships. The findings in the study of collaborative new service development indicate, however, that the model is no less valid in a CSD scenario where the relationship between the partners is relatively new and changing over time. Indeed, based on the three cases studied in this paper, the KMV model as a whole does appear to be highly relevant and its various constructs important in describing the development and maintenance of effective relationships between a service provider and corporate client in a CSD scenario. The research results also indicate, however, that the constructs comprising the model can have more or less importance, and are likely to involve different types of activities, depending on the nature of the new service and the stage in the CSD process.

Because the KMV model was originally developed based on an analysis of already established and on-going relationships between goods manufacturers and their

clients, the model does not take into account a key element that comes into play during the relationship building process during CSD. This additional factor is the RISK dimension. In the KMV model, the risk that the product will not perform as expected is not considered to be a major construct because an on-going relationship implies that the partners know each other and the transactions between them are regular and, for the most part, predictable. In other words, risk has been reduced to the point where it plays a very minor role in the relationship. Indeed, a significant amount of trust has already been established and the client firm believes that the service provider will continue to deliver as it has in the past. In a CSD venture, however, risk plays a key role and this was demonstrated in all three cases studied. Uncertainty about the ultimate character of the new service, the service provider's ability to perform, and the likelihood of continued commitment throughout the CSD process clearly influenced the relationship between service provider and client.

The distinguishing features of services - that is, intangibility, variability, and simultaneity - have the effect that a certain level of risk due to uncertainty is present throughout the CSD process. In the Pre-Agreement phase, service intangibility is a primary determinant of risk. For the client, difficulty conceptualizing and assessing the new service may have a dissuasive impact. For the service provider, on the other hand, intangibility often motivates a partnership with a client firm in order to provide a more tangible direction to the new service and thus reduce the risk of service failure. Indeed, in all the cases, service intangibility appeared to play a role in leading the three client firms to initially reject a partnership when the CSD venture was initially proposed by the

service provider. In contrast, when dealing with a physical good or with an already established service relationship, the new product is easier to visualize or the base service is already up and running; hence, the client is familiar with both the good/service provided and the producer. Thus, in the Pre-Agreement phase, when clients are considering a new service or changing service providers, risk plays an essential role, and therefore trust that the service provider and service will perform as expected may be difficult to achieve.

Risk resulting from services' distinguishing characteristics also plays a role in a CSD relationship during the later phases - that is, the Establish Relationship and Project Workings phases. If the client firm agrees to the CSD project, it must make some sort of commitment in terms of time, money, or both. The more complex and intangible the new service, the higher these costs are likely to be. Indeed, the client firm must commit to the CSD project (i.e. Establish Relationship phase) long before it can effectively judge whether or not the new service will actually meet its needs. The possibility to judge the new service most often comes only after implementation, at the end of the Project Workings phase. At this stage, variability or inconsistency in the new service offering can prove expensive for the client if the service is critical to its continued operations. Thus, this up-front required commitment (time and money) as well as the uncertainty due to service variability work to making the overall risk associated with CSD even more acute. At the same time, it is also important to remember that service firms can often "recover" a failed or inconsistent service by using its variability to "adjust" the service until it meets

the client's specific requirements. This feature therefore serves to reduce some of the CSD risk resulting from intangibility and variability.

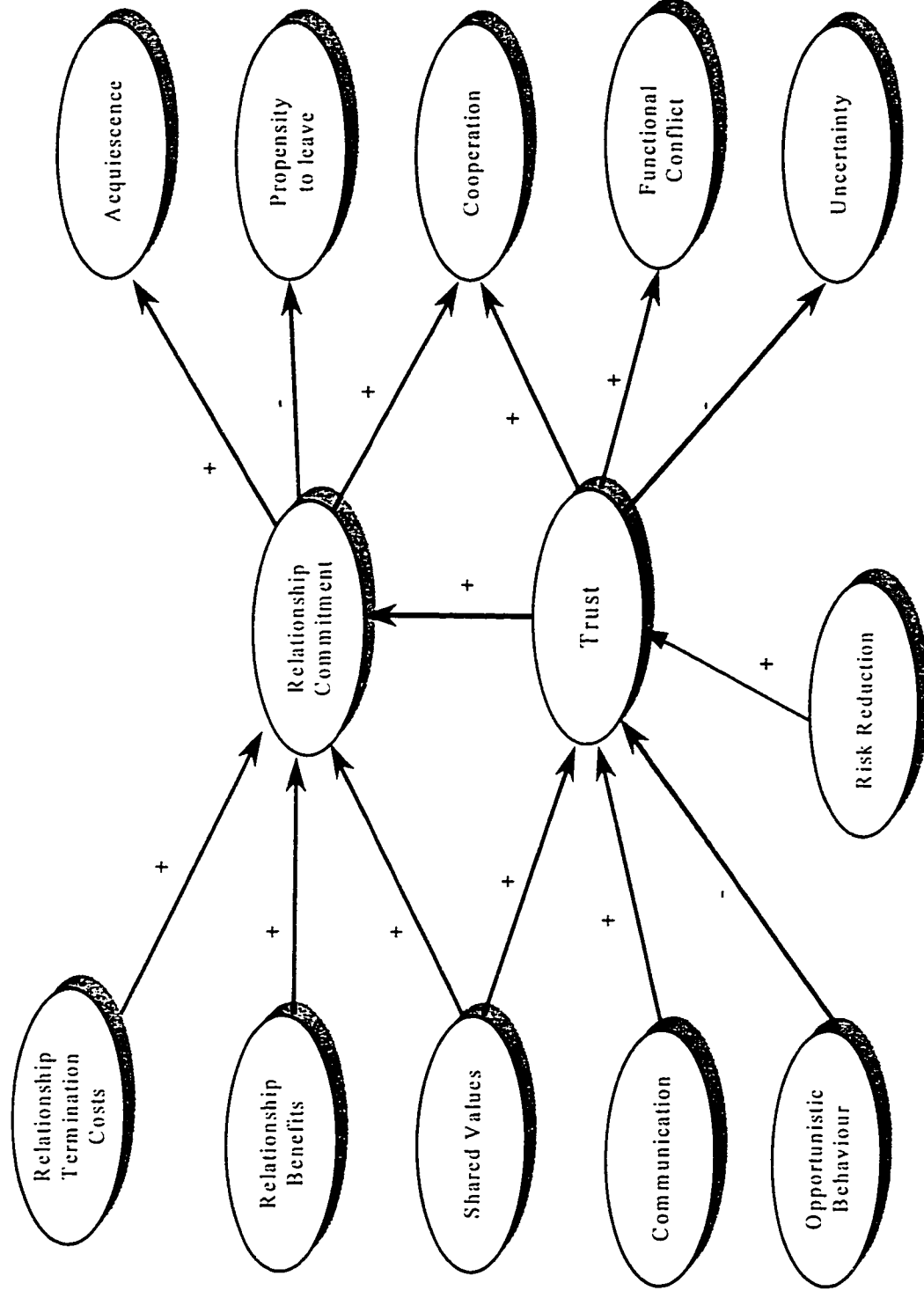
Service simultaneity both reduces and augments the risk of a CSD venture. Because the client tends to be involved in the new service design and development, risk that the final product will not meet the client's needs is reduced. Indeed, during the Pre-Agreement phase the three cases demonstrated that the clients are very involved with the new service definition. And none of the services were put into production without a lengthy testing period during the Project Workings phase. It was during this period that the client analyzed every aspect of the new service and last-minute adaptations were made. Thanks to this intense testing, all of the clients were very confident that the risk of service failure was next to nothing when the final service was implemented.

On the other hand, service simultaneity that extends beyond implementation can increase a client's perceived risk. Many business services require on-going and regular intervention from the service provider to ensure that the service continues to function properly. Indeed, constant service provider support was essential to both the SuperTankTrain and Outsource projects and loss of this support would entail a near shut-down of the clients' businesses. The perceived risk to the client, therefore, was twofold: That the service provider might cease operations in the long term, and that the service provider might renounce its commitment to supporting the client and the new service on an almost indefinite basis.

All three of the CSD cases in this study demonstrate that the service firm can and must help the client overcome the risk due to uncertainty and that these efforts can serve

to move the partnership forward and to establish and sustain the relationship. Thus, for the purpose of this study, the KMV model was adapted to better reflect the RM realities that are relevant to a CSD effort. A new construct entitled "Risk Reduction" was added as an antecedent to trust development. The adapted model is presented below:

Figure 7: Conceptual Model of Relationship Marketing during CSD



XXII.B. Relationship Marketing : A "Best Practices" List

A second goal of this research paper is to identify some important lessons for managers in successfully undertaking a collaborative service development venture. The analysis of the three cases, using the Adapted KMV Relationship Marketing model as a basis , led to a “best practices” list of RM activities. While not exhaustive, such a list does serve as a good basis for managers who are looking for guidance in actually implementing good RM techniques across the entire CSD project and beyond.

1. Conduct an up-front analysis and on-going reviews of why the particular client relationship is important

Embarking on a CSD project means undertaking a commitment to work with a particular client over the entire period of the project, and beyond if service simultaneity is necessary during production. Such a relationship can often be of a long-term nature and this, of course, is the goal of RM, and its implications must be seriously considered by the service provider prior to forming the relationship. In all three of the cases the service firms identified what short- and long-term relationship benefits they would receive by partnering *prior* to approaching the clients during the Pre-Agreement phase. DataServices wanted to position itself as a supplier of computer services and move beyond its parent company; RAIL was interested in reducing excess capacity and in increasing the number of high value-added services it offered; and FORESIGHT had a goal of transforming itself from a niche player to a market leader by winning a large, high-profile client. The enunciation of these relationship benefits, as well as the preferred type of client partner,

helped the service firms to reduce service intangibility by better outlining the new service idea and creating convincing arguments in favour of the partnership that it then pitched to specific targeted clients.

Because the service firms had identified their reasons for partnering, they were better able to adapt the new service proposal during the Establish Relationship phase so that it was "win-win" for both sides. It can also be noted that all of service providers agreed to initial contracts with relatively small profit margins, effectively sacrificing short-term revenue for long-term prospects of a continued relationship with the client that would also lead to winning new clients. For instance, when JetEngine came to DataServices and said that it did not have the money to do everything outlined in the CSD proposal, instead of walking away from this less-than-lucrative project, DataServices kept its focus on the long-term and its quest for a high-profile client. While RM does not necessarily mean reducing profit margins, the three cases demonstrate that when the service is "new", and thus requires the client to take on the added risk and responsibility of being the "guinea pig", some sacrifices on the part of the service provider, such as monetary, may be necessary to convince the client. The strategy behind these sacrifices in the three cases studied was that the service providers would be able to use the completed CSD project as a demonstration of its expertise which would allow the service providers to win other clients, and more lucrative contracts, in the future.

Keeping in mind why the relationship is important was also critical during the Project Workings phase. Service intangibility and variability meant that problems surrounding unplanned activities to perform or investments to make caused a certain

amount of conflict between the partners since it was difficult to write a contract to account for all possible scenarios. Because the service firms had clear goals for the partnership, they were more apt to take decisions that were deemed good for the relationship instead of good for only one side or the other. This continued demonstration of commitment to the project by the service providers had a positive impact on the client firms. Relationship marketing in CSD, therefore, means conducting an up-front analysis and on-going review of why the particular client relationship is important and then demonstrating the service provider's commitment to the project throughout the CSD process that, in turn, solicits the same on-going commitment level from the client.

2. Continue to "maintain" the relationship even if it is currently negligible and regularly propose the new service idea to the client in the event that the business environment changes

In all three cases, prior to the CSD effort the business relationship between the service provider and client was relatively small. In addition, the new service idea had been turned down at least once by the client prior to its acceptance. Instead of giving up, the service providers continued their commitment to the new service idea and looked for changes in the business environment that would make the new idea more interesting to the client. In other words, RM involved keeping an eye on the client and on the market. The time which elapsed between project refusal and acceptance permitted the service providers to "get to know" their clients better and to improve their service offering. FORESIGHT, working with other customers, continued to add elements to StratMark that

eventually made the software more appealing to HAIR. RAIL, gaining knowledge of the petroleum industry and working with a senior manager from PETROL, was able to better tailor the service package represented by the SuperTankTrain to respond more completely to the exact needs of PETROL. And DataServices made continued modifications to its outsourcing service proposal until it was finally accepted by JetEngine.

This ability to propose a new service and to continually adapt it until it meets customer needs is to a large degree the result of service intangibility and variability. Indeed, these two factors gave the service providers a way to eventually gain the customer's agreement to take part in the CSD effort. By modifying the new service idea, the service providers could make the offering more attractive and more relevant to the client, thus substantially reducing the client's risk in taking part in the venture.

3. Gain a "foot in the door" by obtaining an initial contract, however small

One of the pillars of RM is the establishment of trust. As already mentioned, service providers can have difficulty establishing trust with client firms because service intangibility can render the new service idea difficult for the client to grasp and evaluate prior to purchase. As a result, clients often rely on the reputation of or their own past experience with the service firm in order to judge the likelihood of a successful service outcome. If the client has no past experience with the service firm or is unaware of the service firm's reputation, chances are that it will be reticent towards an NSD partnership.

In all three of the cases studied, the CSD Pre-Agreement phase went rather smoothly, in part, because the service providers had already demonstrated through previous interactions with the client that they were capable of using their expertise to deliver quality services. For example, DataServices had managed an "insourcing" project with JetEngine; RAIL had temporarily moved PETROL's product during an "emergency" situation; and FORESIGHT had done a market analysis for HAIR. In other words, the RM effort was greatly enhanced by the past contracts because they gave the service providers an unparalleled level of initial trust that helped win the client's approval for the much larger, more longer-term, CSD project. The fact that the initial contracts were considered "small" in comparison to the proposed CSD project was not an issue. More important was that these earlier relationships permitted the clients to overcome some of the risk associated with the intangibility of the new service being offered, and to trust that the service provider would indeed deliver a satisfactory outcome, as it had done at this previous occasion.

4. Identify the client's "project champion" early in the relationship and keep him/her happy

As demonstrated in all three cases, trust between the service provider and client usually begins on a personal level and then extends to the corporate level. During the Pre-Agreement phase, it was critical for the service provider to find a "client-project champion" who not only had trust in the service provider but who was personally committed to gaining (client) top management's approval of the CSD project. As

described in the FORESIGHT case, and echoed in the other cases, the ideal client-project champion appears to be a mid- or senior-level manager - the Operations Manager at PETROL, the Product Managers at HAIR, and the I/S Manager at JetEngine - whose opinions are well received by colleagues and top management alike. Relationship Marketing in CSD, therefore, means building links with these managers early on in order to get the CSD project moving, and maintaining these links throughout the later stages to keep the project on track.

Having a client project champion early on helps the service provider to clarify client needs and to identify relationship benefits that only someone who is on the inside of the client firm would know. Ideally, the service firm should write the CSD proposal together with the client champion. This allows the service firm to write a proposal that is more likely to be taken seriously by the client and that stands a good chance of acceptance on the first round. Having the client champion work on the proposal means that the service provider can focus on elements that are important to the client firm and can include jargon or terminology that demonstrates that the service firm has knowledge of the client's business (i.e., its expertise).

Once the client-project champion is "on board", it becomes much easier to convince the client top management that the new service idea is worth developing and that the required investments will bear fruit. Indeed, one of the jobs of the client champion is to sell the idea internally. In the outsourcing case, DataServices finally obtained the contract primarily because the JetEngine I/S manager had succeeded in

overturning the "handshake" deal that had been made between the CEO of JetEngine and a competitor to DataServices.

A client-project champion continues to be a critical asset as the CSD project moves forward. The case data clearly indicates that, during the Establish Relationship phase, interactions between the two project champions - that is, the provider and client people that had been working together and trusted each other - went more smoothly than between other employees; witness the initial difficulties between DataServices and the JetEngine Purchasing department. Similarly, in the Project Workings phase it is often the client-project champion who is vital to keeping the CSD effort moving ahead. In the StratMark case, it was the HAIR managers who sustained the client's interest in the project by "talking up" the new software and its benefits to the firm. Indeed, had the client champion not crusaded for StratMark, the chances were high that the project would have been dropped due to internal resistance from other client managers. In a sense, the client champion "personifies" the CSD effort *in absentia* of tangible project deliverables. Indeed, the other HAIR product managers did not see the advantages of the StratMark system due to its highly intangible nature. The HAIR vice president, however, continued to believe in the project because his own client champion kept reiterating the benefits that the new software would bring to the firm. Given the importance of the client champion to a successful CSD project, the service provider should use RM tactics to support this champion as best it can. This can mean regular meetings between the top management of both partners to reinforce the project benefits, and making presentations and providing

documentation during the CSD phases to boost the champion's claims that the new service will meet client needs.

5. Ensure a certain continuity in both project management and team members

The longer both firms and employees work together, the more trust they will build between them. As well, because service intangibility means that clients cannot usually "try before they buy", this development of personal trust can lead client firms to personify the new service in certain service firm employees and to tie the CSD project's success to the involvement of these employees. For example, both JetEngine and PETROL demanded that certain "key" personnel be assigned to the CSD project during the Establish Relationship phase - namely those who had worked on the CSD proposal during the Pre-Relationship phase. On one hand, this appears logical; after all, the client accepted the proposal, in part, because certain service provider employees showed both a desire and the expertise to make the new service idea a success. At the same time, the belief that the continued involvement of a handful of employees could make or break a CSD project (both DataServices and RAIL have thousands of employees) seems quite illogical. Regardless, relationship marketing in NSD means: 1. Being aware that certain service employees, especially those involved during the earlier phases, may be seen by the client as essential to a project, and 2. Ensuring that these key employees are kept on the project until such time as the client is able to "transfer" its trust to other service firm employees or to the provider firm as a whole.

Another reason why continuity in project membership is important in CSD is to counterbalance the potential negative impact of having a less-than-watertight contract. All three cases demonstrated that, due to service intangibility and complexity, none of the contracts could reasonably be made completely precise. As a result, substantial trust was needed on the part of both partners in the handling of unforeseen situations and expenses. The partners had to feel confident that decisions would be taken that put the good of the partnership first, even when this meant that one side had to sacrifice or compromise more than the other. When project management and team membership stayed the same, the two sides tended to "get on" better, decisions were easier to take, and the project ran more smoothly. In contrast, when the project manager and team members changed with relative frequency, as was the case with RAIL, the service provider experienced a loss of client trust, which could only be revived through special efforts to actively reiterate its commitment to the SuperTankTrain project. The lesson for managers is that effective RM in CSD requires relative stability of client contact personnel. Clients who can interact with the same service personnel on a continuous basis are less likely to experience anxiety about the eventual service outcomes. At the same time, the service firm can build a solid understanding of the client firm and its needs, reinforcing the likelihood that the service provider will continue to satisfy those needs and that the client will retain a long-term relationship with the service firm.

6. Establish and maintain excellent communication

Excellent communication builds trust and understanding between the partners, and, therefore, to a greater likelihood, of success in a CSD venture. This was demonstrated in all three cases where ample communications throughout the CSD process led to more satisfied and committed clients : they had a better understanding of the new service; they had direct input into how the new service would eventually work; and they felt more confident that the new service would meet their needs. The research also showed that the precise character of and level at which communication occurs vary with each stage of the CSD process.

In the earliest CSD stage (Pre-Agreement), most communication occurs between the project champions and top management and focuses on the expected benefits of the CSD venture. In this phase, excellent communication is essential in persuading the client that the service firm will indeed make a good partner and solve the client's problem. In particular, this face-to-face contact between the firms' top management can be helpful in establishing "rapport" at the highest level, and in allowing the firms to share ideas about why the new service is important. Additionally, these early meetings help development of early trust between the partners. Indeed, in the cases studied, when the two CEOs "got on" well, this positive attitude filtered down to the decision-making levels, impacting the service firm's chances of being seen as a good partner choice. This "meeting of the minds" at the highest corporate level is especially important when the new service is expected to play a critical role in the client's operations, and this was true in all three cases. Thus, the findings indicate that effective RM in CSD requires that the service firm

make contact with the client's top management very early on in the project in order to demonstrate that it can indeed solve the client's problems and see the CSD project through to fruition. For example, in the case of StratMark, FORESIGHT's president played a key role in convincing HAIR's vice president of the efficacy of his vision of how the firm might better manage its product lines. As a result of these very early high-level encounters, HAIR did not ask for competing bids from other service providers. The same was true for the SuperTankTrain case. Here, senior managers from RAIL and PETROL communicated frequently right from the start, leaving RAIL as the only railway alternative to be considered for this service contract.

In contrast, DataServices faced multiple competitors and could have lost the outsourcing project to International Computers, in part, because its top management had not lobbied on the firm's behalf until after the Letter of Intent was issued (i.e., at the very end of the Pre-Agreement phase). While DataServices was focusing on communicating at the operations level, its competitor's - International Computers - top management was wooing JetEngine at the CEO level. Although DataServices did eventually get the contract, it belatedly realized that communication at the most senior level is critical in the Pre-Agreement phase. Having the CEO on the side of the service provider clearly provides substantial leverage and credibility to other complementary communication efforts at the project champion level.

During the Establish Relationship phase, excellent communication is also essential, but it occurs further down in the organization and includes a mix of both senior and project managers. The top management of the partner firms is still very much

involved during this phase since both sides must approve the overall CSD plan, the level of investments, and the length of the initial contract. Effective RM means, however, that the service firm must also commit *competent* lower level managers to the CSD project. This is for the purposes of hammering out the details of the agreement, helping make the service more tangible, and further demonstrating the service firm's expertise. In each of the three cases studied, the new service was largely conceptual and had to be "fleshed out" in some detail during the Establish Relationship phase, prior to contract signing. This articulation of the new service idea required the involvement of managers who were familiar with the service idea and who were able to translate client needs into more concrete service features (ex. StratMark) as well as provide realistic feedback about the extent and limits of the new service (e.g., restrictions due to technology (ex. Outsource), or in terms of degree of automation (ex. StratMark)). Thus, involving these highly experienced "line-level" managers during the Establish Relationship phase helped to reduce the ambiguity of the CSD relationship and boosted the chances that the developed service would conform to client needs. Moreover, bringing in expert project managers prior to the Project Workings phase gave the two sides the opportunity to develop working relationships on a personal level, a key requirement to a harmonious business relationship between the partner firms. For example, the RAIL and PETROL team leaders began to discuss communication flows and to plan project schedules even prior to contract signing. Similarly, contract negotiations went smoother between DataServices and JetEngine once a relationship had formed between the DS managers and the JEC Purchasing staff, something that had not existed prior to this phase.

During the Project Workings phase, communication was pushed even further down the organizational hierarchy, namely to the project management and team member levels. All three cases demonstrated that open and frequent communications between the project teams can help boost the level of partner trust and thus the chances of success in the CSD project. For the SuperTankTrain and Outsource projects, the two sides had to work very closely together in a highly coordinated fashion. Project managers spoke and met with each other frequently, and team members on both sides were empowered to discuss issues among themselves and to take the appropriate decisions. Working so closely together helped to reduce the uncertainty, and hence the anxiety, due to service intangibility and the risk of possible service failure. In the StratMark case, the partners worked less closely during service development, although the FORESIGHT project managers frequently informed the HAIR project champions of the progress made on the new software. This extensive communication helped to reduce uncertainty since the clients could closely follow the development steps and on a regular basis evaluate whether the new service would meet their needs, even if they could not physically touch the new service under development. Another way effective communication was used to reduce anxiety was through joint service testing. In all three scenarios, the clients participated in the testing process which was a wonderful way to not only test the service features, but also to test the simultaneous production-consumption relationship that would be an integral part of the service package. The partner firms were able to learn their specific role in the service delivery process, which substantially reduced the chances of major errors occurring once the new service was put into production.

In sum, the research demonstrates that effective RM in a CSD scenario can include several different methods and levels of communication. The most common method involved were face-to-face meetings that were scheduled in advance and where key project team members met in order to discuss service development progress and to resolve any outstanding issues. These were essential particularly at the senior management level, but also to ensure a strong formal and informal working relationship at the operational levels. Other, more technological, methods of communication were also used which helped speed up the flow of communication between the partners, such as shared electronic mail, voice mailboxes, and direct computer links between the partners' information systems.

Relationship marketing tactics during the Project Workings phase, while focused on ensuring the effective interaction of the project teams, must also continue to include top management since it must stay involved if the project is to continue to advance. Communicating with top management can be done through monthly or quarterly meetings which serve to bring top management up to date on project developments, to resolve any problems that go beyond the project management level, to deal with any unexpected financial decisions and, to discuss the future direction of the relationship.

7. Identify shared values between the partners

Shared values between partner firms reinforces both trust and commitment, and, thus, can contribute to effective RM in a CSD relationship. At the very beginning of such a project, these shared values are of a more "esoteric" or subtle nature, and tend to operate at higher management levels. FORESIGHT, for example, believed HAIR would make a good partner (and vice versa) because the managers of the two firms shared a belief in "good marketing practices", including good market planning. Similarly, DataServices and JetEngine I/S department management "spoke the same language" and mutually understood the importance of JetEngine's mainframe systems. When contemplating a CSD relationship, therefore, the service firm should try to identify as early and as clearly as possible what are the key values underlying the customer's management and operations philosophies. In this way, the service firm can demonstrate that it shares these same beliefs. This does not mean that the service firm should change its corporate culture or pretend that its culture is something that it is not in order to win a contract. Indeed, the client firms in this study appeared to place relatively little importance on some of the typical areas of shared values such as corporate culture or management style. Instead, shared values during the Pre-Agreement and Establish Relationship phases tended to be more "mission or goal oriented", such as the idea of providing reliable, round-the-clock information services, or using the best marketing practices available. In sum, successful RM for CSD means that service providers should uncover and understand the client's key corporate values and then convey the message that it, too, shares the same values.

As the CSD project moves into the Project Workings phase, shared values of a more operational form become important. These values relate specifically to NSD project management and can be the source of problems if they are not shared by the CSD partner. For example, both DataServices and RAIL approached their CSD effort much as they had approached other NSD projects on which they had worked independently (i.e., without the need for substantial client involvement). This meant that RAIL and DataServices committed only part-time resources to a project and performed most of the development work at their own site, away from the client. This approach was in direct conflict with that used by their client, who generally operated with full-time project members and who expected to see the service provider at their site on a regular basis. This difference in approach and expectations caused some frustration for both sides. It was only by modifying their own project management styles to some degree that RAIL and DataServices alleviated some of the anxiety felt by the client. This issue of different NSD approaches was less of a concern in the case of StratMark primarily because the partners did not really work closely together until service delivery. Concern about leakage of proprietary information kept the two sides at arm's length during the Project Workings phase. Hence, there was a lesser need to harmonize NSD styles. The service provider had the majority of the responsibility for both the design and actual development of the new service (which, in this case, was mostly computer programming). What these cases demonstrate, however, is that when service provider and client work closely together during CSD, relationship marketing must include the harmonization of project management styles. Indeed, effective RM means that the service firm must be take a

proactive approach to preventing conflict due to misunderstandings and anxieties experienced by the client firm by harmonizing the partners' project management styles. To do this, the service provider should ask itself *and the client* "How should this CSD project be run?" prior to the start of the Project Workings phase. The answer to this question should lead to an agreed-on project management method which responds to the operating values of both partners.

8. To reduce the chances for opportunistic behaviour, change circumstances that invite it, resist taking advantage of power shifts in the service firm's favour, and avoid overdependence on the client firm

Excellent Relationship Marketing seeks to reduce opportunistic behaviour by partner firms because such behaviour can undermine trust, which in turn, can reduce partner commitment, and ultimately result in the dissolution of the relationship. For opportunistic behaviour to occur, however, the partners must already have established a minimum level of commitment, both to each other and to the CSD project. Thus, opportunism is less of a concern during the Pre-Agreement phase, where commitment is relatively weak, and more of a concern in the Establish Relationship and Project Workings phases. What did the CSD case studies indicate about the locus and extent of opportunistic behaviour? On the whole, the data analysis shows that in none of the cases did opportunistic behaviour become a serious problem. When it did occur, it tended to be largely "circumstantial"; in other words, it was eliminated as soon as the one partner changed the circumstances that allowed the other to react in an opportunistic fashion.

During the SuperTankTrain project, RAIL sometimes had the impression that PETROL was taking advantage of the frequent changes in project management at RAIL by having RAIL pay for things that had not been specified in the original contract but that had supposedly been "promised" by the past RAIL project manager. In effect, PETROL used both service intangibility - which required that the contract be relatively vague on many points - and RAIL's relatively high project management turnover to extract certain concessions. The outcome of these apparent attempts at opportunism was that RAIL began to question the equity of the partnership. However, instead of dissolving the relationship, RAIL concentrated its efforts on the source of the problem: Power rebalancing through a reduction in project management turnover. As well, it evoked a clause in the contract which had been included to resolve situations of opportunism by allowing a partner to request a renegotiation of certain contract terms if it felt that the partnership was no longer a "win-win" situation. RM, therefore, means working effectively at keeping an eye out for opportunistic situations, reducing the reasons for opportunistic behaviour by eliminating the source of such problems, and negotiating an agreement that realistically take such behaviour into account and provides for remedies short of relationship dissolution or court battles.

Power imbalance also played a role in the Outsource case, only this time it was the service provider who had the chance to act opportunistically. DataServices was able to gain some advantage during contract negotiations because JetEngine was under a severe time constraint and needed to put the project in motion by a specific date. Once the contract negotiations were finished, however, the advantage due to time constraints

disappeared, and the relationship regained its equilibrium. Even though there was a chance to behave opportunistically, DS was careful not to exploit this advantage since it could easily have had a negative impact on future relations. Indeed, had DS pushed for further concessions from JetEngine during the Establish Relationship phase, there was a good chance that the client would have lost trust in DS, which would have complicated the Project Workings phase by questioning the viability of the relationship and thus JetEngine's commitment to it.

For StratMark, the case data indicate that there seemed to be few, if any, incidents of predatory opportunistic behaviour. This is likely due to the fact that there were-or FORESIGHT made sure that there were-few potential sources of such behaviour during the CSD relationship. Neither side seemed to be under really critical time pressure (although certain dates had been indicated for scheduled meetings); the project personnel on both sides of the relationship remained the same throughout the CSD process; and, even more important, FORESIGHT was covering almost the entire cost of the service development effort. This last factor meant that, aside from receiving the application input that it needed from HAIR in order to make the software/service realistic, FORESIGHT could avoid the potential pressure by HAIR managers to overcustomize the new service for their own particular use. Because intangibility and variability frequently make services easy to customize, service firms are often pressured and, indeed, may be tempted to tailor the new service so specifically that it becomes difficult - or very costly -to sell to a broader market. By carrying the brunt of the new service development cost, FORESIGHT basically eliminated at least two potential sources of opportunistic

behaviour on the part of HAIR: that is, the immediate pressure to have the new service overcustomized to its specific needs; and the longer-term overdependence on HAIR for revenues - and the accompanying potential for opportunistic behaviour - had the new service been too specific to sell to a broader market.

The issue of “opportunistic behaviour” and overcustomization is not always clear and easy to deal with. Collaborative NSD projects between service provider and client, after all, take place precisely because the client has a specific problem that requires a solution - a solution which presumably is not already available in some standardized form. Similarly, service providers seek the partnership of client firms so that they can be successful in developing a new service that responds to actual market needs. However, in all three cases studied, the service providers also had the objective to use the CSD project as a stepping stone to winning other clients. RAIL managers, for example, seemed to have permitted some opportunism during the early Project Workings stages, stating in frustration that they should have said “no” much more often. Nevertheless, what RAIL lost in these short-term costs could be seen as investments if they would eventually interest other clients in the idea of the SuperTankTrain. Since the project was highly innovative and non-traditional, it was absolutely essential that it “worked” for PETROL. In this respect, CSD provided the client with a source of opportunistic behaviour although, in the longer run, it also served the interests of the service provider.

Clearly, service developers must walk a fine line between making realistic and necessary adaptations to meet client needs, and going to the point of overcustomizing the new service where the service provider becomes too dependent on the client for future

business. In services (as opposed to manufactured goods), the extent to which “overcustomization” can have a negative impact (i.e., create a source of opportunistic behaviour) depends on the degree to which the service is a “pure” service (i.e., not connected to any tangible core) and on its degree of variability. For a service that is totally intangible and highly variable, overcustomization is less of a problem since each service offering can by its very nature be adjusted/adapted relatively easily. For services that result from a certain tangible core element or system (in the SuperTankTrain, the cars, the tracks, and the pumping system, etc.; in StratMark, the underlying software on which the strategic planning service was based), on the other hand, overcustomization clearly becomes more of a problem.

In sum, the study confirms that a CSD project does provide a number of opportunities/sources for opportunistic behaviour for either partner in the relationship. Since CSD is a dynamic process, these opportunities tended to be of a relatively short-term nature and shifted from one partner to the other as they moved through the CSD phases. Moreover, due to the intangible and variable nature of services, opportunism related to “overcustomization” tended to be less of a problem. What is clear from the findings in these case studies is that service providers should be aware of the potential for opportunistic behaviour and use RM effectively to minimize this potentially negative behaviour. One way to go about keeping opportunistic behavior in check is to perform periodic reviews, both in-house and with the client, of both the project and relationship in general. These status checks should include addressing such questions as: Is the relationship still win-win and balanced? Does one of the partners have an advantage

which works to the detriment of the other? If so, what can be done to reduce this advantage and return the relationship to equilibrium? What activities are coming up in the near future which could open the door to opportunistic behavior, and what can be done now to keep that door closed?

While it may seem extraordinary to address the potential for opportunistic behaviour in such a proactive fashion, service firm managers must realize that it is usually easier to prevent such a situation beforehand than to let such “relationship-unfriendly” behaviour continue until its negative consequences put the relationship in jeopardy. Indeed, a passive or reactive approach to this type of behaviour seems to be the riskiest of all responses, given that opportunistic behaviour, left unchecked, could eventually destroy the trust and commitment so necessary for a successful relationship.

9. Identify client risks and seek ways to minimize them

As discussed earlier, risk influences trust and commitment. Hence, no “Best Practices” list for RM would be complete without the mention of risk management. In a nutshell, the higher the client's perceived risk associated with CSD, the more necessary RM becomes in alleviating these risk-related anxieties. Indeed, RM efforts that focus on client risk reduction are important throughout the CSD process. Moreover, because CSD is a dynamic process, the client may perceive different types or degrees of risk at different stages, requiring varying RM approaches by the service provider to ensure a continuing and successful relationship.

In the Pre-Agreement phase, particularly when the potential service plays a critical role in the would-be client's operations, the uncertainty surrounding the new service can be substantial. Indeed, in two of the cases - SuperTankTrain and Outsource - where the new service was of such a critical nature, the CSD venture had to be proposed several times by the service provider before the client would even consider exploring the idea. Thus in this very early phase of the CSD relationship, RM's primary role was to reduce risk by identifying for the client in more concrete terms (i.e., reduce intangibility) why the new service should be considered by them. In the study, service providers used a variety of arguments that related in very tangible terms to the clients operations; for example: lower operating costs, faster and more reliable service, improved safety, fewer errors or expanded business opportunities. In addition to these service-related arguments, the service providers used their reputation, as well as their prior (positive) working relationship experience with the client firm, as a way of reducing the uncertainty - and thus the risk - associated with the proposed service offering. In other words, the key objective of RM in the Pre-Agreement phase was to convince the client that the proposed new service had merit - indeed that it could make a substantial contribution to the client firm's performance - and that the service provider could be trusted to bring about the desired outcome in a CSD relationship.

During the Establish Relationship phase, RM helped to reduce risk by attempting to identify the various outcome scenarios and then to include contract provisions to deal with these CSD scenarios. For example, both RAIL and DataServices agreed to regular contract reviews and a revision of the contract terms if certain key circumstances change.

In the SuperTankTrain case, this was PETROL's ability to renegotiate the terms of the contract, or even leave the relationship if a substantially cheaper mode of transportation source was found. In this way, RM reduced the risk associated with committing to a less-than-fully-specified contract (intangibility) and with becoming completely dependent on one service provider.

Another risk faces by clients, especially during the early CSD phases was the uncertainty about whether the planned new service would succeed and how failure would be handled. Indeed, the more the client firm would be dependent on the new service, the more RM was required to convince all the parties that the service provider would deliver as promised. For example, DataServices committed to stringent service guarantees (i.e., to reduce variability) and hefty penalties to JetEngine if service levels fell short of what was deemed "acceptable" by JEC. RAIL, in its bid to reduce uncertainty for PETROL, planned for several alternative tracks that the SuperTankTrain could potentially take if, for some reason, the main route was unavailable. Hence, under all circumstances PETROL's product would get to market as scheduled. The need to address the risk of potential service failure was less a concern in the StratMark case. Here, unlike the other two cases, HAIR was much less reliant on the service for its continued everyday operations. Even so, the HAIR project champions wanted to "test drive" the existing version of StratMark before they seriously considered agreeing to the CSD effort with FORESIGHT.

Risk is also a factor during the Project Workings phase, and service providers can use RM to alleviate this. For Outsource and SuperTankTrain, during the latter part of the

development stage - that is, as the partners came close to actual implementation - the clients became increasingly anxious about whether the new service would perform as planned. Since services maintain their intangibility throughout the CSD process, performance verification is difficult until actual implementation. For JetEngine, this intangibility-related anxiety, combined with the perception that DataServices personnel were not adequately present at the JEC site, caused some concern about the quality of the knowledge transfer that was occurring. Similarly, PETROL became very concerned when decisions were not taken quickly enough because there was no service provider representative on-site (due to RAIL's more centralized and "part-time" approach to project management). Nevertheless, in all cases the service firms responded quickly by beefing up their presence at the client site: DS assigned certain human resources to work alongside JEC mainframe operators, and RAIL agreed to delegate decision-making responsibilities to a full-time resource located at the PETROL refinery.

What is important for a service manager to realize is that all too often risk is perceived by the client but not verbalized. For example, JEC managers never clearly stated how worried they were about the adequacy of knowledge transfer until confronted about this by the DS project manager. This means that, in addition to finding solutions to those risks that are identified by the client, effective RM means the service providers must search for and address other potential risks that have not been verbalized. Indeed, before approaching a client with a CSD proposal, the service firm should "put itself in its client's shoes" and identify what sort of risks the client firm might perceive. Then, the service firm can create solutions to them. (Even better, the service firm should attempt to

make contact with a senior person within the client firm early on in the CSD process. The service provider would then have first-hand knowledge of how the client firm perceives the CSD project and can prepare counter-arguments before it even meets with top client management) Throughout the CSD process the service provider should continue to “think like a client” and evaluate each decision not only in terms of its impact on the service firm, but on the client as well. Project managers that *listen* to their clients and try to regularly “read between the lines” and can often discern and alleviate certain client fears before they are formally verbalized. Moreover, there is absolutely nothing wrong with directly asking a client how he/she feels. Sometimes this is done formally - a common practice by this author is to end project meetings with a resume and to ask the client if they are comfortable with the outcome of the meeting, and sometimes a client is more willing to speak his/her mind in a more informal setting (lunch out of the office, for example. Regardless of the venue, a project manager who addresses the issue of risk head-on is more likely to be able to identify risky situations before the client becomes exasperated, and then do what is necessary to diminish the perceived risk. It is this type of proactive attitude towards risk reduction that puts clients at ease and reinforces trust and commitment between the partners.

10. Provide up-front commitment in terms of both time and resources and ensure that the client does the same

Successful RM also means making and getting commitments (Morgan *et al.*, 1994). Indeed, service providers interested in establishing a CSD relationship with a client must be proactive in making and maintaining an up-front commitment to the project. In return, assuming the new service idea has real merit, it is believed that the client will do the same (i.e., make a commitment) (Dwyer *et al.*, 1987). Such commitment can come in the form of time, financial and/or human resources, or support for a certain idea. In the CSD cases under study, such proactive, up-front, commitment was found and seemed to have a definite impact on getting the client “on-board”. In all three cases, it was the service provider who “made the first move” both in committing resources (time and people) and in personally supporting the idea of the new service. In the Pre-Agreement phase, actual demonstrations of this up-front commitment were usually on a personal level (i.e., human resource commitment). For example, it was certainly at least partly due to the RAIL champion’s commitment over several years to the idea of the SuperTankTrain that eventually convinced PETROL’s management to also commit time and resources to seriously exploring the proposal. Similarly, the rather skeptical JetEngine I/S manager became less resistant to the idea of outsourcing due, in part, to the strong beliefs held by DataServices managers about the virtue of this service. Needless to say, in both cases, the service provider had to commit some up-front effort - both time and human resources - to “flesh out” the service idea to an understandable level and to develop personal contacts with the client firm. Thus, using RM effectively during the Pre-

Agreement phase involves a proactive effort on the part of the service provider to develop and internally support the idea, and to convince client managers to also become personally committed to both the service and to the idea of a CSD partnership. In fact, it is very much this personal conviction about and commitment to an intangible idea that helps to overcome its evaluation difficulties. This was clearly brought out by the StratMark case where a high degree of service intangibility made it much more difficult for HAIR managers to assess the merits of the proposal; but where personal interaction with and a strong conviction by FORESIGHT managers helped to persuade them that StratMark could indeed meet their needs. As a result of FORESIGHTS concerted efforts, HAIR took the “leap of faith” and committed to the CSD arrangement (which involved investing in the current version of the planning instrument).

It is during the Establish Relationship phase that commitment to the project becomes official and takes on much more tangible form. Up until now, most of the commitment has been of a background nature and has usually been internal to each firm. Once the partners actually establish the relationship, each side agrees on paper what resources it will dedicate to the CSD project. Here also, the case data suggest, effective RM means that it is the service provider who should take the initiative. Promising, in writing, to invest X amount of dollars or to meet specific performance-related benchmarks provides proof of the service provider’s commitment not only to the CSD project at hand, but often also to a potential longer-term relationship with the client. In the three CSD cases studied, none of the service providers “held back” on their commitment nor did they wait for the client to make the first move. The positive impact

of this initiative was that the clients were satisfied with the service provider's serious intent and this, in turn, seemed to be intimately linked to their own willingness to sign the contract and commit resources.

But, although RM indicates that the service provider should take the initiative for commitment, a successful CSD relationship requires that ultimately the client partner must also commit to the project. In all three CSD cases, the agreed-to commitments were of a reciprocal nature, although not always of the same type or magnitude. For the SuperTankTrain, both RAIL and PETROL were required to make large up-front financial investments (infrastructure costs). For Outsource, on the other hand, while DataServices was committed to major computer mainframe expenditures, JetEngine had relatively low up-front costs. To equalize this relationship, JEC agreed to a long-term arrangement whereby DS was assured not only of recouping its investment, but also of the opportunity to vie for an expanded and potentially more lucrative working relationship with JEC (i.e., more creative IT services). These scenarios demonstrate that what is important for effective RM is not in seeking a certain type of commitment, but in ensuring its forthcoming and its perceived equity by the partners.

Clearly, if the CSD project is to succeed, commitment is essential not only up-front but throughout the Project Workings phase. Only if both partners remain committed to achieving the goals of the CSD agreement, can one speak of project success. In what way is RM relevant to ensuring commitment during this phase of CSD? The case research indicates that its role is primarily in staying in touch with the dynamics of the relationship and in ensuring that the commitments made are adapted to the changing needs of the

project and the partners. For example, although DataServices had originally not planned that its employees spend large amounts of time at the client's site, JetEngine's anxiety about the completeness of the knowledge transfer prior to system cut-over, obliged DS to re-evaluate this decision. By temporarily adapting its commitments, DS reinforced client confidence about the successful implementation of the new service. Similarly, while developing the SuperTankTrain service, RAIL underwent organizational restructuring which led to a significant reduction in its workforce. This impacted its original commitment to provide maintenance service at the client's plant site. By investing in additional rail links to its regional maintenance center, RAIL was able to adapt its commitment to the satisfaction of PETROL and thus sustain the CSD relationship.

11. To increase relationship termination costs, obtain financial commitments from the client, but also acquire an expert knowledge of the client's business and of the services provided

Once a firm starts to make a commitment to a relationship, it automatically incurs relationship termination costs, should the partnership end for some reason. Relationship termination costs are usually the result of making nonretrievable financial commitments or important structural changes in how the firm operates when taking part in a relationship. For example, PETROL not only committed substantial financial resources for its part of the new shipping service, but also made a critical structural change in its distribution system. Had the SuperTankTrain not been a success, or had the partnership been dissolved early, the company would have incurred major losses: its share of the

dollars invested in developing the new system, the cost of changing to yet another shipping mode, and the potential market share loss that could result from a interruption in the shipment of its product. Relationship termination costs, particularly in services, can also be *knowledge-based* and affect both CSD partners. For the service provider, these can be viewed as the opportunity costs the firm incurs if, after having made a substantial commitment to developing an intimate knowledge of its partner's business - a knowledge that often is not directly or immediately transferable to another client, the relationship ends prematurely. For the client, knowledge-based relationship termination costs are associated with the cost of getting a similar service from a competitor. Typically, the more extensive the service provider's knowledge of the client partner in the CSD relationship, the more difficult and costly it becomes to get the same quality of service from another firm.

All three types of relationship termination costs - financial, structural and knowledge-based - play an important role in increasing commitment to a partnership. In general, the higher the relationship termination costs, the greater the partners' commitment to maintaining a successful working relationship. Moreover, in services, due to their intangible nature, the knowledge-based relationship termination cost can be expected to play a key role. This was supported by the findings in this study. In the three cases analyzed, all three types of relationship termination costs were relevant. In the SuperTankTrain, PETROL and RAIL had both made major financial investments which had the effect of strengthening their commitment to the successful implementation of the CSD effort. In addition, as mentioned above, PETROL had invested in a critical

structural change which made the success of the CSD relationship absolutely essential. Similarly in the Outsource project, while DataServices made an irretrievable investment in major computer facilities, JetEngine had incurred substantial costs in adjusting its IT operations to accommodate the outsourcing arrangement. Moreover, in all three cases, knowledge-based relationship termination costs also played a role. Probably the best example its importance is the StratMark case. Here, the monetary costs to HAIR of dropping FORESIGHT as its service provider were minimal: there were few structural links between the two partners, and the financial investment made by HAIR to the CSD project had been relatively small. Yet, once the CSD relationship was substantially underway, FORESIGHT was no less confident about the long-term prospects of its relationship with HAIR than RAIL was with PETROL. This was due in large part to the “tacit” knowledge accumulated throughout the course of the project. As the project moved forward, FORESIGHT gained important insights about both the partner firm and its industry which it was able to effectively use to enhance the service offering. Thus, for both firms, the relationship termination costs increased: for FORESIGHT, this enhanced knowledge of HAIR’s operations made the success of the project even more important since there was now the opportunity for a longer-term relationship with the firm (with future expanded service offerings); for HAIR, the service provider’s increasing knowledge of its business augmented the “cost” of ending the relationship since it would be increasingly difficult to find a replacement that could provide the same quality and level of service.

In the other two cases, knowledge-based relationship termination costs were also relevant. In the SuperTankTrain case, RAIL had accumulated so much expertise in moving petroleum with the planned high-tech approach that it became next to impossible to immediately replace this service provider with a competitor. Even in the Outsource case, probably the most “commodity-like” service of the three, moving from DataServices to another service provider would have meant extensive costs for JetEngine just in bringing the new outsourcing firm “up to speed”. Indeed, the longer the relationship between the service provider and its client, the more difficult it became for both partners to end the relationship. What does this mean for Relationship Marketing? For the service provider, it means that RM activities must entail developing this intimate knowledge of the service and the client since it is this knowledge that is the key to obtaining extensive commitment from the partner firm. This type of information is most usually acquired by working directly with the client on the project (hence another reason to leave the project staff stable). Certain firms even go so far as to document and store any and all information obtained about a client or its industry so that, in time, the firm itself becomes the expert, instead of relying on the current project team. As a general rule of thumb, clients are more likely to keep working with service providers that understand their business and its needs. Maximizing the time that the project team spends with the client certainly enhances this “knowledge transfer” and can allow the service provider to bring the client into a situation of “functional dependence” (i.e., as opposed to a dysfunctional, opportunistic dependency) over the long term.

12. Actively build confidence and trust throughout the CSD process

As shown in the KMV model, trust is the key factor that leads to ensuring a successful partnership. Hence, a service firm that wants to develop a longer-term relationship with its clients needs to undertake a range of trust-building activities as part of its RM function. In a CSD relationship, these activities vary somewhat, depending on the stage in the CSD process. The case data indicate that during the Pre-Agreement phase, when the new service is still in a very conceptual form, the service firm should focus on highlighting its own reputation for quality and capability. It must show that there is a good fit between the suggested new service and the expertise and experiences of the firm. Indeed, since there is little that is tangible by which to demonstrate the exact nature of the service idea, clients must be offered other evidence by which they can be convinced of its viability. In the very early phases of the CSD process, this evidence usually takes the form of the reputation and past experience of the service provider which clients can use as proxies to evaluate the service itself. For example, RAIL was the only railway company considered by PETROL for the transportation contract largely because of its strong and well-established reputation for excellent customer service and also because of PETROL's very positive earlier experience when it needed RAIL's services on an emergency basis. DataServices also used its prior experience with JetEngine as a way of building trust for the new service offering. However, because DataServices was less well-known in the IT outsourcing field, it encouraged and arranged for JetEngine to contact some of its other clients, using this more indirect manner to assure JetEngine of the efficacy of the proposed service. In the case of FORESIGHT, due to its small size and rather limited

experience and reputation in the marketplace, managers had to use RM much more proactively in order to convince HAIR that indeed they had the expertise to develop a system which would solve HAIR's problem. FORESIGHT did this through extensive one-on-one discussions with HAIR managers, through demonstrations of how it planned to adapt its current PC-based planning device, and also through planned visits by HAIR managers to its high-tech facilities.

During the Establish Relationship phase, RM activities to enhance trust should shift their focus from the service firm to the service itself. In particular, service providers should be flexible with regard to the eventual scope and design of the new service, and offer guarantees to the client that offset the intangibility and variability aspects. Since at this CSD stage, services are highly variable, using this characteristic positively, as a RM leveraging technique, can be an effective method of building client trust in the relationship and its ultimate outcome. In the three cases under study, the use of guarantees and flexibility to enhance trust during the Establish Relationship phase was observed. Of the three companies, FORESIGHT offered the most extensive guarantee: it promised HAIR that its participation in the CSD project would result in a solution that would go "far beyond" what was being requested. Such an extensive guarantee made sense in this case since, of the three new service projects, the FORESIGHT service was the least tangible and FORESIGHT was the least known firm in terms of reputation. In the other two cases, the service providers agreed to many adaptations so that the new service would respond to client concerns, and also to stringent guarantees which were written into the partnership contract. Specifically, DataServices agreed to pay stiff

penalties for service inconsistencies that went beyond a defined level of service deviation. RAIL agreed to a tight product shipment schedule, offered three alternative routes for moving the product (to cover all eventualities), and even gave PETROL the option to change service providers in the intermediate run should a more effective or economical opportunity presented itself. Indeed, offering service flexibility and guarantees was essential for ensuring trust particularly in the two cases (SuperTankTrain and DataServices) where the new service was critical to the operations of the client's business.

Other RM techniques that can be used to enhance trust during the Establish Relationship phase have to do with defining approaches to protect the client's proprietary information. As the partners begin to work together more closely, the client is often obliged to provide sensitive information about its business operations to the service firm. JetEngine, for example, had to turn over the management of its mainframe to DataServices, thus giving DataServices access to highly sensitive information such as engine designs, production schedules, etc.; PETROL gave RAIL information about the volumes of product it moves, and about production and shipping costs; and HAIR shared sales, cost and pricing projections for numerous products. The simplest way the service provider can demonstrate professionalism and enhance trust when it has access to sensitive client data is through a "confidentiality agreement". Such an agreement is standard in most industries and works to put both partners at ease by binding them to silence. Depending on the nature of the business service and the client's needs, the

service provider can go even further, as did DataServices, when they agreed to security checks on all employees that would handle JetEngine's data.

But, because in a CSD relationship between supplier and client, it is often the client who feels at greater risk regarding leakage of sensitive information (since the client must provide enough information for the service provider to design the appropriate service). Hence, another technique that can lead to a more trusting partner relationship is to require both sides to use an "open book" approach during the Establish Relationship and later phases of the CSD process. This assures both partners that they are not being taken advantage of and each becomes dependent on the other to protect and guard proprietary information. This was the approach used by RAIL and PETROL and, while it seemed to have a very positive impact during the contract negotiation and signing phase, both sides concluded that during later stages (i.e., Project Workings), this decision sometimes led to arguments and suspicions that served to reduce the level of trust. Particularly because the partners came from radically different industries, ideas about what was a "fair" return or an "appropriate" payback period, for example, were quite different. In sum, the "open book" approach should probably not be used in all cases but should be explored when clients have extremely limited budgets or when clients doubt the integrity of the service provider and the prices it charges.

While using RM to establish trust is particularly relevant during the early phases of a CSD relationship - since there is much greater uncertainty about both the service and the partners at this time - it continues to be an important concern during the later, Project Workings, phase. Here, the RM focus shifts to maintaining the client's confidence in the

project by involving the client in key decisions and, above all, by keeping promises. For example, at the beginning of the Project Workings phase in the SuperTankTrain, RAIL and PETROL agreed to a rather stringent project timeline which outlined certain deliverables and their due dates. One of the most important of these was the SuperTankTrain itself since certain key concerns could not be dealt with (e.g., testing the loading, unloading and pumping system) until these units were physically available. RAIL missed this delivery deadline because it took longer than anticipated to negotiate the tank train prices with the manufacturer. Although initially quite concerned about this failure, PETROL's confidence in RAIL's ability to "deliver" actually increase once they understood the reasons for the delay and became closely involved in RAIL's approach to make up for the lost time. In some cases, even when the client has no real vested interest, involving them in certain decisions that relate to the planned service can be beneficial in maintained a trusting relationship. This was case when DataServices consulted JetEngine about that brand of disk storage device (DASD) it was planning to acquire even though this decision would not impact the actual service provided. Making sure to involve the client in key decisions throughout the CSD process will have the effect to: help the client better understand the new service, feel more confident that service will meet its requirements, and grow respect for the service provider's knowledge and expertise.

XXIII. Conclusion

XXIII.A. Summary and objectives of this research

In today's world of market globalization and global competition, both academics and practitioners are aware of the benefits of forming collaborative industrial relationships. From simple marketing alliances to more complex joint ventures, businesses realize that there are times when it is better to partner than to go it alone. One particular type of partnership was the focus of this research: a collaboration between two independent companies - a service provider and a customer - for the purpose of developing a new service offering for the customer. The topic of collaborative new industrial service development (CSD) is a relatively new research arena, encompassing the integration of several different fields of study which researchers have typically handled as separate and distinct. As such, gaining an understanding of CSD required a detailed review of the following academic literature areas: Business services, their distinguishing characteristics, and their marketing; new service development and its success factors; inter-firm collaboration, including its advantages, dangers, success factors; and various models of collaborative relationship development. Certain highlights of this literature, in the form of conclusions, are outlined below:

1. The ability to launch new service offerings is critical to the continued well-being of service firms. In many instances, collaboration with a client-partner to create and implement a new service is seen as a preferred method for improving the service's chances for success.

2. Business services are different in certain ways from physical goods and their distinguishing characteristics must be taken into account during their development and marketing. Service intangibility, variability, perishability, and simultaneity of production and consumption present certain challenges as well as opportunities to propose, develop and launch new services for their business clients. One large advantage for service firms is the ability to customize a new service to exactly fit client needs (hence the desire for and value in collaborating with a client-partner). However, because business services are often critical to a client firm's continued operations, tolerance for even the slightest service failure is extremely low.
3. Some of services' distinguishing characteristics (i.e., intangibility, variability, and simultaneity of production and consumption) can raise the client firm's perceived risk of CSD. Because buyers cannot touch or inspect the service prior to purchase, clients may perceive a substantial amount of risk when agreeing to purchase a *new* service, and may initially be resistant to the collaborative venture. Further, even once the CSD process is underway, this uncertainty about the service may continue to make clients anxious since they must often wait for the actual production to occur before they can judge service success. Service providers are, thus, confronted with the need to mitigate and manage this perceived risk of service failure. At the same time, the simultaneous nature of services (production and consumption occurring at the same time) would appear

to make CSD a more natural undertaking than a similar venture in the manufactured goods sector.

4. A collaborative new service development effort is a complex undertaking because it combines the stages of the NSD process with those of collaborative relationship development. Thus, to increase the likelihood of success, firms engaged in CSD must have a good understanding of at least two sets of success factors: those related to undertaking successful NSD and those related to effective collaboration. Combining these normally distinct processes in an effort to develop a successful new service in a collaborative mode requires expertise and practice on the part of both the service provider and the client firm.
5. Regardless of the identified benefits, business collaborations of any type are complicated affairs. Such ventures are more likely to be successful and longer-term when there is a high degree of trust between the partners and a commitment by each to see the partnership through to a successful conclusion. Conversely, collaborative relationships will almost certainly fail in cases where there is not an abundance of trust and relationship commitment.

Thus, CSD is, at once, both a venture to develop a new or modified service, as well as a medium- to longer-term marketing relationship between two collaborating firms - in this case, a service provider and a customer. Despite the increasing importance of collaboration in new industrial product/service development - for establishing lead users and for ensuring that new products meet customer requirements - it is a complex and risky process whose success depends not only on the key factors that impact new product/service performance, in general, but where the dynamic and often intense relationship between two independent firms must be effectively managed. Indeed, trust and commitment on the part of the collaborators become essential determinants of success in any CSD venture. As the collaboration develops over the CSD cycle, the relationship changes and, hence, the character of the trust and commitment also changes. This requires continual adjustment by the partners in order to ensure the success of the underlying new service project.

For service firms who take a proactive view of their CSD ventures - that is, firms who take primary responsibility for ensuring the successful development of the new service in this collaborative mode - the tools of "Relationship Marketing" can play an essential role in creating and maintaining an effective provider-client partnership.

A review of the literature on Relationship Marketing shows that, especially in services, a relationship advantage is extremely important for a supplier's continued success. Because services are intangible and involve simultaneous production and consumption, it is frequently the service experience, or the provider-client relationship, that the customer ends up using in assessing the performance of a given service. The existing RM literature is replete with research efforts that define RM and identify the importance of the various RM

conceptual constructs (e.g., trust, commitment, good communication, etc.). But, as Gummeson (1990) has argued, it is time to shift from defining and conceptualizing to identifying and describing the actual behaviours that make for excellent RM.

What has been missing up to now is a set of lessons, or normative rules of behaviour, that outline in practical terms the types of RM activities that should be employed during different RM situations. Because CSD involves a relationship between two firms where the nature of the relationship changes as it moves through the phases of the CSD cycle, it was the objective of this study to identify specific RM activities that are relevant for ensuring the success of each phase of the CSD process.

Specifically, the study addressed: what particular activities the service provider can/should employ during each phase of the CSD process to achieve the success factors that have been identified as critical in RM models (i.e., trust, relationship commitment, relationship benefits, shared values, communications, relationship termination costs, and opportunistic behaviour reduction). In this way, the study could fill an important gap in the existing RM literature by bringing the RM conceptual constructs to a normative operational level. Moreover, because CSD is a certain type of inter-firm relationship that is of increasing importance for both service providers and clients, the RM constructs and activities identified for this specific type of relationship (i.e., CSD) should help project managers improve their chances of creating an effective relationship and, as a result of this relationship, of CSD success.

To fill the gaps in the literature, an important objective of the study was to create a "best practices" list of RM activities within the context of CSD. On the basis of data

analyzed in depth from three different CSD scenarios, these practices should encompass the most effective and often-observed activities that service providers undertake when attempting to ensure a successful relationship with their clients during a CSD venture. The study confirmed the importance of several RM constructs that have already been noted in the RM literature and, in addition, identified a new RM construct which is unique to the CSD relationship.

Because the identification of activities leading to effective RM during a CSD project is a new area of research, an exploratory study was undertaken using a qualitative, case study approach. Data from three different CSD projects were analyzed. The analysis was based on two underlying conceptual models: (1) the model of collaborative NSD developed by de Brentani (1996), and (2) the Key Mediating Variable (KMV) model of relationship marketing as elaborated by Morgan *et al.* (1994). The RM "best practices" list identifies the appropriate actions that service providers should undertake during each stage of the CSD process in order to move the collaborative relationship and the new service under development to a successful conclusion.

XXIII.B. Summary of findings

Overall, the findings show that there is indeed a set of effective RM activities that, when used correctly by the service provider during the CSD process, leads to a better relationship with the client and, thus, directly and positively impacts the outcome of the new service project. Further, the findings indicate that the stage of the CSD relationship influences the specific type of RM activity undertaken by the service provider. For example, the concept of "trust building" means something quite different in terms of RM activities during the very early stages of the CSD relationship - here, trust is of a more personal nature between the project champions - than during the later post-agreement stages - when trust is not only personal among individuals involved in the actual development activities, but expands to the corporate level as well. In addition, the concept of risk - a previously unidentified RM model construct - was found to play an important role in the development of trust between partners who are engaged in a CSD relationship. This result makes sense for a number of reasons. First, NSD itself is risky due to the uncertainty and financial investment associated with any new product venture. Second, the intangible nature of services increases uncertainty for the client firm since the actual service that will eventually be provided is difficult to conceptualize. Finally, in a CSD project, there is typically a lack of prior experience working with the partner firm. The identification of risk as influencing RM in a CSD relationship is noteworthy since this construct had not previously been included in any of the RM models. This is most likely because current RM models, such as the KMV model,

contain RM constructs that were identified in studies involving companies that were involved in established, on-going, business relationships.

A summary of the Relationship Marketing "best practices" list and its relevance to the different stages of the CSD process is presented in Figure 7 (next page), followed by a recap of the findings, useful as lessons for managers (see the Discussion section for a full analysis of the findings).

Figure 8: RM best practices and when to implement them

Best Practice	Pre-Agreement phase	Establish Relationship phase	Project Workings phase
Conduct an analysis of why the particular client relationship is important	✓ up front, prior to approaching client		✓ On-going reviews, especially during difficult times
Continue to "maintain" the relationship even if it is currently negligible and regularly propose the new service idea to the client in the event that the business environment changes	✓		
Gain a "foot in the door" by obtaining an initial contract, however small	✓		
Recognize importance of client's project champion	✓ Identify early in the relationship	✓ Keep him/her happy	✓ Keep him/her happy
Establish and maintain excellent communication	✓ Focus: project champions, top management	✓ Focus: project champions, top management, contract negotiators	✓ Focus: project managers, team members, champions and top mgt.
Identify shared values between the partners	✓ Mission or goal-oriented; top mgt. level		✓ Project management styles
Identify client risks and seek ways to minimize them	✓ Project risks, changing suppliers	✓ Investment risks, service guarantees	✓ Joint testing
Actively build confidence and trust	✓ Reputation, demonstrate good fit, evidence of past service success	✓ Flexibility of offering, service guarantees, "open book"	✓ Keep promises, explain delays, involve client in key decisions
To reduce the chances for opportunistic behaviour, change circumstances that invite it, resist taking advantage of power shifts in the service firm's favour, and avoid overdependence on the client		✓	✓
Provide up-front commitment in terms of both time and resources and ensure that the client does the same		✓	
Increase relationship termination costs by obtaining financial commitments from the client and by acquiring an expert knowledge of the client's business and services provided		✓	✓
Ensure a certain continuity in project management and team members			✓

XXIII.B.1. Pre-Agreement phase

As mentioned previously, there can be many uncertainties surrounding a CSD relationship that might make the potential client wary of taking on the project. Such risks include the uncertainties associated with a change in service provider; the ability of the service provider to deliver the new service as promised; and the requirement by the client-partner to agree to the venture without any (or very little) tangible evidence of the new service to be developed. Thus, the service provider's main RM strategy during this early CSD phase is to alleviate the perceived risks to the client firm and to lay the groundwork for the development of trust and relationship commitment. The following RM activities can help to achieve these ends:

1. Conduct an internal analysis of why the client relationship and CSD venture is important to the service firm

Because the CSD venture normally involves a long-term partnership with the client firm, and because in all relationships there will be highs and lows, the service provider should articulate the strategic value of the CSD partnership and be convinced of its advantages. Indeed, a service provider convinced that a CSD relationship will result in a win-win situation for both parties will be more successful in convincing the client firm of the value of the CSD venture.

2. Persevere by proposing the CSD idea even to reticent clients, on the chance that the client's business environment or corporate policy/strategies change

Business climates and corporate strategies change, and it is not uncommon that a new service idea which a client refused in the past now merits further exploration. Continuing to propose the CSD idea to the client allows the service firm to not only

demonstrate its conviction about the CSD venture, but also to reinforce the merits of the proposed new service by modifying and refining each proposal to fit more closely the needs of the client.

3. Identify specific risks that the client might perceive and then find ways to alleviate them

The saying goes that the best offence is a good defence. Accordingly, the service firm can increase the likelihood of gaining client buy-in to a CSD venture by formulating strategies in advance which help to alleviate the risks faced by the client. The case studies indicated that the service firms used several techniques to alleviate perceived risk, such as: allowing the client firm to “test drive” a current version of the planned new service (in cases where the new service is an extension of an existing service), which reduced its intangibility; providing the client with “references” from current customers, thereby enhancing its reputation for service development and delivery; and proposing ways to make the new service “failure safe”, which addresses the issue that business services are often critical to the client firm’s continued operations.

4. Actively work at building confidence and trust between the firms

One of the main assets of the service firm is its reputation. Since in a CSD venture the client firm must buy into a potential new service prior to experiencing its outcome, the client is likely to put considerable emphasis on the service firm’s reputation as a proxy for expected service outcome. Thus, anything that the service firm can do to reinforce its good reputation will help establish the initial trust between the potential partners that is so critical to moving the CSD project forward. Service firms should focus on demonstrating the synergy between the new service and the capabilities of the firm, and assure clients that past customers are satisfied with its delivery. As shown in one of the case studies, a client firm is more likely to believe that a new computer system will be a success if the service firm has

experience in information systems, if it has developed this type of system before, and if customers currently using its services and are satisfied.

5. Gain a “foot in the door” by obtaining an initial contract with the client, however small

While reputation is important, there is nothing like demonstrating competence directly to a client firm. Especially for less well-known firms (e.g., a small service provider, or one that is new to a given industry), successfully completing an initial, often small, contract for the client can be a good way to demonstrate competence. In all three of the cases studied, a smaller previous service contract provided a window of opportunity to getting customer buy-in to the much larger CSD venture.

6. Identify the project champion on the client side and develop a rapport with him/her based on excellent (i.e., frequent and meaningful) communications

Usually, before the senior management on the client side will agree to examine the CSD venture, the idea must have the buy-in of a client project champion. The champion, generally a well-respected member of middle or upper management, is the person responsible for bringing the idea to the top and for ensuring that it receives a thorough review. It is this client champion that the service firm must identify very early in the CSD process. By working closely - for example by jointly developing the initial project proposal or identifying the key elements of the new service - the service provider can build the idea into something that will really interest the client firm. Indeed, because the client champion has access to vital information that can be used to fine tune the CSD proposal, there is greater potential that the service matches client needs and expectations and, thus, will be accepted by the firm.

7. Build links early with the client's senior management and identify similarities and complements (i.e., shared values) between the two firms

Once the client's senior management becomes involved, the service provider should work to form links with these individuals. Indeed, as vital as the project champion may be, it is usually top management that takes the final decision. Thus, regarding a CSD venture, the tasks facing the service firm in making these links are: getting its own senior management involved; and convincing the client that the two firms share certain values and have similar visions of the market, or are committed to superior quality. As well, it is important to demonstrate to the client's top management how the firms complement each other and how this can be exploited through a collaborative service development effort. In other words, making a convincing case that that the CSD venture will be win-win for both sides.

XXIII.B.2. Establish Relationship phase

Once the partners agree that a CSD venture makes sense, this relationship becomes solidified through the negotiation of an agreement that outlines the characteristics of the venture and each side's responsibilities. The RM activities that are key to this stage once again revolve around mitigating the level of risk. By propagating equity and balance between the partners (e.g., equity in the level of capital and/or human resources), the service provider can help to establish a relationship judged to be fair by the partners and to which they are likely to commit on a continuing basis.

1. Continue a strong relationship with the client project champion as well as excellent communications with senior management; extend communications to include the members of the client's negotiating team

During negotiation of the contract, excellent communications are the key to a successful relationship. The client champion continues to play a critical role during this phase - in the three case studies, the client champion took active part in contract negotiations - thus, frequent communication to further enhance trust between the players is critical for putting together a win-win contract. As well, the service provider must pursue building trust at the senior management level since it is ultimately at this level that the contract will be accepted or rejected. Meetings or phone calls at the highest level are good ways to keep everyone “in the loop” and informed to create a more personalized relationship, and to discuss “sticky” points (e.g., what is an “equitable” investment?) that can only be resolved at this level. Finally, the service provider should actively build communication links with the other members of the negotiating team (e.g., the Purchasing department or client lawyers). The case findings indicated that negotiations tend to be much smoother and less adversarial when the parties know each other and have developed a certain degree of personal trust.

2. Be prepared to make the first move regarding investments, but insist that the client commit as well; build in relationship termination costs through financial commitments; provide for flexibility in contract arrangements and consider using an “open book” method for pricing

The service provider is usually the driving force behind the CSD venture, and as such, must take the initiative on relationship commitments. Once the capital and resource needs have been identified, a rapid display of commitment by the service provider incites the client firm to also take the risk of committing to the project. Putting commitments in writing helps to create relationship termination costs for both sides. Indeed, investing in capital equipment and/or adapting business methods to the new service can act as powerful dissuasive measures to ending the

relationship and can help to ensure that the partnership will continue over the long term.

Defining in precise terms the appropriate investments and responsibilities of each party can be difficult for services. This is especially true when the new service is of a highly conceptual and complex nature. In such cases, the service provider must show a high degree of flexibility during contract negotiations and work toward an agreement that best fits the circumstances. The three case studies demonstrated that what is considered a fair or equitable dollar or manpower commitment can vary substantially. Commitments by the partners can differ both in level and in kind; that is, one partner has a higher financial commitment while the other commits primarily human resources. One way of demonstrating a commitment to equity is to use “open book” pricing, where each side exposes the costs and revenues of the project, and the partners use this information to set resource investment levels and new service pricing.

3. Service guarantees help clinch the contract

All three service providers studied offered written service guarantees to their client partners as part of the CSD agreement. Indeed, the more critical a role the new service played in the client’s business, the greater the demand for a written guarantee regarding service delivery. This makes sense since such guarantees help to alleviate the perceived risk regarding service failure. Thus, as much as possible, service providers should offer guarantees – quantifiable if possible – regarding delivery (e.g., service production date), the level of performance (e.g., the service will be available X% of the time), and the required retribution (e.g., monetary penalties) if the service provider fails to meet the targets.

XXIII.B.3. Project Workings phase

Once the CSD project is underway, partner interaction moves from primarily the higher management levels to the project level. RM strategies during this phase must focus on developing trust and an effective working relationship between project managers and team members in order to bring the CSD project to fruition. Some of the RM activities involved in this phase are as follows:

1. Keep the client champion and senior managers involved and informed about the project's progress

Although during this phase most efforts at ensuring excellent communication is at the project level, it is essential to also maintain the continued involvement of higher management levels since it is they who ensure that the project continues to receive the attention and resources needed for successful completion. Issues such as unanticipated expenses or changes in corporate policies, which are not resolvable at the project manager level, can be escalated for decision when senior management remains "in the loop". Moreover, keeping everyone informed about project progress, both its ups and downs, helps to set client expectations about the exact features of the new service and to reduce anxiety felt on the part of the client if a deadline is missed by explaining why.

2. Harmonize project management styles to minimize conflict; and ensure continuity of project managers and team members

In two of the three cases studied, the partners experienced trust and communications problems during the Project Workings partly because the firms used different styles of project management. Trust was only reestablished once the service provider took the initiative to analyze the situation and to adjust its style in line with what the client

expected. A discussion between the project managers on how the project should be run (i.e., use of dedicated teams, frequency of status meetings, responsibilities for decision making, etc.) should, therefore, be part of every CSD venture and should take place early in the Project Workings phase.

Further, the cases indicated that the trust built over time between project managers and team members can be quickly broken when there is excessive turnover in the project personnel. Thus, reinforcing the level of personal trust that has been built should be a main objective of the service firm. This can be done by ensuring continuity in the project team from the design phase right through to implementation.

3. Build and maintain trust by keeping promises, explaining delays, and involving clients in decision-making

The case studies showed that client partners clearly appreciated openness and honesty on the part of the service providers. For example, client firms were much happier when service providers made and kept a series of smaller promises (e.g., solving technical problems, meeting due dates, etc.) than to make grandiose commitments that they could not possibly meet. As well, clients were less likely to lose trust in the service firm when it failed to deliver in circumstances where the reasons for failure were honestly communicated.

The service firms were further able to build trust by involving the clients in project decisions, even when these were the exclusive domain of the service firm. Indeed, involving clients at the appropriate level helps to promote more “ownership” of the project. As a result, even project setbacks become a joint concern, instead of just the responsibility of the service provider.

4. Perform joint testing with the client to ensure customer fit and to demonstrate production readiness

There is always some level of anxiety – by both clients and service provider - prior to the new service implementation. This is, of course, because most services cannot be thoroughly inspected beforehand. The risk of service failure, as well as the client's level of dissonance, can be substantially diminished by performing joint evaluation and testing of the new service. For example, various delivery scenarios can be tested, and modifications made to ensure satisfactory performance, prior to putting the service in production.

5. Be on the lookout for opportunistic behaviour and minimize circumstances that permit it

Over time, the balance of power in the relationship between service provider and client is likely to change. Too much power in the hands of any partner can lead to a real or perceived coercive relationship. Typically, early in the CSD relationship – particularly when the nature of the planned service allows for substantial customizations – the client tends to hold more power. Later on, as the specifications of the new service become more established and as the client becomes more dependent on the successful implementation of the service, the balance of power tends to shift to the service provider. This was clearly the case in all three CSD relationships studied. Whenever opportunistic behaviour occurred, it tended to be situational, such that once the partners changed the circumstances, the problem was eliminated. Permitting a reopening of the CSD contract, if one partner believed that the relationship had become a win-lose situation, was a common method of dealing with the possibility of situational opportunistic behaviour.

In terms of Relationship Marketing activities, service firms should work actively at avoiding inequity and at quickly reestablishing equity if *either* partner is advantaged.

Indeed, a client sensing that the service firm is exploiting an opportunity is likely to lose trust in the relationship. This could lead to reduced communication, less effort to collaborate, or even dissolution of the partnership. All three outcomes would have a cost – the cost associated with a less well-functioning service; the opportunity cost associated with the loss of a long-term service relationship; and also the cost of terminating the CSD relationship.

6. Become an “expert” in the client’s business

In services, relationship termination costs are not just monetary. A service provider who provides an excellent service and who is familiar with the client partner’s business and needs is in a strategically advantageous situation. Indeed, the better the service firm understands a particular client and its service needs, the harder and more costly it becomes for the client firm to change service providers. (A new service provider would have to learn about the client from scratch and the client firm would have to adjust its operations and communications to accommodate the new service provider, as well as deal with the uncertainty of the new service provider’s abilities). Therefore, service firm should actively seek to internalize and become an expert in both the client’s service needs and its operations (e.g., understand its hierarchy, its managers, how decisions are taken, and the client’s long-term needs). In this way, it will make itself invaluable and continue to stand out from other would-be competitors.

XXIII.C. Generalizability of findings

To a certain extent, the findings in this study are generalizable. Clearly, due to the small sample size (three cases; see Limitations below), we cannot conclude that the results of this exploratory study apply to the entire population of CSD projects. Nevertheless, the three cases did involve different but typical types of new services (i.e., large equipment-based services, high-tech outsourcing, “pure” professional service) and covered a certain range of partner firms (e.g., small and large firms, mature and emerging markets, different industries, etc.). Thus, the three case studies proved to be sufficient for drawing some preliminary conclusions about effective RM practices in CSD relationships. Indeed, because the RM activities found in all three cases conformed to the KMV model of relationship marketing, the creation of a “Best Practices” list was possible. Moreover, given the similarities found in these three cases, as compared with the author’s almost 10 years of professional experience in service organizations, the findings appear to be highly relevant for CSD relationships in general and appear to offer some useful foundations for further research.

XXIII.D. Contributions of this research

This research offers significant contributions to the area of Relationship Marketing. In particular, the research extends previous research on inter-firm collaboration and RM constructs to account for the differences in RM activities in CSD, and transforms the existing body of theoretical research into practical terms with strong managerial implications. In this

sense, the research appears both relevant and timely for academics and practitioners. Specifically, the contributions are outlined below:

1. The research extends current inter-firm collaboration theory by identifying how the advantages, difficulties and success factors typically associated with collaborative new product development, in general, may differ for CSD, given services' distinguishing characteristics and the impact of these on CSD.
2. The KMV model of relationship marketing, when applied to a CSD relationship, now includes a new antecedent construct - risk reduction - which is considered to positively affect the development of trust between the partners. Risk was not previously identified as an important construct that needed to be managed by service providers presumably because the KMV model was based the issue of maintaining already well-established relationships. In KMV, partners are familiar with each other and interaction between them is relatively routine; thus, the need for risk reduction is minimal. As shown in the three case studies, partners in a CSD venture must usually build a relationship from scratch. Moreover, the risk inherent in all new product ventures as well as the client's lack of experience with the new service and with the service provider makes risk a key ingredient in the CSD-RM model.

3. A "best practices" list of RM activities that are relevant to the different CSD stages was created. This list substantially extends the current body of RM literature because it is one of the first which applies RM theory to real-world situations. It provides practical advice to managers not only on how to implement RM concepts in a certain type of relationship (i.e., CSD), but how to adjust their RM behaviour according to the dynamics of the interaction process. The managerial implications of this "best practices" list are important. This study, when combined with future applied research, will serve as a guide to managers of service firms who are searching for ways to enhance new service success, build customer loyalty, and differentiate the service firm and its offerings from competitors.

XXII.E. Limitations and recommendations for future research

An important limitation in this current research is its small sample size. The foregoing research is clearly of an in-depth, exploratory and qualitative nature, necessitating a reduced sample size, given the sheer volume of data that must be collected and analyzed (interview notes, corporate annual reports, newspaper articles and press releases describing the new service, etc.). Thus, definitive and generalizable conclusions about effective RM activities throughout the CSD process cannot be made at this time as this requires a much more extensive study that encompasses a larger number of CSD ventures and that spans a much broader set of industries, firms, and new service projects.

Future research could, therefore, be undertaken in two stages. First, additional qualitative case studies, involving a broader variety of CSD scenarios, can be carried out in order to continue to identify RM activities that are relevant to CSD projects and partnerships. Second, a broad empirical study, involving a representative sample of CSD projects and permitting statistically reliable analyses, can be carried out for confirmatory and hypothesis-testing purposes. Considering the rather limited scope of the current study, it seems logical that additional case studies would be extremely useful for the purpose of confirming and/or extending the RM “best practices” list created in this study. Indeed, adding several more cases that involve companies in different industries and in different types of new services would provide much needed breadth to the current findings. Repetition of the current methodology would also add to the reliability of the findings in this study. As well, if the analysis of additional cases leads to a similar Best Practices list, researchers would have a solid base of information from which to form hypotheses for broader testing. Phase 2 could include this broader-based testing with, for example, the development of a “RM activities” questionnaire that includes the best practices identified in the exploratory studies. Confirmation of these activities on a larger scale would allow researchers to move beyond the “motherhood statements” surrounding RM and put forth a definitive plan for actually implementing an effective RM program of actions.

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