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Relationship Marketing in Central Europe
a Case Study of Volvo Truck Czech

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Abstract

Increased competition around the world has forced companies to search for new ways to compete. Relationships are among the most valuable assets a company can have and can create competitive advantages for a company. Relationship marketing promotes building close relationships with customers and other players in the network. Fundamental relationship ingredients are trust and commitment, but other variables such as mutual goal orientation and mutual value sharing are also important for the success of the relationship and the strategy.

However, relationships and their substances are not the same in markets around the world. In the former centrally planned economies there is little trust and commitment among people. Instead other ingredients are valued and form the fundamentals that the relationship is built upon. The relationship development process also looks different and consists of different variables.

In this thesis Volvo Truck Czech is used as a case company in order to study how a western company active in a central European market should build relationships with its customers when entering the market as a second mover. The case company and the problem fits well together as the company is active in an industry where the value added features are important.

Keywords: relationship marketing, relationship ingredients, relationship development process, competitive advantage, second mover

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1. POINT OF DEPARTURE

In this chapter I will first present the reasons for choosing the topic. Then a general introduction to the truck industry world-wide will be presented. That will be followed by an introduction to the case company. Finally the research problem, purpose and its limitations will be presented followed by an outline of the thesis.

1.1 Areas of interest

When deciding on the topic of my master thesis the most important ingredient for me was to write about a subject I truly enjoyed, found challenging and was interested in. The concept of relationship marketing was becoming popular, and I like the idea of bringing in a more social perspective into business. Sociology and psychology have always been two of my favorite subjects in school. This has also made me very interested in strategy and strategic planning. Strategy and its implications are subjects highly related to psychology. Later when I got older and moved abroad I realized that the sociology continued to fascinate me as I met people from all over the world with vast differences in backgrounds. I had to learn to live in other cultures and adapt my behavior to better fit with “my new culture”. The foreign experience also made me more aware of my own background and how it had shaped me. Six years ago I came in contact with Czech culture for the first time. I visited the country in 1995 and since then I have been back every year and since a year and a half, I am also living in the Czech Republic. The changes that have taken place in the country not only in infrastructure, but also in people’s minds since 1995 are incredible. These three areas of interest, relationship marketing, strategy and central European cultures, form the foundation which my thesis is built on.

1.2 Combining the areas of interest

One of the aspects of strategy is the concept of first mover advantage. A company can attain a first mover advantage when entering a market before any

competitors, by doing so the company can establish itself on the market and build resources and capabilities needed in order to be successful. Relationships is one of the most valuable assets a company can have and by moving into a market early, a company can establish relationships with customers, distributors and suppliers and by doing so close out competitors from the market (Ford, 1998).

This leads us into the concepts of relationship marketing (RM). The marketing mix was dominated the marketing scene for a long time. However, already in the early 1980s researchers started to discuss the value of long-term customer relationships. The new approach to marketing is called relationship marketing and emphasizes the creation, maintenance, and enhancement of customer relationships in order to build long term relationships (Lehtinen, 1996). As Gummesson (1995) states “it is hard for me to understand that relationships, networks, and interaction have got so little attention in the general marketing literature. In practice they have always been important for both big and small companies. They are central for consumers. We are surrounded by relationships in everything we do: relatives, family, engagement, marriage, divorces, fidelity (P. 20)”. In addition, the importance of creating relationships is not a new concept, but to use the relationships as a strategic weapon is (Wilson & Jantrania, 1996). Industrial marketing was the first theory to break off from the 4P’s, it later resulted in the network theories, qualitative and organizational theories. Bits and pieces of each one of these theories forms RM (Gummesson, 1995).

Each relationship that a company has is affected by the various relationships that company has (Ford, 1998). If a customer already has a relationship with a competitor it is harder to create a competitive relationship with that customer. For a second mover this can create problems in terms of competitive disadvantages. In central European (CE) markets it is even more crucial to move fast as there are a limited number of buyers. The local producers are often of lower quality and compete in a different segment than the multinational firms. For a foreign company it means that it has to act fast since

it will most likely compete with other multinational firms in the same segments. A late entry may result in difficulties to establish relationships. In most of the former centrally planned economies relationships are still a very important part of doing business. Those are traces from the totalitarian system when relationships and connections were the only ways for a company to be able to do any kind of business (Jansson, 1999).

However, relationships in central and eastern European markets often look different compared to the ones that western managers are used to. Trust and commitment in relationships in the former communist states is limited and instead old production values dominate as the most valuable ingredients in relationships. There is still a heavy focus on price and short term investments in these markets. For a western company it is a new and unknown situation, which they have to be able to understand and handle delicately (Lehtinen, 1996).

The above arguments are the point of departure for my thesis.

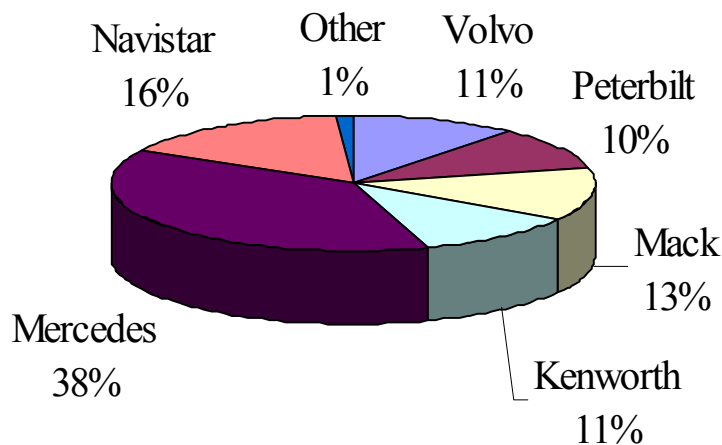
1.3 Introduction to the truck industry world wide

1.3.1 Globalization

So far, not much globalization has taken place in the truck industry. This is due to differences in standards and regulations, but also has to do with logistical problems (with shipping big trucks). Truck buyers are also concerned with customization in a different way than a car buyer. A truck driver is going to spend lots of time in the truck and it is therefore much more important that the truck is customized to the customers needs (Knoph, 2000). Differences in road conditions and haulage lengths are other factors contributing to the heterogeneity of the trucking industry. Another factor that has slowed down globalization is the diversity of regulation that exists in different countries regarding trucks. For example the length of the truck, in Europe it is the whole truck that counts, while in the US the cab is not included. This has led the European manufacturers to produce trucks that are cabovers and they are more restricted in terms of space inside the cab. In the US however, there are no such restrictions so that cab can be made larger (Commerzbank Securities, 2000).

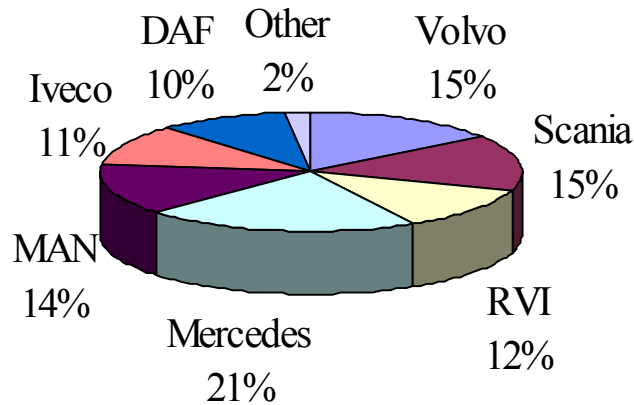
However, there are recent trends towards globalization in the truck industry. This is partly due to increasing costs in engine development. Therefore, more companies are trying to establish global strategies; form alliances or merge with a competitor. The market is also offering opportunities for standardization as regulations, consumer taste and basic economics are becoming more homogenized. Recently Volvo acquired Renault, this was done after a failed merger between Scania and Volvo. Instead VW bought a large stake in Scania. MAN, Iveco, and DAF are also looking into possibilities of mergers or acquisitions. In addition to acquisitions and mergers the larger companies are also building integrated global production networks. So far, Volvo is leading the globalization race, but Daimler/Chrysler (Mercedes) is following closely behind. The pattern of globalization in the trucking industry is expected to follow a similar path to the one of auto industry (Commerzbank Securities, 2000).

Fig. 1.1 US market shares



Source: Commerzbank Securities, 2000

Fig. 1.2 European market shares



Source: Commerzbank Securities, 2000

1.3.2 Growing markets

The future markets for trucks are the emerging markets. The Western markets are becoming saturated and the companies that can capture market share in the emerging markets will have the greatest potential for growth in the future. The South American and Japanese markets provide the biggest opportunities for growth. But the Chinese and Indian markets are also interesting to observe and could become of vital importance for the producers in the future (Commerzbank Securities, 2000).

1.4 The Case Company- Volvo Truck Czech, s.r.o

1.4.1 Introduction to Volvo Truck Corporation

Volvo Truck Corporation (VTC) is the fifth largest producer of trucks in the North America and the second largest producer in Europe. VTC produces high-quality/high-priced trucks and pursues a global diversification strategy. Competition in the trucking industry is intensifying and the companies must penetrate new markets to remain competitive. Central and eastern Europe is a key area for market expansion for VTC. Although VTC has sold trucks in the

eastern European countries for many years, the collapse of communism allowed it to take a more active role in certain markets. The Czech Republic was one of the markets that VTC wanted to focus on. VTC has been selling its trucks in Czech for approximately thirty years and was then exclusively dealing with the government, as it was the only real customer in the centrally planned economy.

1.4.2 Introduction to Volvo Truck Czech

In the beginning of the 90s, VTC moved in to the Czech market selling its trucks directly to companies and private people through a German distributor, Pema. Other companies such as Scania used its own dealers already from the beginning. In 1996, VTC decided that they wanted to establish its own dealer, and they wanted to terminate the cooperation with Pema. Pema, however, did not want to end the agreement and there was a big dispute that went on for about two years. Finally in 1998, Volvo bought land and established its operations in Pruhonice just outside Prague. In Prague today there is a headquarters for Volvo Truck Czech (VTCz), an area dealer and a service station. All the operations in Prague are distinct from each other even though they are located in the same building. During 1998, the company also started to establish its sales offices throughout the country.

VTCz has the function of a regional dealer and should not be seen as an importer. VTC does not have many of these “country dealers” as production is often located in the markets. However, VTCz does not have any production and therefore gets all the trucks and service parts from Volvo Truck in Göteborg. Therefore, VTCz should be seen as a regional dealer for the area of Czech Republic.

1.5 Research Problem

1.5.1 Practical Problem

Due to VTC’s late entry into the Czech market there was an urgent need for rapid expansion. This has also been the number one priority for VTCz since the establishment in 1998. So far, the "by the moment" strategy has been fortunate and the company has been very successful in the Czech market and VTCz is

today one of the market leaders. However, management feels that there is a need to evaluate the marketing strategy and establish a strategy that is deliberately planned and intended.

The first problem that VTCz faces is that in general Czech people have little knowledge of marketing as this was not necessary during the centrally planned economy. Therefore, Mr. Knoph himself has been in charge of all the ideas about the marketing, and the strategy evolves around the 4p's marketing. Instead of using the 4p's as the main strategy Volvo should try to build a strategy based upon relationships and then the 4p's becomes a part of the relationships. Secondly, VTCz was relatively late into the market. Now the company faces problems that competitors may already have established contacts and relationships with key customers in the market. VTCz is relatively happy with the 16% market share they hold today and would not like to capture more market share, but want to get more out of each customer and get a better relationship with each customer.

1.5.2 Research Problem

The above reasoning led me to the following research problem.

Main problem

How can an MNC, entering a CE market (in the truck segment) as a second mover, build close relationships with its customers?

In this case close relationships are defined as relationships that are long lasting, able to sustain competitive forces and that bring mutual value and benefits to the involved parties. The CE market is defined as Central European market and in this case the CE market is represented by the Czech Republic.

1.6 Sub problems

The main problem can be divided into sub problems. This is done in order to make the research process more practical and not as overwhelming. In addition, they also form the basis for the data collection.

1.6.1 Sub problem 1

How are relationships built to satisfy customers demands in the Czech truck market?

1.6.2 Sub problem 2

How will competitors' already established customer relationships affect the establishment of relationships by a second mover?

1.6.3 Sub problem 3

What resources and capabilities are required to establish competitive relationships?

1.7 Purpose

The aim of the thesis is to identify the critical factors and steps of how a Western enterprise, active in a CE market within the truck segment, can build competitive relationships with its customers when entering the market relatively late compared to its major competitors.

1.8 Scope and Limitations

- The focus will be on the Czech truck industry.
- Czech Republic will be used as an example of a central European market.
- The enterprise will be represented by Volvo Truck Czech.

- The focus will be on the customers.
- When talking about competitors, customers etc, the focus is on the heavy truck segment. Volvo Truck Czech is competing with different companies in different segments. However, for the purpose of this study I have decided to focus on the heavy truck segment as it consists of Volvo's main products.

1.9 Outline of thesis

Front page

Abstract

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Appendix 1 Interview Guide

2. THEORETICAL FRAMEWORK

In this chapter I will present the theories which will later be used in order to analyze Volvo Truck Czech's situation and how it should build up its relationships. First I will introduce the concept of relationship marketing in order to create a general understanding of what this new concept is about. Then I will go into the different theories from which I will later use bits and pieces in order to create a model that I will use as the foundation for my analysis.

2.1 Relationship Marketing

2.1.1 Overview

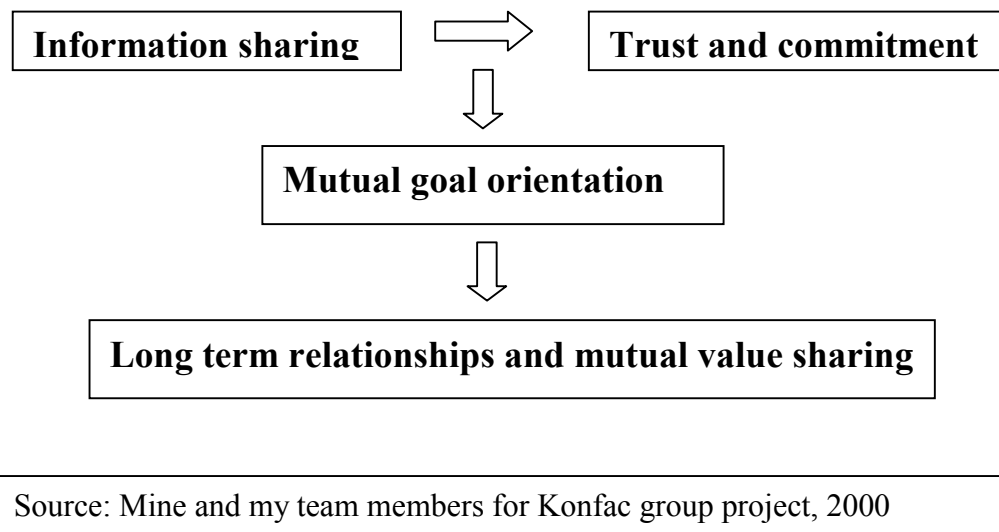
Marketing expenses are rising and reach new record highs every year. For companies marketing has become a burden. The last couple of years there has been a trend towards more cost efficient marketing solutions. These new solutions not only cut marketing costs, but also build value for both the customer and the company. Relationship marketing is about targeting customers with the best long-term value. It is also about creating mutually beneficial relationships where both parties are gaining knowledge and understanding from the relationship and where the characteristics are continuous learning and improvements. As has been known for a long time, customer retention is less expensive than acquisition of new customers. Moreover, if a company can add value to the relationship then there will be less focus on price from the customer's side. Loyal customers are also likely to increase their consumption and therefore total profits will rise (Blomkvist, 2000).

Relationships are the very essence of business. As Ford (1998) states "No customers, no business- no business, no job! (p.151)". Business is a series of interactions between parties. In industrial markets, marketing is not as simple as selling as much as possible to as many as possible. Instead in industrial marketing, management has to allocate resources between the different relationships in order to make sure that each relationship is tended to. The

existing customers should be maintained, new ones could be added and unprofitable ones should be dismissed. The company needs to assess its customer portfolio in order to understand what customers are contributing what and what they will contribute in the future. It will be easier for the company to see which relationships are valuable and which are unprofitable (Ford, 1998). For most companies it is true that around 30% of the customers stand for 160% of the profit. This means that not only are some customers unprofitable, but they even cost the company money! A company would like to pass on these costly customers to a competitor and by doing so gain a competitive advantage. Not only will profits rise for the company, but they will also go down for the competitors (Blomkvist, 2000). Firing a customer is a radical action in the business world; usually companies are always trying to attract more customers. However, if a customer costs the company money while not generating any profit and uses resources that can be spent on a profitable customer, then the unprofitable customer should be fired (Ford, 1998). Dismissing or firing customers needs to be done in a nice way though, otherwise the company can attain a bad reputation.

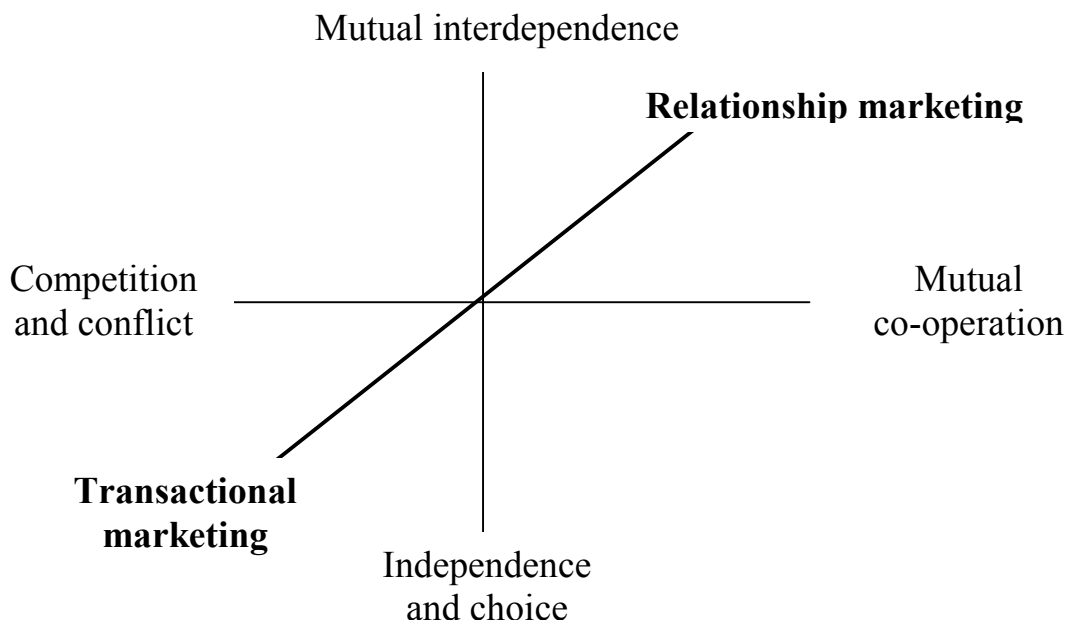
Relationships can be of different nature. Some relations are short lived while others are long term, some are very satisfactory others are unsatisfactory. For a relationship to develop it has to go through different stages. But not all relationships move according to a predetermined pattern, some fail after the initial contact and become short-lived; others are long termed and move into the different stages over and over. Relationships do not develop according to some linear scheme, instead they are very dynamic and require flexibility from the involved parties. Two of the most important ingredients in relationships are trust and commitment. However, other variables such as information sharing and mutual goal orientation are also needed in order to create long term mutual value sharing relationships (Ford, 1998).

Fig. 2.1 Important variables for building mutually beneficial relationships



Creating close relationships can provide the company with many advantages; however, there are also drawbacks of creating relationships that a company needs to be aware of. First and foremost it limits the flexibility of the company; it has to consider the partner in the decision making process. Since the relationship ties up resources, which are not abundant, it will be more difficult for a company to establish relationships with new partners. Establishing more facilitative and integrative relationships also means that resources and capabilities can be shared between the partners so that each party can focus on their core processes. This can result in partners being dependent on each other's resources and capabilities in order to function. If one of the parties pulls out of the relationship it can hurt the other company. In the end this dependency can affect the overall competitiveness of a company. On the positive side the sharing of resources and capabilities can enhance overall effectiveness as production, distribution etc can be cut down and the parties involved in the relationship may get access to resources and capabilities that they do not possess on their own (Ford, 1998).

Fig. 2.2 Positioning of relationship marketing



Source: Seth and Parvatiyar, 1995

2.1.2 Value of relationships

Depending on the value of the products that a company supplies to its customers, the relationship is more or less important for the customer. The higher the value of the product, the more important the relationship. The quantity also affects the importance of the relationship; the more the customer buys, the more important the relationship. In addition, the content of the offering is also important in determining how valuable the relationship is for the customer. For complex products, such as products sold in industrial markets, the marketing mix is not an adequate description of what the supplier offers to its customers. Instead, variables have to be added in order to increase the value of the product, such a variable is technology. For example different logistics technologies can make the distribution superior to another supplier, or new process technology can enhance and make the processes superior. The higher the value of the relationship, the more flexible pricing becomes. This is due to the fact that the parties involved are more interested in the value provided, so the focus shifts from being price oriented to value oriented (Ford,

1998). In these flexible relationships promotion is to a certain extent replaced by personal selling, which is the best way to build relationships (however, promotion is still needed in order to promote the brand, new offerings etc).

2.1.3 Individual relationships

It is important to note that a company active in industrial markets is dealing with its customers on an individual basis and each relationship has some distinct characteristics. The personal interaction enables both the supplier and customer to reduce uncertainty, and adaptations in products, financial solutions, service etc can be made. Personal interaction also enables the interacting parties to build trust and confidential information can be exchanged and it is easier to build social relations. The interaction can lead to a very deep relationship between the salesman and the customer. This bond is very strong. However, such a strong bond could also potentially harm the company as customers may identify more with the salesperson than with the company as a whole. As a result the customer may follow the sales people if he/she switches company. In addition, some people may try to get involved in a relationship in order to enhance its own ego (Ford, 1998).

2.2 Relationship marketing in central European countries

This section is built upon theories regarding the former centrally planned economies. However, one should keep in mind that not all theories may hold true for Czech Republic. The length of time that a country has been ruled by communism affects the way people interact and how business is conducted. The history also plays a part in a country's culture. Czech Republic was for a long time a leading industrial nation and Prague was the cultural center of Europe. All those variables make the Czech culture unique and different from other cultures. However, as no theories have been written about Czech Republic in the area of relationship marketing, I will have to make generalizations from the existing theories and apply those theories to the central European markets.

2.2.1 Background

Relationship marketing has been heavily practiced in the former centrally planned economies. It was necessary for a company to establish relationships with various authorities to be able to get a contract. Since most of the relationships were with various trade organizations, commercial representatives, and government officials, it could be called institutional relationship marketing (Lehtinen, 1996).

2.2.2 Marketing predictions

History has formed the way business is carried out in the former centrally planned economies. Trust, commitment and co-operation are perceived to be less important in relationships than more traditional production measures. For westerners this may seem odd, but considering the history of these economies it is not surprising. The business legislation or ownership structure that can be found in western companies has never existed and there were no comprehensive or consistent rules for business to follow. Instead the rules and laws were contradictory and gifts, bribes and price fixing were common and accepted. Furthermore, manipulation of data and non-adherence to laws and regulations was not considered to be unethical. One can see how those are unfavorable conditions for building trust and commitment. In addition, competition did exist during the communist era but took place between firms and authorities instead of among firms. The negotiations did not focus on price and quality, but on plans, goals and resource allocation. The goals of firms were to reach production measures, this in turn led to an inward focus and resulted in a lack of external business relationships. There were in general few incentives for firms to cooperate to reach a mutual advantage, which is one of the main ingredients in building trust and commitment (Johansson, Kushch, & Silver, 2000).

The former centrally planned economies have changed and because of the changes marketing is also changing and is likely to become more “normalized”. This means that marketing will become more like the western type of marketing. As a result various marketing efforts will gain importance, and personal selling will be emphasized. Advertising and PR will become more

effective. In addition, value-adding services such as financing, training and maintenance will become more significant. Even if marketing becomes more “normalized”, relationships will still play a significant role in marketing. Personal relationships and the endurance of those relationships have been and are important in those markets in the past and it can be suspected that relationships continue to be important (Lehtinen, 1996).

The former centrally planned economies are still turbulent and customers often lack solvency and reliability. Due to these difficulties, financing is the most important factor affecting the competitive ability of companies. The financing can build bridges between parties and work as a foundation upon which the personal relationships are later built. It can also be advantageous for a company to attain information about customers in order to find the solvent and regularly buying partners and create relationships with them (Lehtinen, 1996).

2.2.3 Creating relationship marketing

The best way to establish relationships in the former centrally planned economies is through personal contacts. These contacts can sometimes be from various institutions, such as foreign trade organizations and ministries. Even though the significance of these institutions has almost diminished, the former employees of such institutions are today working for private companies and may even have their own companies. Trade fairs and exhibitions, which were very popular during the communist era, have become less important for the establishment of relationships mainly due to lack of resources (Lehtinen, 1996).

Later when the first contacts have been made and the parties are trying to enhance the long term relationship, continuous communication with customers and various after sales services become important. This is especially true for industrial products and today in industrial markets there is an increasing need for expanding maintenance and spare parts service, but also various forms of training. Another significant change in the former centrally planned economies is that today a company needs to establish relationships with many customers, as compared to before when a company was only dealing with one customer (foreign trade organization). Other changes involve the increase in size of sales

force in order to establish direct contacts with individual customers and handle each account properly, and the use of intermediaries (Lehtinen, 1996).

2.2.4 Trust and commitment

Basic ingredients of relationship marketing are trust and commitment. Trust is crucial to relationships as it provides for a long-term perspective. It helps firms resist short-term offers and focus on the long term. When companies engage in a relationship, they become dependent upon each other's resources, knowledge, and the business that the relationship provides. This causes anxiety and uncertainty for the firms and this anxiety has to be managed. Trust has the power to overcome the uncertainty and anxiety and provides a base for deepening the relationship. How people perceive trust is often shaped by the experienced a person has. It can be experience from other similar relationships, but it may as well be a matter of general experience (Johansson, Kushch, & Silver, 2000).

Commitment is the ability to maintain a relationship and it consists of three different components; sacrifice of some value, willingness to act in certain ways, and efforts to secure consistency and continuity in the relationship. Commitment is important as it saves the company time and effort in looking for new partners. In addition to trust, commitment is the second most valuable component in a relationship (Johansson, Kushch, & Silver, 2000).

2.2.5 Important variables

When building relationships in the former centrally planned economies companies have to keep in mind to build relationships with individuals and not with organizations, as it used to be before. It is also important to remember that employees of those organizations have little experience in trade traditions and western business behavior. Other important variables are the increased significance of payment and credit terms, and service. Additional variables that affect marketing are (Lehtinen, 1996):

- Utilization of personal relationships
- Building, extending, and maintaining long term relationships
- Creation of new co-operation and distribution networks

- Better mobility of sales staff in the markets
- Ability to deal with bureaucracy
- Creating financing methods
- Reducing prices through local production etc
- Improving speed and flexibility of deliveries

2.3 First mover advantage and competitive advantage

First mover advantage can be defined as when “the initial occupant of a strategic position or niche gains access to resources and capabilities that a follower cannot match”. The most common and distinct form of first mover advantage is when a company attains a patent or copyright on a product. This strictly limits the opportunities for competitors to copy the products. However, a company can also attain a first mover advantage by acquiring resources and capabilities in a new market before any competitors do (Grant, 1998). When the resources are scarce, such a first mover advantage is a problem for second movers. It should be noted that in the CE countries financial resources are limited and this puts a strain on companies moving in as second, third or even fourth movers. The chances for those companies to establish relationships with customers become very limited (Jansson, 1999). In addition, first movers can set the standard in the market and build cost advantages over followers. Lastly and most importantly, a first mover is able to establish relationships with customers, suppliers, and distributors before any other player does (Grant, 1998).

Jansson (1999) further penetrates deeper down into the importance of getting a first mover advantage in building the network (customer, suppliers, distributors etc.). The first mover can early on build trust and commitment with customers. These customers are not likely to go to another supplier and form new relationships. The first mover advantages can be attained either through information linkage or social linkage. In the case of an information linkage, the customer becomes dependent upon information that the supplier gives to the customer. In the social linkage the customer instead becomes dependent upon

people and relationships in the suppliers organization. However, the customer could also become dependent upon products or financial solutions that the supplier can provide.

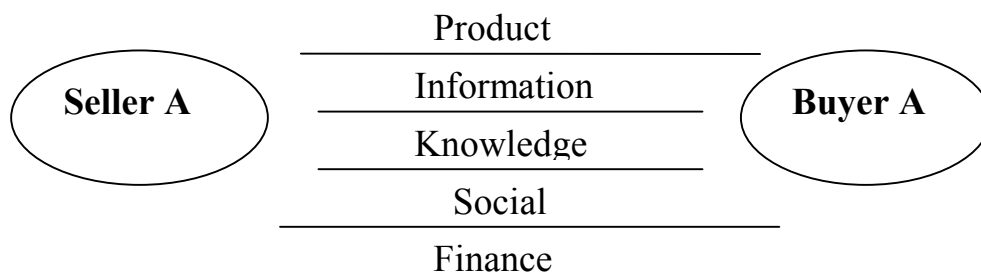
Just as a company can attain a first mover advantage there could also be a first mover disadvantage. It is not always good to lead into a new market or into new products. Sometimes it is more useful for a company to watch and learn and then be able to move in with a better product or avoid fatal mistakes in entry strategies etc. It is usually very costly to be a first mover company. Investments sometimes have to be made into sectors such as technology and distribution, in those sectors investments costs a lot of money. For a second mover it means that less of an initial investment has to be made (Grant, 1998).

2.4 Network strategies¹

The network strategy consists of the web strategy, the linkage strategy and the competitive strategy. For the purpose of this thesis the web strategy is not relevant and will therefore be left out. The linkage strategy focuses on the relationships the MNC has with customers and distributors. The competitive strategy focuses on the networks involving competitors. It concerns what position the company has in a competitor’s network.

2.4.1 Linkage strategy

Fig. 2.3 The linkage strategy



Source: Jansson (1999), fig. 5.6

¹ Whole section is from Jansson, 1999

The linkage strategy not only concerns how to establish relationships with customers, but also how to interact with them. The objective of the linkage strategy is to build mutually beneficial relationships with customers, dealers and distributors. The linkage strategy establishes a bond between the interacting parties. Once the linkages are established, low substitution and long term commitment characterizes them. During the relationship development process both parties commit resources to the relationship through the linkages. Linkages can have the power of closing out competition, as they tie in both the parties resources and makes the parties dependent upon the relationship.

2.4.2 The competitive strategy

The competitive strategy concerns horizontal competition. The offer a company makes to its customers is a package of tangible and intangible features. The package is sold to the customers by the means of marketing. This is mainly done through the linkage and web strategies. The selling information is transferred personally and at the same time there is social influence created through the web strategy. Third parties such as trade organizations may sometimes be involved in the marketing process.

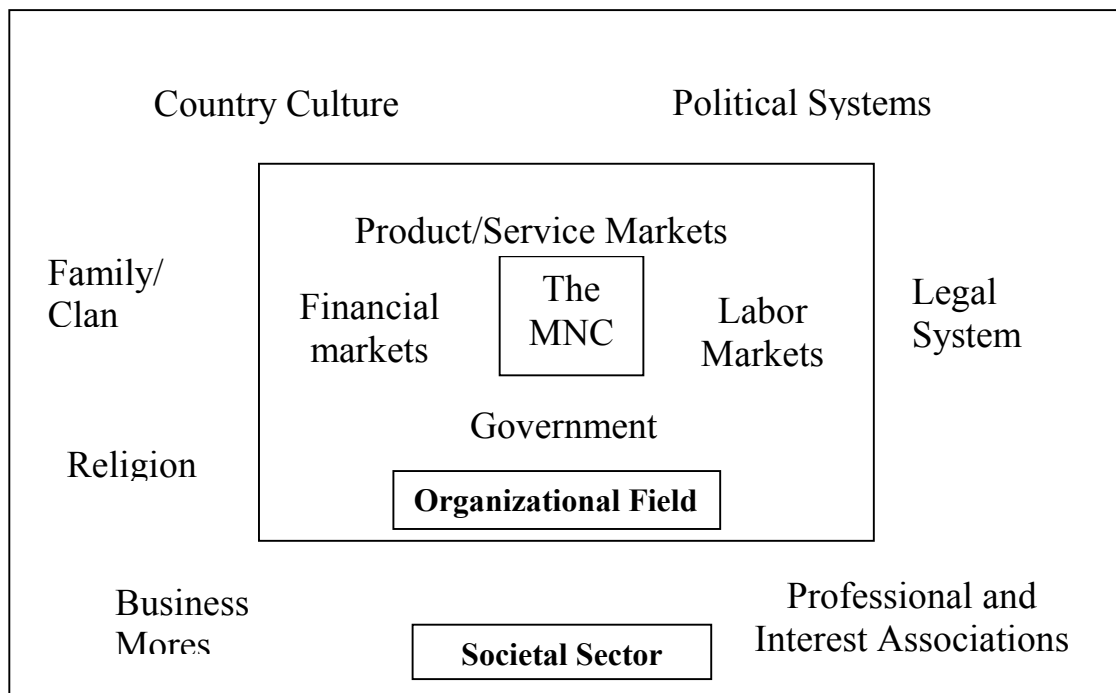
How the company competes is what the competitive strategy is all about. Price is one of the most important variables in a competitive strategy. In certain market structures price is often used as the main strategic weapon. In other structures, such as industrial markets, price is not as important even though it is still significant. Price is evaluated by the customers on the basis of quality, service, and delivery.

2.5 The institutional network theory

Before I get any further into the theoretical framework I would like to explain the concept of the institutional network theory developed by Jansson (1999). The theory builds upon the fact that a company is not active in vacuum. Other actors constantly influence the company; these actors form the organizational field. In the organizational field the actors are connected in a network and they all influence each other directly or indirectly.

The organizational field is in turn influenced by surrounding forces such as country culture, political systems, business mores etc. This is the business environment at large and it forms the societal sector, which is different from country to country. For a company it is very important to understand this setting in order to be successful.

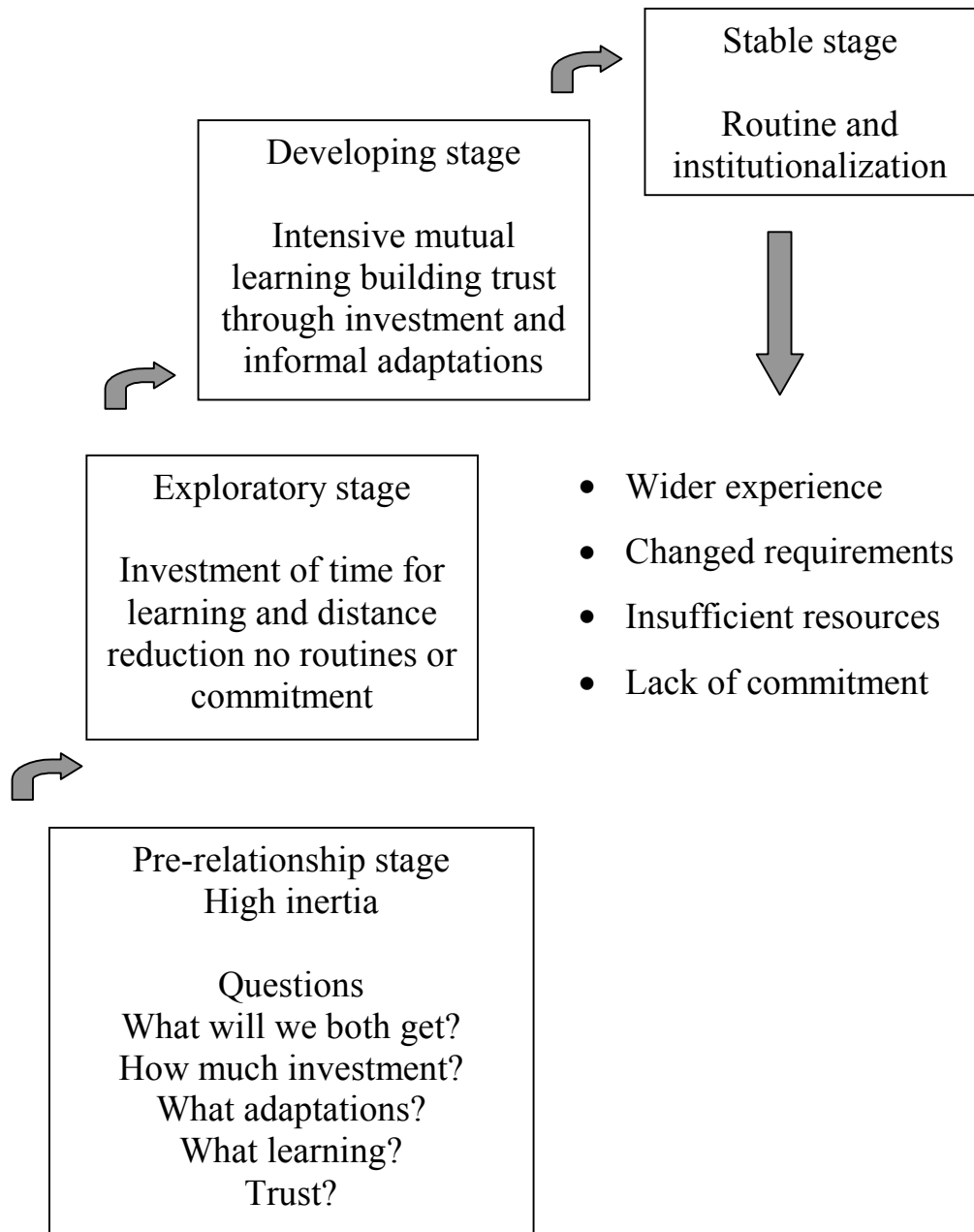
Fig. 2.4 Basic institutions model



Source: Jansson (1999), p 9

2.6 The development of relationships in business markets²

Fig. 2.5 The process of buyer-seller relationship



Source: Ford 1998, p.29

² The whole section is based upon Ford (1998), p. 29-38

Ford (1998) has developed a model for how relationships develop between business parties.

2.6.1 Pre-relationship stage

The first stage is the pre-relationship stage. This situation brings a lot of inertia to both the supplier and the customer. In business markets, as well as consumer ones, it takes effort to look for goods and it consumes resources because every time a customer switches supplier the two parties have to get to know each other and the offerings. A customer may want to switch the supplier if he/she is not happy with the quality, price, delivery, service etc of the existing supplier. The situation carries similar problems for a supplier.

In order to overcome the inertia, the supplier and customer may start looking for a new partner. The parties may not be happy with the existing relationship and the results it brings. It could also be the result of some change in overall policy in either company. Maybe a higher instance (board, government, trade union etc) has decided about new trade policies, environmental policies etc; policies that the current partner does not measure up to. Moreover, it could also be so that either one of the parties has changed its requirements; (a) a company has re-evaluated its partners place in its portfolio, (b) another relationship may be affecting the requirements, (c) technology change, (d) outside offerings such as low-cost suppliers etc.

However, the most common reason for a company to start looking for a new partner is dissatisfaction with the existing partner. The pre-relationship stage is characterized by an evaluation of alternatives and involves no commitment by any of the parties. The intentions of entering the pre-relationship stage may vary considerably between the different parties.

2.6.2 Exploratory stage

In the exploratory stage the buyer and the seller engages in serious discussions and negotiations about future cooperation. Both companies have to invest time in order to exchange information and learn about each others offerings. Neither one of the companies is likely to have built trust for the other partner and hence, is not likely to be committed to the relationship. However, if the

relationship is to move forward into the developing stage, commitment is crucial. Each of the parties involved needs to show serious interest in the relationship. In addition, demonstrating commitment is an important way to earn trust. As the exploratory stage mainly consists of negotiations and discussions and the companies have no real chance to show the commitment they are ready to make, it becomes very important how the interaction is carried out.

2.6.3 Developing stage

The third stage is the developing stage. In this stage the business between the companies is growing. This stage is characterized by intensive learning. Both companies are trying to find out about adaptations and investments necessary in the relationship. The adaptations can take the form of developing and investing in machines or trying to match salespeople with buyers. However, the willingness to adapt is a very crucial ingredient. In addition, informal adaptations such as related to certain equipment with specific models or special batch sizes, are very important. Those informal adaptations show high degrees of commitment. But these kinds of informal adaptations can be very costly and they can be difficult to control by management, as they are often made by sales people or other employees interacting with the customers.

2.6.4 Stable stage

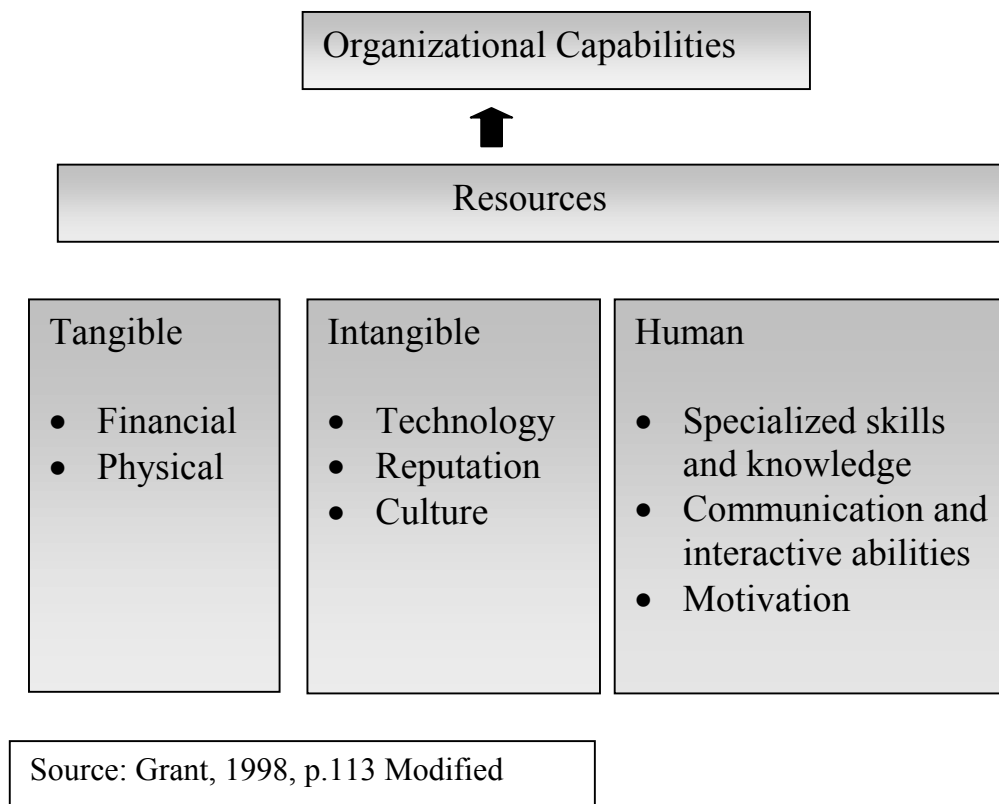
The final stage is the stable stage. Now the companies have found stability in the learning, adaptation, investment and commitment processes. However, not all companies may reach this stage, while it may go very fast for others. The stable stage offers many nice experiences for the companies involved. They can operate more efficiently and routinely based on certain codes of conduct and trust. This leads to lower handling costs and lower uncertainty. However, this stage can also be harmful. The processes may become so automatic and routine that neither party takes the others evolving needs into account. This process is called institutionalization. Production and deliveries for example may be based upon old habits and are not meeting the requirements of the present situation and could bring the companies unnecessary costs. In addition, the companies could get overly dependent on each other and lose their own competitive edge, which would be detrimental if the relationship was ever dissolved.

The decline into institutionalization could bring the parties back to the pre-relationship stage, when they start looking for new partners that can better satisfy their needs. It is also possible that the parties moves back into the developing stage again. Most relationships have been in the developing stage many times after having reached the stable stage. However, it is also important to note that not all relationships will reach the stable stage. This depends on lack in resources or a lack of interest by one of the parties to go any further.

2.7 Internal company analysis

A company's strategy is based upon matching its resources and capabilities to the requirements of the external environment. For many years the SWOT analysis dominated as the main theory on how to analyze the fit between a company's internal environment and its environment. However, the SWOT is not always the best method as it is really hard to define what the strengths and weaknesses are; most often a strength could at the same time be seen as a weakness. Therefore, the resource based view provides a much better base upon which one can analyze a company (Grant, 1998).

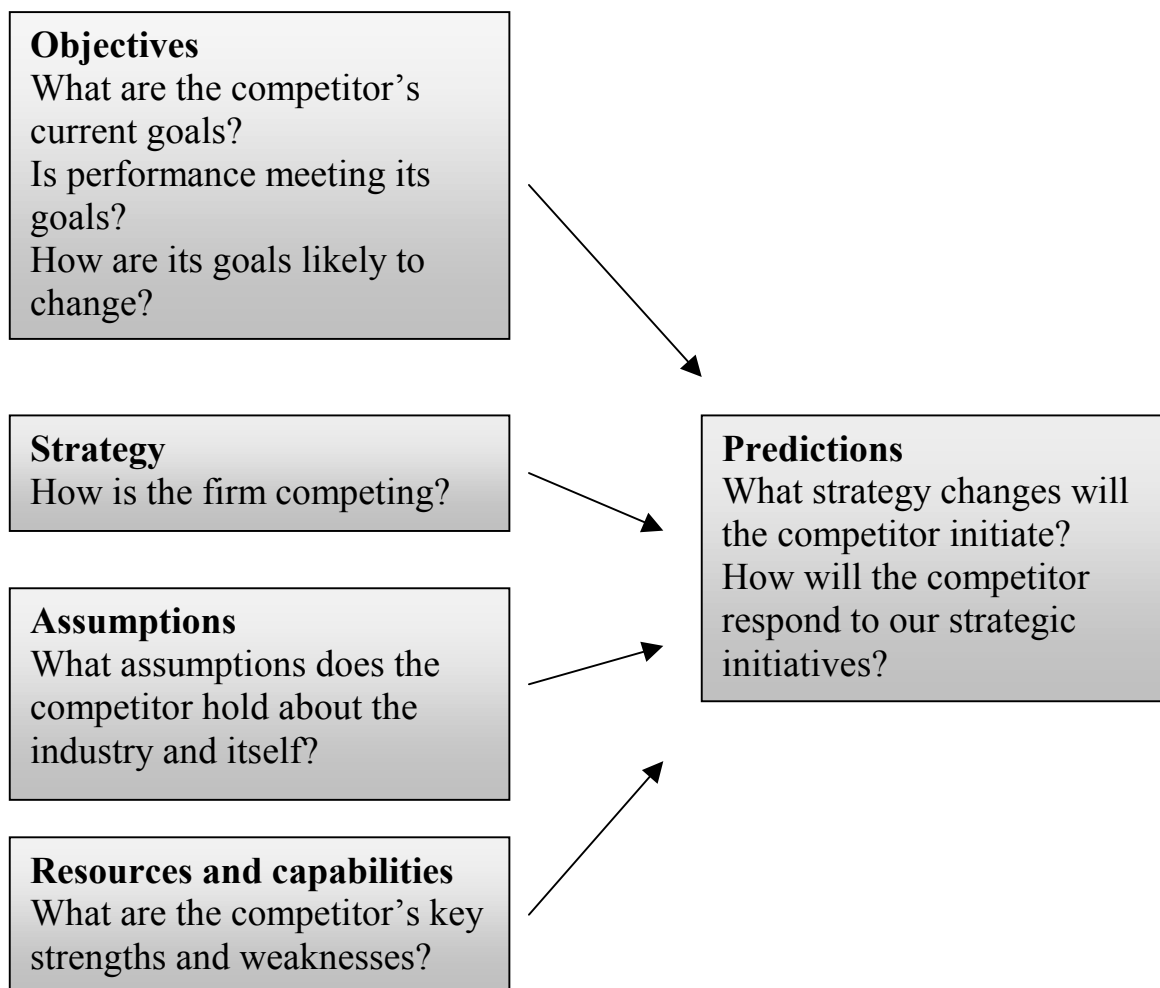
Fig. 2.6 Analysis of Resources and Capabilities



2.8 Competitor analysis

A competitor analysis is important in order to be able to assess the impact a competitor's relationships have on a company's relationships (in this thesis VTCz's customer relationships). In markets where there are just a few competitors (such as the heavy truck segment in Czech) the competitors' actions largely impact the company. A company can not ignore what the competitors are doing, or how competitors will react to a strategic change by the company (Grant, 1998).

Fig. 2.7 Framework for competitor analysis



Source: Grant, 1998, p. 97

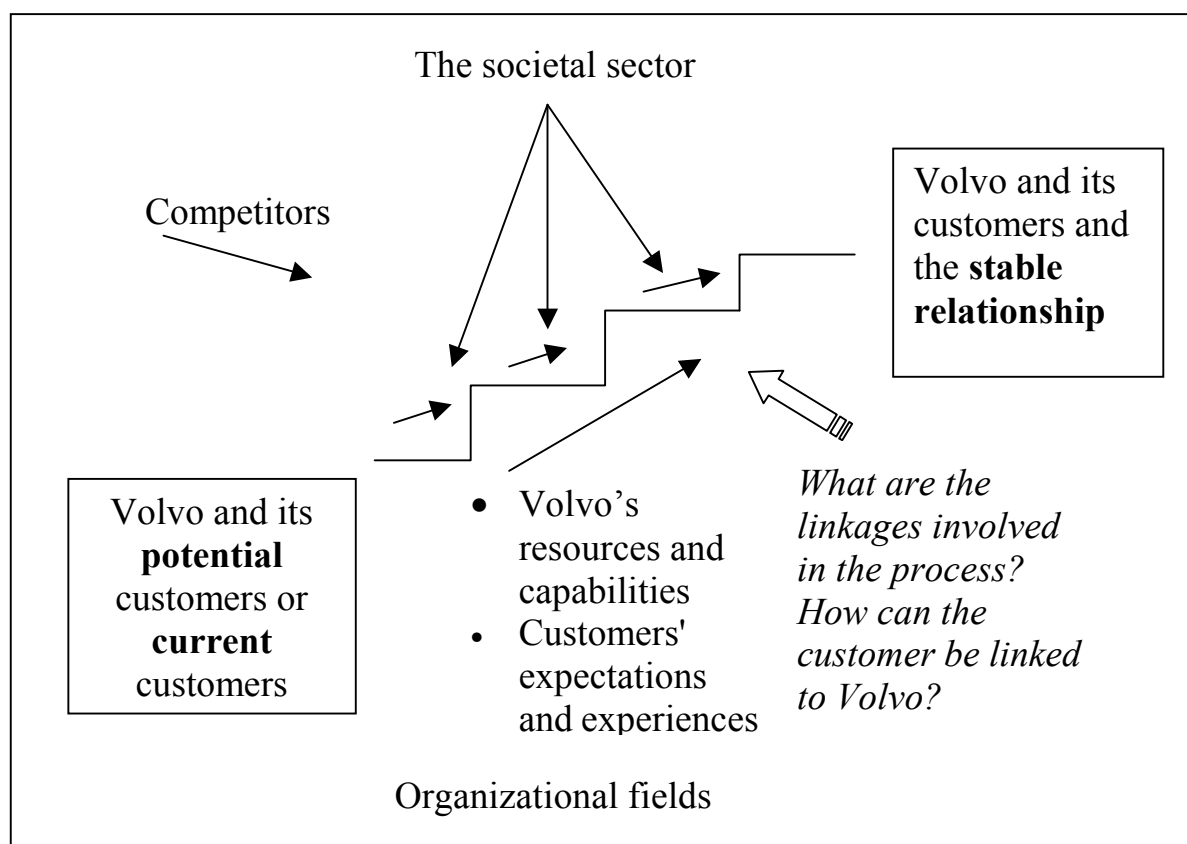
3. PROBLEM ANALYSIS

In the theoretical framework I left all the theories hanging out in the open without any obvious connection to each other. So in this chapter I will not only connect them, but also adapt them so that they fit together and fit the purpose of the thesis. The model will be the base upon which I will build my analysis. Discussing the model will also bring out what information is needed in order to be able to solve the research problem.

3.1 The research model

Inspired by the theories described in chapter two I will put together the bits and pieces of each one of them in order to create a model that suits the purpose of this thesis.

Fig. 3.1 Research model



Source: Own

The research model consists of the societal sector, the organizational fields and the development of relationship between a seller and a buyer.

3.1.1 Societal sector

For the purpose of this thesis the two relevant sectors from the societal sector are country culture and business mores. In this thesis they are seen as the two most important factors in deciding what is important in business relationships in the Czech Republic. The societal sector affects the development of relationships directly and the development process of buyer-seller relationships will stop if not certain criteria from the societal sector are fulfilled.

3.1.2 Organizational fields

The most important players in the organizational fields, with regard to this thesis, are the MNC (Volvo) and its customers and competitors. Volvo will be analyzed in regard to its capabilities and resources and if those meet the criteria needed in order to develop relationships and sustain competitors' actions. The customers will be analyzed with regard to their other relationships, their expectations and needs. The competitors will be analyzed through a competitor analysis. Since the competitors affect the relationships, and the establishment of relationships it is important to know what the strategy, resources and capabilities of competitors are.

3.1.3 The relationship development process

The process will be analyzed with regard to the steps described in fig. 2.5. It is important to look at the societal sector, and the organizational fields and see how these affect the development of relationships in the Czech truck market.

3.1.4 The linkage strategy

The linkage strategy takes up various factors, which Volvo can use in order to build relationships with its customers. These linkages are likely to be different between different markets and countries. It is important to find the relevant linkages that VTCz can use in order to build relationships. The linkages will also help Volvo and the customers climb the relationship development process ladder and will help bring the customers closer to VTCz.

3.2 Information need

By looking at the sub problems it can be decided what information is needed in order to fulfill the purpose. This section will then form the base upon which the data is collected and therefore constitutes the foundation for the interview guide, which can be found in appendix 1.

3.2.1 The societal sector

Country culture

It is especially important to find information regarding values and perceptions evolving around relationships, trust and commitment and western enterprises.

Business mores

When looking at the business mores attention will be given to relationships in the Czech truck market. It is also important to look at what linkages are important in the market.

3.2.2 Volvo Truck Czech

The resources and capabilities of VTCz

It is important to know what resources and capabilities VTCz has or need to have.

Current situation with customers

The existing relationships that VTCz has today need to be analyzed in order to see if they are on the right track, if something is missing, and what has to be done for the future.

3.2.3 Competitors

Current and future strategies

It is important to look into what the competitors are doing, or are planning to do, in order to understand how VTCz can improve its situation on the market.

Establishment

In order to understand first and second mover advantages it is important to know when the companies were established on the market.

Current situation with customers

An interesting area to study is how the competitors are treating the customers, what they do better or worse and what their customer philosophy is.

Strengths and weaknesses

In order to be able to do a benchmarking, it is necessary to know the strengths and weaknesses of the competitors.

3.2.4 Customers

Demand

Customers' demands are important in order to understand what linkages are important in the market.

Relationships

It is very useful to analyze the customers with regard to their existing relationships. What do they want in relationship and what are the important criteria for establishing a relationship.

4. METHODOLOGY

The methodology (sometimes called design) can be seen as the blueprints of a house. It is a plan for collecting, organizing and integrating the data so that an end result can be reached (Merriam, 1994). For the reader it gives insight in to how the research was done and in what order the different tasks were conducted. First I will discuss the research strategy and thereafter I will discuss different research methods, techniques, collections and ways of analyzing the data. Finally, I will discuss the quality of the research.

4.1 Research strategy

The choice of research strategy depends on how the problem looks, what questions the problem leads to and what end result is desirable (Merriam, 1994). There are five distinct research strategies that can be used and each strategy has its own advantages and disadvantages. The different strategies are; case studies, experiments, surveys, historical research, and analysis of archival records (Yin, 1994). The most important criterion for deciding what strategy to use is to look at the research question (Yin, 1999).

Case studies are appropriate to answer “how” and “why” questions, when there is little control over events and when the focus is on a contemporary phenomenon with some real life context (Yin, 1999). In addition, when choosing a case study it is important that there is a boundary that limits the study (Merriam, 1994). The case study is using the same techniques as a historical research strategy but it also uses direct observations and interviews. One of the strengths of the case study is its unique ability to use a lot of different empirical evidence. In addition, case studies are suitable for practical problems and it is often said to be problem centered, small scaled and entrepreneurial (Yin, 1994).

However, one should be aware of the critique often given to case studies. First and foremost the case study has been criticized for being easily manipulated by

the researcher to better meet the goals and purposes of the study. But, the researcher can make the case study better by always focusing on the problem and purpose of the study. The second complaint is that case studies do not provide a good base for generalizations. Generalizations can be made from a case study, but one should know that those are analytical generalizations (expand and generalize theories) and not statistical ones (enumerate frequencies). Finally, case studies are said to take a long time. This complaint is a valid one as case studies do take a long time, but there are new ways for producing shorter and more easily read reports (Yin, 1994).

For my purpose and problem the case study is an excellent strategy to use. Case studies use many variables and describe the interplay among those. Case studies are said to be holistic, reality based, empirically grounded, and exploratory (Merriam, 1994, p.26). I will not only be able to penetrate deep down in the problem and theories, but also give some more practical solutions. The end product of a case study is an extensive descriptive analysis of the case studied.

4.1.1 How the case company was picked

The first contact was established with the case company in the spring of 2000. During the first meeting various topics were discussed. The manager Are Knoph told me about VTCz and the operations in the Czech market. The company had entered the market late and had tried to expand as fast as possible without any real marketing strategy. In addition, VTCz was using the 4P's strategy as its main strategy and had paid little attention to industrial marketing strategies, even though trucks would need this kind of strategy. However, some of those strategies were in practice used, but they were not realized. I was in the midst of my "relationship marketing management" course and told the Are about RMM. Are got interested in the area and suggested that I write my thesis for Volvo regarding RMM. The topic and the company fit well together since VTCz is active in the industrial markets, where relationship marketing is often practiced.

4.2 Research method

A study can be qualitative, quantitative or a mix of both. The quantitative approach uses standardized measures. This is done so that the experiences and perspectives of different respondents can be fitted into a predetermined category, which is then numbered. The quantitative approach makes it possible to do statistical comparisons and compare series of data (Andersson and Nylander, 1999).

In the qualitative method the categories of analysis are not predetermined, but instead categories are created based upon the empirical evidence collected. The qualitative approach increases the understanding of the case studied since it can penetrate deeper into each case. This is also due to the fact that the qualitative approach uses a smaller number of respondents, which facilitates a more in-depth understanding. One should be aware of the criticisms usually given to the qualitative approach. Many authors say that it is not possible to generalize results from a qualitative approach. However, other authors claim that generalizations can be made. If more studies are undertaken in a field, the degree of generalization increases (Andersson and Nylander, 1999).

As I will conduct a case study based on a small sample size with in-depth interviews, I will do a qualitative study. The data collected will be extensive within the chosen area and will be both objective and subjective in nature. Further, the qualitative approach will also make it possible for me to create new categories of data and draw my own conclusions based on the results achieved.

4.3 Different research approaches

There are three approaches that can be used when working with a case study; inductive, abductive, and deductive. In an inductive approach the researcher collects empirical data and tries to form a theory after the collection has been made. There are no theories upon which the researcher relies, the researcher is instead trying to create a theory that could explain the information collected. A

deductive approach on the other hand is testing an already known theory. By using a deductive approach the researcher is hoping to find information that fits an already worked out theory (Merriam, 1994).

The abductive technique is a combination of the inductive and the deductive ones. In the abductive approach the starting point is the empirical findings, which together with existing theories form the basis for discovering certain hypothetical patterns. Throughout the research these patterns are refined and altered both empirically and theoretically. The abductive approach is suitable when the researcher is trying to find a deeper understanding about a phenomenon (Andersson and Nylander, 1999). In my thesis I will use the abductive approach as it fits my purpose. I will collect information from both the society and the business environment. This will be done in order to better understand how a company can build better relationships when entering the Czech truck market as second mover. I will start by looking into various potential theories. After the empirical data has been collected and briefly analyzed I will go back to the theories and compare my results with the already existing theories to find hypothetical patterns regarding relationship marketing in the CE markets.

4.4 Collecting evidence

In a case study the evidence comes from six different sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts (Yin, 1994). The material can be of primary or secondary nature. The primary data is collected to satisfy the specific purpose of the study. Secondary data on the other hand is published findings from earlier research studies and may not pertain specifically to the current study. Secondary data is often collected at the beginning of research to provide a background and some basic information about the topic being researched (Andersson and Nylander, 1999).

In the very beginning of the research I used unstructured interviews with Mr. Are Knoph and direct participation in order to become familiar with the situation to be researched. Secondary data such as documentation was also used in order to get a better understanding of the company, the industry and the problem. The primary data was collected through interviews. Interviews are the best form of collecting evidence if the researcher wants to find out facts that can not be observed (Merriam, 1994). Since I wanted to research such factors as culture and people's perception of relationships, other methods, such as observation, would have taken a lot longer in order to get the same results. The interviews followed a semi-structured organization in order to get a better and more in-depth result, while still keeping some control (Yin, 1994). The semi-structured organization was good as I wanted the respondents to elaborate upon some given concepts and provide me with their view of the issues involved. So depending on the situations and the people I met, the questions (concepts) were presented in a slightly different order and in different ways. The concepts were divided into three groups; the societal sector, VTCz and the customers. Each respondent in each group discussed the same concepts with me. Furthermore, I used a focused interview technique due to respondents' time constraints. Most of the people I interviewed left their jobs during the day in order to do the interviews and I wanted to make it as easy as possible for the respondents.

Interview questions can be categorized into experience, values, feelings, facts, sensor, and background/demographics questions (Merriam, 1998). Most of the questions/concepts I discussed with the respondents were about experience, values, feelings, and background. In order to make the interviews better and more valid I tried to avoid leading the respondents and used open-ended questions.

4.4.1 Societal sector

It is crucial to collect information that can give an understanding of how the culture is and how important it is to have good relationships when doing business in Czech Republic. The cultural background of people is likely to affect the way they build and maintain relationships.

Having lived in the Czech Republic for a few years and being married to a Czech man my personal experience of the Czech culture is great. In addition, I have also previously done various research projects about the Czech Republic. Due to this previous knowledge secondary data was not collected. Instead I used personal interviews with native Czech people, foreigners living in Prague and consultants from the Swedish Trade Council in Prague to find answers regarding the societal sector in Czech Republic. I interviewed a total of five people where three are native Czechs, one is Slovak/Hungarian and one is Swedish. The respondents were chosen out of convenience, with the aim of the thesis in mind. The respondents have different backgrounds and almost all have insight into foreign cultures as most of them have lived in foreign countries. Having spent time abroad gives the respondents a more objective and true picture of the Czech society. Foreigners were questioned as I wanted to see whether or not the responses were the same and how a foreigner perceived the situation.

4.4.2 Organizational field

For the organizational field it was necessary to attain secondary as well as primary data and the collection took place simultaneously. The secondary data came from VTCz, investment reports, previously written papers and credit rating reports. The primary data was collected through direct observation and interviews. The direct observation took place at a truck fair in Brno. Unstructured interviews with Mr. Are Knoph, manager of VTCz, were conducted on six different occasions, during the period from April to November. The focused/semi-structured interviews were done with the manager for VTCz, the sales manager for VTCz and two different customers. The customers were also able to give some information regarding competitors as both of them also have other suppliers.

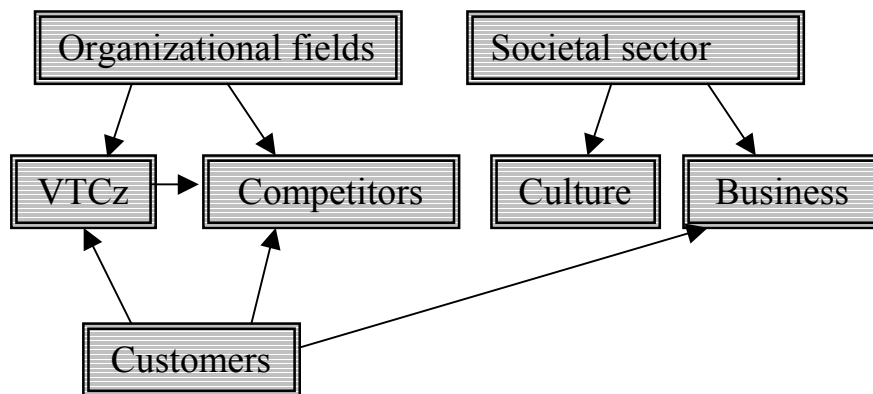
4.5 Data analysis

In qualitative research the collection of data and the analysis of the data take place simultaneously. This saves time for the researcher and the final analysis will also be faster. In addition, this is what the qualitative research is all about.

The researcher analyzes the collected data and from there decides what to investigate next. It is a step wise process where the steps build on each other. After the final data is collected, the analysis moves into a more intensive phase. Before the researcher can move into the intensive analysis the data needs to be organized into either a chronological or logical way (people, situations, organizations etc). After the organization the analysis moves into the intensive phase, the data is then organized into categories or themes which makes it easier for the researcher to draw conclusions from the data collected. The researcher also looks upon how the different categories fit together and how they are connected. When this has been done the researcher has come one step closer to forming a theory. The last step is to collate the different categories in order to explain the information and the importance of it, the end product of this is the theory (Merriam, 1994).

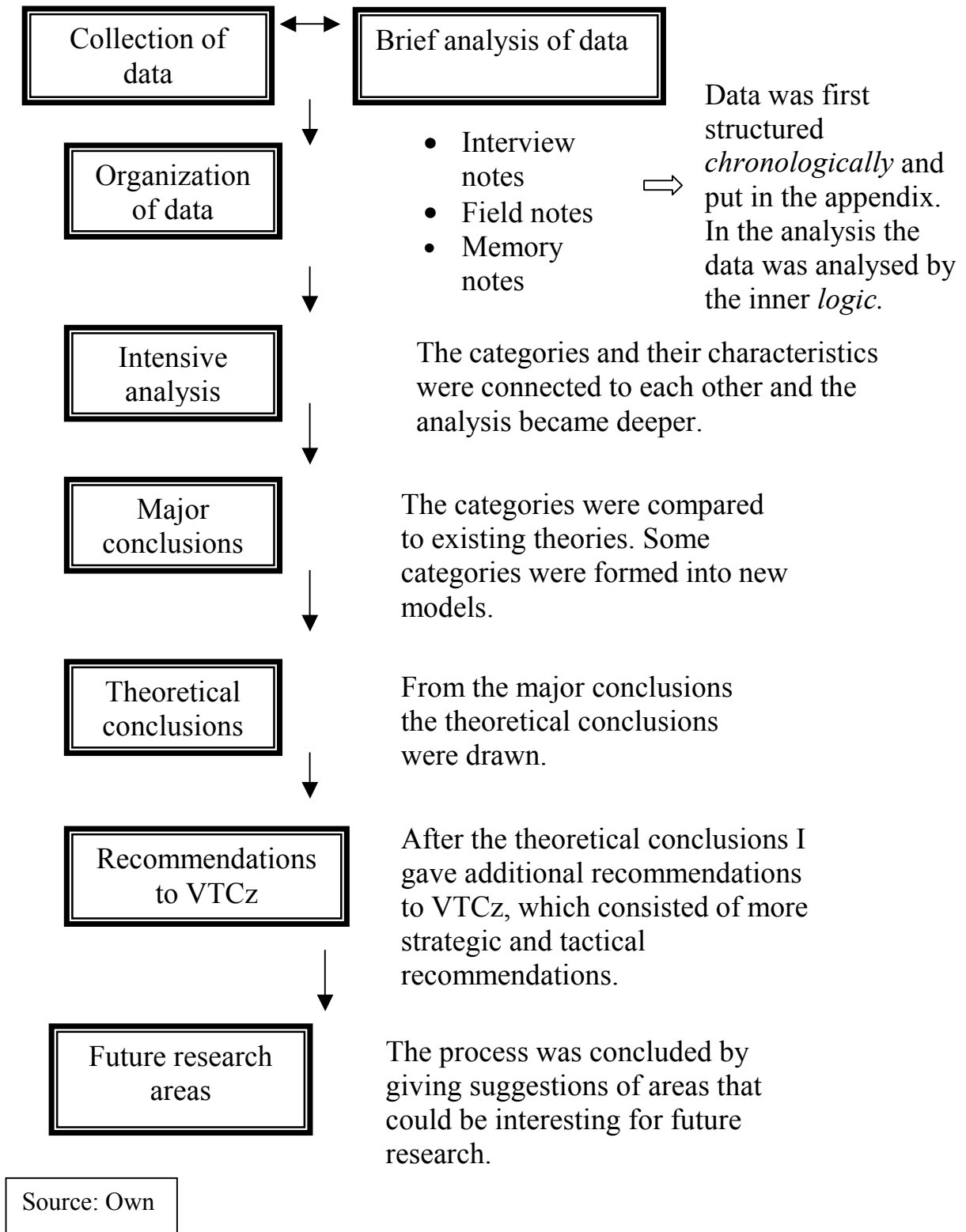
The data in the thesis was collected and written down in chronological form in the appendix. In the analysis it was analyzed based on the inner logic. The information was categorized according to whether it belonged in the societal sector or organizational fields. The organizational field was divided up into VTCz and competitors and the societal sector was divided up into culture and business. So, there were four major categories. Information collected from the customers spanned a wide spectrum and was therefore divided into; general business traits, VTCz, competitors, and customer demands. Information collected from VTCz was divided up into the VTCz and competitor category. Each one of the subcategories has various subcategories.

Fig. 4.1 The categories



Source: Own

Fig. 4.2 Methodology process



4.6 Quality of the design

There are four aspects of the quality of the design in a case study: (a) construct validity, (b) internal validity, (c) external validity, and (d) reliability. There are different tactics available to the researcher in order to make the case study as valid and reliable as possible (Yin, 1994). However, the two most important variables in making the research reliable and valid when conducting a qualitative study are internal validity and reliability.

4.6.1 Internal Validity

Internal validity concerns the issue whether or not the findings can be shown to be valid for the problem that is being investigated. Internal validity is an issue both in the empirical and theoretical parts of the research. The data collected, the models and theories used all have to pertain to the problem and the purpose of the thesis otherwise there will be low validity. Hence, if unnecessary data is collected, or if irrelevant models are used then there will be low validity. In order to increase internal validity the researcher could use pattern-matching, explanation-building and time-series analysis (Yin, 1994). According to Merriam (1998) there are six strategies that can be used in order to check the internal validity.

- Triangulation
- Checks
- Long-term observation
- Peer examination
- Participatory/collaborative modes of research
- Researchers biases

To avoid any internal validity faults I used multiple sources of information. I also asked the respondents if they believed that the results I had were feasible. Through classmates, professors, the manager for VTCz and my husband I got feedback in the form of peer examination. I have had many meetings with the manager for VTCz throughout the research. The interview results were written

down just a few hours after each interview, so that I would remember everything that had been said during the interview.

Starting the thesis process I had an open mind about the area to be studied. In the beginning of the research there were changes in the direction of the problem. The problem was changed several times to correlate to the situation that was to be investigated. Therefore, I feel that the problem and the content of the research meet the purpose and the goals of the thesis. During the data collection I got some information that was not relevant for the purpose of the study. All the information was included in the first draft. However, after the first draft was written, this data was excluded from the analysis.

During some interviews the interviewee was led by me as I was discussing the topic in order for the respondents to understand what I was asking. Those responses were thrown out and were not used in the thesis. There could also be other cases when the respondent picked up something in our conversation about the topic and that I unconsciously led the respondent.

Errors could also be associated with the type of secondary data used. I used internal material from VTCz. The material included such things as market shares, VTC's strategy and sales figures. This kind of data is very objective and therefore I feel that there are minor faults associated with using this material. In addition I also used some investment reports that are used in investment banking and those are highly objective. The secondary data I used is used in everyday business and should be highly reliable.

There will always be a possibility of misinterpretations of the data collected. However, I tried to stay away from making my own conclusions in the matters. I listened to the respondents and stuck to their answers, I also had the respondents clarify their answers right away if I did not quite understand what they meant. Some interviews were conducted in Swedish and some in English. I and most of the respondents speak fluent English and I feel that there should be no, or minor faults associated with using English as a language. However,

during two interviews I used an interpreter and the interpreter may not have given me the exact same answers as the respondent gave him. Even though I asked the questions several times to make sure that I got the same answers, there could still be some faults associated with the translation.

I did not use long-term observation, as there is a time limit to the thesis. Neither did I use participatory modes of research, meaning that I did not have participants help me throughout the paper. To make the researcher bias smaller it should be stated early in the research what my point of view is and how I feel about the subject. I did not do this. However, having lived in many different cultures and knowing little about the area to be studied before I started, I would say myself that I was not biased.

Overall I believe that the thesis has high internal validity. The strongest argument for this is that other research papers written in the area show the same results. After the empirical data was collected and first analysis was done I came across findings that show that my results correspond to theories already written in the area.

4.6.2 Reliability

Reliability concerns the issue of consistent results of the study if it was replicated. A good guideline for reliability is to make sure that if someone did it again the same results would be found. Reliability is an important aspect of doing a case study and the goal of reliability is to minimize biases and errors in the research study. A prerequisite for reliability is that all the documentation is in order and can be easily found (Yin, 1994).

Some major difficulties with qualitative studies are that it is hard to replicate social behavior, as it is not static. Since the majority of data was collected through people there is always a risk that the data could turn out subjective as people are not always objective in their views and perceptions. As a result this subjectivity could lead to a low degree of reliability; other people may give different answers and may look at issues from a different perspective. However, cultural traits are not something that will be changed till tomorrow

and since the responses were consistent between the respondents I believe that my study has high reliability.

In addition I did not use more than two websites and then only took an insignificant amount of data from these sites. This is good as it could be difficult to find information that has been taken from websites, as the sites could change or be terminated. All other material used is written down and documented and can easily be retrieved, this increases the reliability of the thesis.

4.6.3 Generalizations of results

The external validity concerns the issue of whether or not the findings can be generalized beyond the immediate case study and whether the study is measuring what it is supposed to measure. The researcher can try to replicate the study and see if the generalizations fit other cases as well (Yin, 1994).

First of all the research should have high internal validity. The internal validity is high and that provides a good foundation for the external validity. The thesis does not only pertain to the truck industry and VTCz, but should be able to be applied to different industries and companies. The findings could also be applied to companies active in similar industries. The results identify and describe the important factors on the development process for building relationships in Czech Republic. The various linkages are also identified and described.

However, it may be harder to generalize the results for companies active in consumer markets as the structure of those markets is different. Moreover, almost all-western companies that want to conduct business in Czech Republic must take the cultural factors into account. These factors have shaped the people and those people can be found everywhere. The results give an in-depth description and identification of how relationships in the business markets look in the Czech Republic. I believe that the thesis has high external validity as it is fairly general in nature.

5. EMPIRICAL DATA ANALYSIS- VTCZ

In the following section the VTCz is analyzed. First the strategies, resources and capabilities are analyzed. The section ends with an analyze of VTCz weaknesses.

5.1 Strategy

5.1.1 Corporate

Volvo Truck is a part of the Volvo Group, which also consists of Volvo Buses, Volvo Construction Equipment, Volvo Aero, and Volvo Penta. Between the various groups there is horizontal integration; parts, platforms and engines are used for buses, trucks and construction equipment (VTC, 2000).

VTC is pursuing a global diversification strategy. Volvo Truck is competing with many various products related to; long haulage, garbage, construction, and distribution. VTC also produces trucks in all weight categories, ranging from heavy to light trucks. There is horizontal integration between the different products at VTC, the different divisions share research and development costs, production etc. In addition VTC pursues vertical integration; the company has its own financing company, and also has cooperation agreements with trailer producers. VTC recently acquired French truck maker Renault to further secure its position as a leading truck producer in the world markets (VTC, 2000).

Volvo Truck Czech (VTCz) is a regional dealer for Volvo truck in the area of Czech Republic. VTCz focuses on long haulage and heavy trucks, but wants to increase its sales in markets related to construction, distribution and waste segments. So far the company has undertaken little vertical integration. One of the few areas of vertical integration is service and parts; however, financial services (provided by Volvo Truck Corporation) will hopefully be introduced in the near future (Knoph, 2000).

5.1.2 Business

VTC has a broad differentiation strategy, which is based upon providing excellent quality for a premium price. The trucks are top of the line in each of the segments. Customers get a high quality truck and its value added services for a superior price (VTC, 2000).

VTCz's driving force is to lead the development of a strong after market operation and by doing so secure and improve growth of volume and profit by offering a more flexible total transport solution than the one existing today. In addition, VTCz is trying to use high quality products and service, and close customer relationships as the main weapons in securing customer loyalty. Moreover, a superior service network is another tool in becoming the market leader in the Czech market (VTCz, 2000). One should keep in mind that those are the goals and may not be used in reality.

5.1.3 Volvo Trucks Mission Statement

“Volvo Truck will create value by providing innovative business solutions that enable targeted truck operators to maximize their profitability” (VTC, 2000).

5.1.4 Volvo Trucks Vision Statement

“To be valued as the world's leading provider of commercial transport solutions” (VTC, 2000).

5.2 Resources

5.2.1 Tangible Resources

When evaluating VTCz tangible resources it is important to keep in mind the resources that Volvo Truck Corporation has. VTCz has very limited resources being only a dealer and having no production facilities. Therefore, I will give a description of VTC's tangible resources and then go into VTCz's resources.

5.2.1.1 Cost sharing

VTC recently acquired the French truck producer Renault/Mack. The acquisition is likely to give VTC a competitive advantage due to cost savings.

Engine development has become very expensive in the truck industry and VTC can now share the costs with Renault, which is likely to increase the company's competitiveness. Furthermore, Renault is complementing VTC in markets where VTC is weak and this is a major advantage. The company will get a more even market presence and be stronger in more markets in the future (Commerzbank Securities, Sep. 2000).

5.2.1.2 Group support

Another major advantage VTC has is that it is supported financially by the other "members" of the Volvo group and they are all experiencing growth and prosperity. Even though Volvo AB used the cash it got from selling the car division to Ford in order to buy Renault, the cash reserves remain large (www.ratingsdirect.com). Being a wholly owned dealership of VTC, VTCz has a stable financial platform to stand on. Financing is becoming more important in the trucking industry and it is important that VTCz can offer easy and good financing to its customers (Commerzbank Securities, Sep. 2000). VTC has its own financing company and therefore this should be easy to set up.

5.2.1.3 Production synergies

In addition, there can be production synergies between the different groups, providing for cost sharing and economies of scale. Being a multinational company VTC has large physical resources. The company has factories and dealers all around the world. The distribution structure can also be utilized in an efficient way and cut costs for all the members of the group (Commerzbank Securities, Sep. 2000).

5.2.1.4 VTCz's physical resources

VTCz physical resources include the 9 service stations in the country and the headquarters in Prague. VTCz owns the land on which the headquarters is based. The facilities are modern and keep Western standards. The service stations are also well developed and contain the latest technology (Knoph, 2000).

5.2.2 Intangible Resources

As the intangible resources are more market specific I will only take up VTCz's intangible resources.

5.2.2.1 *Reputation*

One of the biggest assets of VTCz is its good reputation. Being one of the few western truck producers active in the market during the communist era made the brand superior in the eyes of the Czechs (compared to the Czech makes). The company has a reputation for being stable, reliable, classical, and somewhat conservative. Most people in Czech Republic know Volvo as a brand and it is respected among people. The good reputation helped Volvo to re-establish itself on the market after 1989 (Knoph, 2000).

5.2.2.2 *Relationships*

VTCz wants to build long-term relationships and tries to listen to its customers needs (Knoph, 2000).

5.2.2.3 *Technology, research and development*

Another big asset of VTCz is its superior technology and quality. The company makes sure that the standards are as high as in the western markets. The trucks sold in the Czech market are exactly the same as the ones sold in the other markets around the world.

The technology used in Volvo's trucks are of high standard and the company constantly tries to increase customer satisfaction by making the trucks more economically profitable for the customer and increase driver comfort (www.ratingsdirect.com). The acquisition of US truck producer Mack, the only US truck producer active in heavy diesel engines, will further lead to an increase in synergies in R&D. Renault has so far been a weak producer of engines. Volvo hopes that its knowledge together with the synergies from Mack can overcome this weakness and at the same time give the company economies of scale advantages in the production and research of engines (Commerzbank Securities, Sep. 2000).

5.2.3 Human Resources

5.2.3.1 *Education*

Education is of high priority to VTCz. The company educates all its employees at various seminars abroad and in Czech. The service personnel go to different seminars in Poland Austria and Sweden, where they are trained in both warehousing and order management. The training for the blue collar workers has taken place at assembly plants, which gives the employees insight into the manufacturing process. This provides them with a solid base of relevant and useful product and service knowledge. Sales personnel are educated in Sweden. In the fall of 2000 a seminar was held in Göteborg for the top marketing/sales people (Knoph, 2000).

5.2.3.2 *Motivation*

The employees are also motivated to perform well, as there are great prospects for promotions. The pay and compensation benefits are very competitive and the employees are happy working for VTCz (Knoph, 2000).

5.2.3.3 *Organizational structure*

The organizational structure is fairly flat. There is a relaxed and harmonic work environment (Knoph, 2000).

5.3 Capabilities

5.3.1 24 hr Action Service

The main strengths of Volvo Truck Czech are its good service network (24 hr Action Service), constant availability of spare parts and effective distribution network. The global "24 hr Action Service" includes the office in Prague, which is in constant connection with the main spare parts office in Belgium. There are also additional spare parts offices around Europe, and the ordering system is fully automated. A truck driver can be helped within 24 hours no matter where the trucks break down (Knoph, 2000).

5.3.2 Marketing mix

The marketing budget is around 10 million Czech crowns. The marketing mix today consists of advertising, customer visits, branding advertising, event marketing, and fairs. VTCz also has some VIP customers; those customers can enjoy being rewarded with trips to Sweden and to be taken to various sporting events throughout Europe. VTCz has a newsletter that goes out to all its customers and a couple of months also to some of the competitors' customers (Knoph, 2000).

5.3.3 Loyalty programs

To attract customer loyalty VTCz has loyalty programs such as volume based sales discounts; the more a customer buys, the more discount the customer will receive. Special customers such as Pepsi, Coca-Cola and Shell also have special contracts. These contracts include benefits such as nation wide service possibilities, discounted service and parts prices. The service discount system in use now is a bit confusing to customers as they are making a deal with a special service station, for example Prague, and can only get the special prices at this one shop. However, VTCz is trying to implement a system where each one of these special customers attains a card, which is pre-programmed with information about discount percentages etc. This will give the customers the same pricing all over the country. This is a way for VTCz to encourage usage of Volvo service stations and Volvo parts. The customers get the discount rate based upon their usage of the Volvo stations and parts so the more they use them, the more discount they will receive the following year (Knoph, 2000).

5.3.4 Sales

VTCz sales force consists of nine sales people, ranging in the ages from approximately 30-55 years of age. The sales people at VTCz are well-educated people with backgrounds in various sales positions. Each sales person has a territory that he/she is responsible for. The sales people receive training from Volvo. They are also equipped with a laptop with the VSS computer system. This system provides the sales people with prices, technical information, specifications and it also functions as the order system. The sales staff do not need to know all the details about all the trucks as the system contains all the possible information a customer may request. The sales staff is organized in

such a manner that they will not steal customers from other sales people's territories. Sometimes a customer asks specifically to deal with a certain sales person and then that can be arranged so that the customer gets to deal with that person instead of the person in charge of the customers' territory (Knoph, 2000).

The trucks comes from the factories in Göteborg and Gent and are transported to Czech (Knoph, 2000).

5.3.5 Customer Relationships

Both the manager Are Knoph and the sales manager Petr Kotrsal believe that face to face contact is the absolutely best way to build customer relationships. The interaction should take place in a relaxed environment as it makes both parties feel more comfortable. VTCz is trying to apply long term strategies and listens to its customers and compromises in order to build long term value. The goal of VTCz is to be a partner and not a sales organization. Customer service is therefore one of the priorities and the goal is to "over perform" or to out perform the expectations and give the customer just a little bit more than what they expect. In addition, mutual respect is important as well as friendliness. Another crucial part in Volvo's customer strategy is to always keep promises. This is a message that the sales staff take very seriously. VTCz believes that by being reliable, customers will have more faith and trust in them. The service people on the other hand do not take this as seriously and may not always understand the importance of doing an excellent job and not short cutting solutions (Knoph, Sep. 2000).

According to the sales manager Petr Kotrsal, fierce competition exists in the market and Volvo has to steal its major competitor's customers in order to survive. That is a part of doing business and the companies would not survive if they would not do that. Scania and Mercedes are trying to grab Volvo's customers and therefore Volvo is doing the same.

Even if most of VTCz's relationships are good and open there are a few relationships that are not as valuable and that are not satisfactory to either Volvo or the customer. Those customers have lots of complaints about the

trucks even if the truck is ten to fifteen years old. VTCz has to spend resources on those customers; resources that could have been used in order to serve more profitable customers (Knoph, 2000).

Volvo believes that they can reduce the risk of customers leaving the company if problems can be eliminated. If there are problems then they should be fixed quickly. Reasons for customers having left Volvo are that they were not happy with the service or products (Knoph, 2000).

5.3.5.1 Division of Customers

VTCz's customers can be divided into three different groups:

-Old customers

The old or long term customers have been customers of VTCz for many years and they buy trucks each year. The relationships with the old customers are automatic and meetings turn out to be more social than sales meetings (Kotrsal, 2000).

-New customers that are familiar with the products

The new or potential customer that knows the product does not require, according to VTCz, as much help and support. They often know what they want and therefore do not need as much help. Often those customers call Volvo (Kotrsal, 2000).

-New customers that are not familiar with the products

The new or potential customer that does not know the products needs a lot of support, recommendations and various examples of solutions. Usually a sales person has to go visit this type of customer three to four times before the customer is ready to make a purchase. The pattern of the contact is that both

sides stay in touch; Volvo's sales people call the customer but the customer also calls Volvo (Kotrsal, 2000).

5.3.6 Weak points

5.3.6.1 *Distribution system*

One of the largest weaknesses VTCz has is not being able to fully dismantle the old distribution system. The company still uses Pema as a distributor. Nonetheless, the majority of sales today come from Volvo's own dealers (Knoph, 2000).

5.3.6.2 *Financial solutions*

It is crucial to have financing packages when selling expensive goods like trucks. Very few customers can purchase a truck for 145,000 DM, plus another 50,000 DM for the trailer in cash. Unlike the two major competitors, VTCz is outsourcing the financing to Deutsche Bank (Deutsche Financial Services) and Volksbank (VB leasing), which together accounts for 80% of the financial outsourcing. Another 20% are outsourced to minor financial companies. Scania and Mercedes have their own financing and this provides better service to the customer as they can go to one company and get the whole deal set up. A Volvo customer has to talk to the sales people first and then talk to the bank about a loan/leasing. The bank then makes the decision if the customer can actually afford to buy the truck; some customers are actually turned down from the bank and as a result VTCz is losing customers. In addition, VTCz is losing out on profits, as financing is a very lucrative business in Czech with the high interest rates. As said before, VTC has its own financial company and in most its markets the trucks are financed by Volvo financing; however, so far VTC has not been interested in setting up financing in the Czech market (Knoph, 2000).

5.3.6.3 *Renault acquisition*

The acquisition of Renault means that VTC will take on a company that has lower profits and that has been struggling with declining sales the last few years. Renault's most successful markets were the North Americas; markets

now experiencing a downturn likely to continue until 2001. Due to these difficulties, it is expected that VTC will have a down turn for about two years but then profits are likely to increase again (Commerzbank Securities, 2000).

5.3.6.4 Overloading of employees

On average in the western European markets VTC's sales people have to sell 40 trucks per person a year. In Czech this number is 70-80 trucks. VTCz is understaffed and the employees feel that they can not tend to the customers as much as they would like to (Kotrsal, 2000).

6. EMPIRICAL DATA ANALYSIS- COMPETITION

In this section the competition will be analyzed. First there will be a general introduction to the Czech truck market. The introduction will be followed by a competitor analysis of Mercedes and Scania, which are VTCz biggest competitors in the market. The section will be wrapped up with a benchmarking for Volvo.

6.1 Introduction to the Czech truck market

Large international truck companies like MAN, DAF, Scania and Mercedes are present in the Czech market. VTCz considers Scania and Mercedes to be the two largest competitors in the heavy truck segment. The three are considered to be the highest quality and belonging to the "A group". Domestic producers like Tatra and Liaz are not considered to be direct competitors as they are competing in a lower quality, lower price segment (Knoph, May 2000).

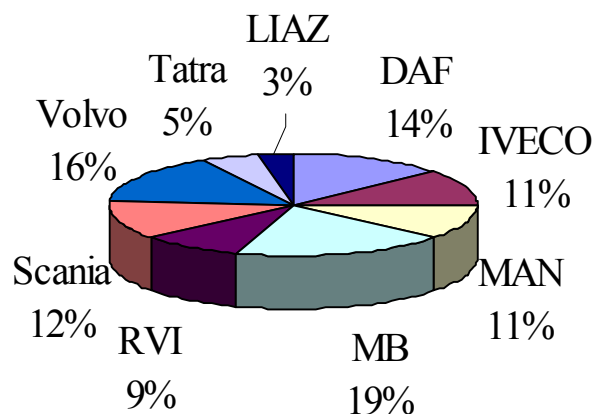
Currently, price remains one of the most important decision factors for customers regarding what truck to buy. However, there is a trend towards differentiation strategies as the customers' demands and expectations begin to change (Besico, 2000). Currently, the three A members have approximately the same strategy. They are all trying to be outstanding in service and they all want to be able to increase revenues by being able to charge higher prices for the trucks.

6.1.1 Market shares

VTCz strategy in Czech Republic, after 1998, was to gain market share as rapidly as possible. In 1998, VTCz's market share was 7-8%. However, the strategy of rapid expansion has been successful and today VTCz has a market share of around 16%. Mercedes has a market share of 19% and Scania has 12% of the total market. So the three players in the upper segment of the trucking industry have similar market shares. The market for heavy trucks is expected to rise around 35% the next three years. All the members of the "A group" would like to increase their market shares in the future. The market in Czech

will become tougher in the future and smaller players are likely to go under. As an example one can look at the western European market where in the 70s there were about 30 players; today there are only five left (Knoph, Sep. 2000).

Fig. 6.1. Market shares in the Czech Republic



Source: VTCz, October 2000

6.1.2 First vs. Second movers

As in most markets around the world there are first mover advantages associated with entering the Czech truck market earlier than competitors. In Czech Republic the first mover advantages are associated with the monopoly structure that has been existing. There are also limitations in the market size, mainly due to customer's solvency problems. Larger companies are better customers as they have an easier time to pay on time. Smaller companies are often more dependent on others to pay them before they can pay their supplier. Smaller companies are also in greater need of payment plans and financial solutions. However, the Czech Republic is coming out of a recession and the market structure is likely to change in the future (Zumr, 2000).

In the truck industry being first into the market has its advantages. It takes longer time to build up market share if moving in as a second mover (Kafka Transport & Besico, 2000). Scania and Mercedes have good brand names in

Czech and came into the market early. But Volvo was the only of the three present in the market during the communist era and therefore also has a good brand name. It is not impossible to be successful if moving in as a second mover and even though a company comes in to the market late it can still become a market leader. A second mover that is able to provide its customers with good prices and attractive financial solutions can gain customer loyalty and market share quickly. Those factors weigh more than if the company has been present in the market for a long time (Besico, 2000).

6.2 Scania

6.2.1 Objectives

Scania is relatively happy with the current market share, but wants to grow as the overall market grows (Knoph, Sep. 2000). Scania is doing well in the Czech market so far. Scania entered the market early and is recognized together with Volvo as producing the best trucks on the market (Besico, 2000).

6.2.2 Corporate Strategy

Scania Truck is a part of the Scania group, which also consists of buses, industrial and main engines, bodybuilders, financial services, and Scania financing (www.scania.com).

Scania truck is only competing within the heavy truck segment. During the fall of 2000, the company was acquired by German automaker VW. The impact of this acquisition on Scania is difficult to predict at this time. However, some analysts have claimed that it will be more difficult for Scania to cut costs in the future due to the fact that they will not be able to reach the same synergies as for example Volvo/Renault. In addition, any future development of medium heavy trucks is not likely to take place (Commerzbank Securities, Sep. 2000). The company is pursuing a vertical integration strategy and are doing in house financing and also has co-operation agreements with trailer producers.

6.2.3 Business Strategy

Scania is pursuing a differentiation niche strategy. They are selling their high quality heavy trucks, with strong engines for a premium price (Commerzbank Securities, Sep. 2000).

6.2.4 Central and Eastern European markets

The central and eastern European markets are small markets for Scania. However, sales are expected to slowly go up from 1,551 trucks sold in 1999 to 2,934 trucks sold in 2004. The central and eastern European markets are also likely to decrease even more in importance for Scania once the Brazilian and Asian markets pick up (Commerzbank Securities, Sep. 2000).

6.2.5 Resources and Capabilities

6.2.5.1 *Strengths*

Scania will greatly benefit from the distribution network that VW has. In addition, VW is bringing a stable financial platform with huge assets. As the truck industry is becoming more and more focused on being able to provide total solutions (including financial solutions) the financial backup VW is bringing to Scania should provide an advantage. Moreover, VW is likely to bring in more capital for R&D, so the overall technical knowledge will increase. Another major strength of Scania is its ability to develop strong engines for a relatively low cost compared to, for example, Volvo (Commerzbank Securities, 2000).

Scania has a good reputation in most markets where it is present. In the Czech truck market Scania has a very favorable reputation and is considered, together with Volvo, to be one of the two highest quality truck producers. In addition, VW has strong positions in the emerging markets and this may help Scania to penetrate deeper into these markets. (Commerzbank Securities, Sep. 2000).

Finally, in the Czech market Scania has partner agreements with a couple of its customers and that provides the company with relationships built on mutual dependence and flexibility. Scania also has good partnership agreements with a trailer producer in the Czech market (Besico, 2000). Finally, Scania has

quantity or volume discounts and is also, like VTCz, using loyalty programs for service (Knoph, 2000).

6.2.5.2 *Weaknesses*

In the future it is expected that medium sized trucks will be more important, especially in the emerging markets and will provide opportunities for production synergies for the companies. Scania is not likely to develop medium trucks in the near future and this further restricts Scania from cutting costs and developing production synergies. VW has a view that the cross over between auto and truck production can increase overall efficiency. This is contradictory to the overall trends in the market where most truck and automakers are splitting up in order to find partners in the same industry so that efficiencies can be created (Commerzbank Securities, Sep. 2000).

One of the main weaknesses of Scania in Czech Republic is the lack of freedom the dealer has. Scania Czech has to turn to the headquarters in Södertälje to ask for permission to change such things as pricing. This makes Scania Czech very inflexible and it is difficult for the company to adjust ups and downs in the market (Knoph, 2000). Scania Czech is not sending out any information or newsletters to customers or to prospect customers (Kafka Transport, 2000). The service Scania provides is average according to the customers. Scania was a first mover into the Czech market, but has not been able to capitalize on the first mover advantage. Increased competition is one of the reasons why Scania has not been so successful in the market (Knoph, 2000).

6.2.6 *Future Outlook*

Scania may be in a position in the future where it has a difficult time to find production and research and development synergies. Volkswagen has expressed its interest in purchasing another truck producer and if this happens the outlook for Scania will look brighter (Commerzbank Securities, 2000).

6.3 Mercedes (MD)

6.3.1 Objectives

In the Czech market the objectives for Mercedes are the same as for the other “A members”; to increase revenues and find a strong position in the market (Knoph, Sep. 2000). Overall, Mercedes wants to secure its position as the number one truck producer in the world and is doing so by acquiring and forming joint ventures with competitors around the world (Commerzbank Securities, Sep. 2000).

6.3.2 Corporate Strategy

The company is a part of the Daimler Chrysler group, which also includes passenger cars, buses and aerospace. Mercedes is pursuing a global diversification strategy. The truck division ranges from light to heavy trucks, all in the upper segments of their respective niche. The company practice vertical integration, and has in house financing and co-operation agreements with trailer producers. However, Mercedes also utilizes horizontal integration not just between its different truck divisions, but also between autos and trucks. In the near future a new van, built on the Mercedes-Benz A class platform, will be presented to the light truck market. This will open new doors for Mercedes and expand the business in new directions (Commerzbank Securities, Sep. 2000).

Mercedes trucks is the world’s leading truck producer. Through various acquisitions in the different markets throughout world the company has attained strong market shares all over the globe. During the last six months the company has taken over Detroit Diesel and Western Star trucks in the US, and has formed a commercial vehicle joint venture with Hyundai in Asia. In addition, Mercedes has also bought a 34% stake in Mitsubishi Motors. The various acquisitions and joint ventures show that the Daimler Chrysler group still views the truck business as being an essential part of the overall product portfolio. Mercedes is strongly participating in the global truck race that has been led by Volvo Truck so far (Commerzbank Securities, Sep. 2000).

6.3.3 Business Strategy

The business strategy in the truck division pursued by Mercedes is a differentiation strategy. The company produces high quality, premium priced trucks, which are all the top of the line in each respective segment (Commerzbank Securities, Sep. 2000). However, Mercedes is trying to keep its prices lower than Volvo and Scania. This way they undercut competition (Knoph, 2000).

6.3.4 Central and Eastern European markets

Mercedes has seen an upswing in all its markets. The European markets have so far been somewhat of a home base for the company. In the Czech market, Mercedes is the market leader in heavy trucks (Commerzbank Securities, 2000).

6.3.5 Resources and Capabilities

6.3.5.1 *Strengths*

One of the major strengths of Mercedes is its size and world wide coverage. The various acquisitions and joint ventures undertaken by the company the last few years should provide the company with an excellent platform for synergies in production and R&D in the future.

The company is also solid financially and is therefore able to provide customers with good financing terms, a capability that will become increasingly important in the future. In the Czech truck market, Mercedes even finances trucks sold by Volvo and Scania (Kafka Transport, 2000). By doing so the company is stealing profits that could have been earned by Volvo or Scania. The favorable financing terms also help build close relationships as customers value financial services highly. In addition to good financing, Mercedes also has good co-operation agreements with various trailer producers and in the Czech market one of the owners of Schmitz is a part owner of Mercedes, which makes the two companies cooperate effectively (Besico, 2000). The truck division keeps showing good numbers and profits are expected to stay up in Europe while they are expected to drop in the US, due to a decline in the US truck industry. The increase in the profits is largely due to efforts of

streamlining the products, improved production and integration of overseas operations (Commerzbank Securities, Sep. 2000).

6.3.5.2 Weaknesses

In the Czech market one of the major weaknesses of Mercedes is its lousy service. The service at Mercedes is often poorly performed and takes long, and sometimes the trucks have to be shipped to Germany. For customers it costs a lot of money to have the trucks out of usage for a long time. The poor service also lays a foundation of dissatisfaction with the customers and could potentially mean that a customer will switch to another supplier (Besico, 2000).

One of the major weaknesses of Mercedes Czech is the poor customer relationships. In addition, the quality of the trucks has turned out to be lower than what customers expected, and many customers are now switching to other brands. Finally, Mercedes are not sending out any information like the “Globetrotter” newsletter that Volvo sends out to its customers (Kafka Transport, 2000).

Mercedes loyalty programs are not as developed as those of Scania and Volvo. The company has not yet understood what potential the aftermarket brings and therefore has not developed loyalty programs for service (Knoph, 2000).

6.4 Benchmarking

The three players, VTCz, Scania and Mercedes, are slightly different in their products and value added services. Therefore many customers prefer to have all three as suppliers and not bind themselves to just one company. Volvo should look at the differences and benchmark its competitors in order to excel in the market and satisfy its customers' needs.

6.4.1 Price

The three players are all using differentiation strategies. However, Mercedes is trying to have prices slightly under that of Scania and Volvo. Volvo has the highest prices even if the differences are small.

6.4.2 Service

Mercedes is poor at providing service and this lowers the overall customer experience with the company. Scania is average concerning service. In the Czech market VTCz is the market leader in terms of service, but service could be made even better as there have been some complaints that service is not always outstanding (Besico, 2000).

6.4.3 Personal relationships

Scania has a few partnerships with a few customers and those relationships are very strong. The partner agreements lead to integrative relationships and create mutual dependence between the partners. In addition, it leads to a flexible form of relationships where both parties are very concerned about each other and the success of the relationship. Mutual dependence can be one of the strongest sources in gaining trust and commitment from partners. Both parties are as vulnerable if the relationship fails. Moreover, Scania has strong relationships with some of the “split” customers (customers that have several makes) (Besico, 2000). Customers think that the relationships they have with Mercedes are the worst. The service experience together with poor quality are reasons why the relationship quality with Mercedes is low. VTCz’s relationships are overall satisfying.

6.4.4 Total solutions, financing and trailer agreements

Both Scania and Mercedes are providing their customers with in-house financing. This form of financing is convenient for the customers as they do not have to go to another company and can get the whole deal set up during one meeting (Kafka Transport, 2000). Mercedes has close cooperation with the trailer producers Schmitz in Czech, as one of the owners is the owner of Mercedes in Czech. Scania also has cooperation agreements with trailer producers. VTCz, however, has had some problems with cooperation agreements as VTC in Europe co-operates with Schmitz, but in the Czech market it is not possible due to the ownership structure of Mercedes. VTCz is now working on getting a new cooperation agreement with another trailer producer. So, while both Mercedes and Scania are able to provide their customers with one whole package, including financing and trailers, VTCz still

has to direct its customers to outside businesses in order to get the whole package set up (Knoph, 2000).

6.4.5 Information

VTCz has established continuous communication with its customer by sending out the monthly “Globetrotter” newsletter. The newsletter is sent out to customers and prospect customers. Only one other competitor, DAF, is sending out a similar newsletter. None of the major competitors, Mercedes or Scania, is sending out any sort of information to its customers (Besico, 2000).

6.4.6 Informal adaptations

Volvo is open to product adaptations and sometimes does adaptations that should have been made by the trailer producer because they want the customers to be satisfied. So, in some instances Volvo takes on extra costs in order to build value for the customers and keep customer loyalty. Informal adaptations to the trucks take place in the production plants in Belgium and Göteborg, but some minor adaptations are also made in Czech Republic. However, even though VTCz is trying to satisfy its customers, the customers sometimes have to turn to a competitor because VTCz can not fit the truck to the trailer. Mercedes is the best of the “three A members” in making informal adaptations in the trucks. Scania is not as good as Mercedes, but is better than Volvo. (Besico, 2000).

6.4.7 Total costs

Volvo’s customers are very happy with the total costs of their trucks. The total costs have gone down for many customers the last few years even though there has been a rise in fuel costs. Mercedes is not as good as Volvo in keeping down the total costs. This is mainly due to the fact that Mercedes trucks need to be serviced more often and they consume more fuel (Kafka transport, Besico, 2000).

6.4.8 Loyalty programs

Volvo and Scania have the best loyalty programs of the three “A members”. According to the manager for VTCz this is due to the fact that Swedish companies have realized the potential the aftermarket provides. The aftermarket brings a lot of profit to the producers and accounts for a large part

of the total profits. Therefore it needs to be developed in the best possible way so that the companies can utilize the potential. To implement loyalty programs that concern service is one step in using this potential. The programs Scania and VTCz are using in the Czech market are very much alike and build on the same principles. Mercedes has not yet developed systems that are as good (Knoph, 2000).

7. EMPIRICAL DATA ANALYSIS- SOCIETAL SECTOR

In this chapter I will analyze the findings from the societal institutions. Due to the problem of the thesis I have decided to concentrate on culture and business mores. I will start with general cultural traits, then move into the linkages and finally talk about trust and commitment in the Czech market. The material was collected through interviews. The results can be found in appendix 2 under the societal sector.

7.1 Introduction to the Czech Republic

Historically Czech was a part of the Austro-Hungarian Empire. In 1918, the Czech Republic became its own state (however, the German and Austrian ties are still strong). After the WW II the country “was given” (according to the Czech people) to the USSR by the allied forces. At this time the Czechs and Slovaks were put together as one country. In 1968, after an intensifying unease among the people, Russian tanks moved into Prague to suppress the rising unease (The Prague Spring). As a result the country's borders were sealed and they stayed sealed until the 17th of November 1989. After the “velvet revolution” in 1989, Czechoslovakia finally broke free from 40 years of communist ruling and suppression. In 1993, the country split up into the Czech and Slovak Republics and the two states became independent. Czech Republic borders Poland, Germany, Austria and Slovakia (Stratton and Rott, 2000).

7.2 The culture

The communist system and the time Czech was under Russian influence has affected the Czech people in two different ways. First it has affected the culture, in terms of values and how people are. But it has also changed the way things are done. Comparing Russia to Czech can give a somewhat skewed picture as Russia was and still is more influenced by the communist system. The 40 years Czech was under influence of communism was not long enough to change the basic values of the culture. In addition, Czech was for a long time

a leading industrial nation and therefore the road back to an open market economy and western society will not as be long for Czech as it will be for Russia (Zumr, 2000).

7.2.1 Motivation

According to several respondents, both Czech and foreign, a major difference from “before and now” is motivation. People in Czech are today motivated to work, there are incentives, such as commission for working hard and doing a good job. Those incentives were lacking before. During the communist era people were promoted due to political connections and performance had little to do with it. Bribes and corruption were other ways of getting promoted. In addition, there were pre-set routes for how to climb the career ladder. All this caused demotivation among people. However, that has all changed and just looking around in Prague one can tell that this is true. Stores are open long hours and one often sees people going to work on a Saturday. The younger generation is eager to attain Western standards and to get more money in their pockets (Laczova, Stankova, and D. Rott, 2000).

According to Stankova, Czech people are risk takers, they do not turn down opportunities and they are not afraid of failure. This is because for so long there were no opportunities. People are motivated and are eager to take chances in the Czech society today.

7.2.2 Importance of personal relationships

A large influence that the communist system had on people is their fear of showing feelings. During the communist era it was better to keep feelings and thoughts inside and not let other people know what was going on within. It was a protective mechanism; people were scared of what would happen if they said what they felt. School was like an army camp and kids were forced to learn and constantly put to the test by the teachers, often in front of the whole class. It was only to the family that people really opened up and showed their true selves and therefore the family was very important to people (Stankova, 2000).

Besides providing a “safe base”, the family friends provided opportunities for doing business, being promoted etc (Stankova and Laczova, 2000).

Nevertheless, one should know that in Czech as all other countries the family does not always have to be the party you bond with the best. One of the respondents said that he/she did not trust some of their family members and would rather interact and have a relationship with someone outside the family.

However, the importance of family is slowly changing. One of the driving forces behind the changes are influences from private companies. As in most western countries the employers are trying to create environments that are similar to the family one. They want their employees to feel like the company is a family, with its own values and codes. In the future companies will become more important for the Czechs. Considering how the situation used to be, when people went to their jobs with no motivation or incentive and the family was the only place you dared to say certain things and act certain ways, it is a dramatic change (Lorentzon and Zumr, 2000). One of the respondents claims that relationships with the family are becoming less important in Czech Republic. This is different from neighboring countries Slovakia and Hungary, where relationships with the family are important and remain important (Laczova, 2000).

According to Stankova, Czech people want to have smooth relationships. They are not so passionate and do not like many ups and downs. A relationship should be a stabile ground to stand on.

7.2.3 Time to form relationships

It takes a long time to form relationships with Czech people and considering the past it is not surprising. According to a few respondents that have insights into the American, Swedish and Czech cultures, it takes much longer than in the US, where relationships are fairly shallow, but also longer than in countries like Sweden where the relationships are relatively deep. In addition, according to a respondent that is Slovak/Hungarian, the formation of relationships in Czech takes longer than in neighboring countries Slovakia and Hungary where people are more open. One should also be aware of the fact that in the south people are more open and easy going and relationships are more easily formed there (Laczova, Lorentzon, Stankova, and D. Rott, 2000).

7.2.4 Distinctions between generations

All the respondents pointed out the importance to separate the older and younger generations when looking at the Czech culture. The older generation, consisting of grandparents and middle aged people (45 years and up), has been more influenced by the communist system; its way of living and doing business.

The older generation is today in the upper 50s and are therefore naturally important in society. Many top management positions are today occupied by the older generation and they also are influential in politics and other parts of the society. However, those people often lack the special skills and experiences needed in order to conduct business in a market economy (D. Rott and Zúmr, 2000).

The younger generation has not been directly influenced by the communist system in the same way as the older generation. However, the communist system keeps haunting the younger generation as they get insufficient education and experience. There are few teachers with the right skills and practice to teach the younger generation. The result is that the younger generation come out into working life without the fundamental skills they need in order to conduct business in an effective and modern manner. Younger people are interested in learning new things and they want to learn. But the tools are not always there for them and therefore they can not take advantage of new technology or modern things. The infrastructure may be insufficient and may not be able to support new technology.

Moreover, the younger generation has a much easier time to adapt to new situations, while the older generation is a bit rigid and tend to stick to old habits.

7.2.5 Lack of business sense

Related to the discussion about differences between the generations is the general lack of business sense among Czechs. Expatriates coming back to Czech with western values and experience in their luggage helps the country to

adapt to a market economy and the way business is done in such an economy. In general though, there is a lack of business culture, business history and business ethics (Zumr, 2000).

Many people in Czech are concerned about making as much money as possible as fast as possible. There is no real sense of customer service or building up customer loyalty. Business is often very inflexible and it is difficult to get special prices or deals (D. Rott, 2000). As an example, it is difficult to bring back goods that you bought at a store. Another example is when I once ordered a hot chocolate in a coffee shop in Prague. The waitress asked me if I wanted cream on top and I said that I would like that. This was only to realize when I was going to pay that the cream turned out to be almost as expensive as the chocolate. As a result I have never gone back to the place. People do not understand the concept of “repeat customers” or building customer value, neither do they understand what effects competition has. Ten years ago I would have been forced to go back to the same place to get my hot chocolate, however, today there are so many choices and due to the lousy service I am choosing other places.

Companies are not used to taking stakeholders into account when making decisions. Managers have never had to care about others when doing business (D. Rott, 2000).

7.3 Linkages

There are many features that go hand in hand and often times all the various features are needed in order for the relationship to be beneficial to the customer. Overall one can say that social and financial ties are the two most important linking factors. But the other linkages are also important and make a difference when linking the customer to the company.

7.3.1 Social linkage

In order to fully understand business relationships and life in Czech Republic it is important to go back in history. During communism there were certain companies that dealt with import and export of goods. Each company was specialized in certain consumer or industrial goods and each company had its own niche and market. There was no competition as specific companies had monopoly in the market. After the Velvet Revolution in 1989, the people that had been working for these companies started their own import or export companies, as they were the only ones that had connections both inside and outside the country (these now belong to the older generation). So, the older generation built up their businesses based upon their old personal contacts. This is due not only to the fact that the older generation is used to utilizing personal contacts when doing business, but also because these personal relationships give them a competitive advantage as they are the only ones with relationships established during the communist system. For the older generation the social linkage (personal relationships) is very important when establishing business (D. Rott and Zumr, 2000). With the older generation the process of developing relationships takes longer and they are formed in more traditional ways with trade councils and trade fairs involved (Zumr, 2000).

The younger generation, which is almost untouched by the communist system with its rules and behavior, has very few connections in the old system and therefore has to start from scratch when building relationships. They have no old connections that they can use in the same way as the older generation can. Relationships are always a significant part of doing business, but for the younger generation the personal relationships are not the sole variable on which the business is founded. Further, the younger generation has adapted the western values and ways of doing business. With the younger generation the business relationships are similar to the ones in the west, especially Sweden. Swedes and younger Czechs have an easy time to get along because the cultures are somewhat similar and people respect each other and the backgrounds. Establishing relationships with people from the younger generation is easier compared with the older generation, and the process is not as long (Zumr, 2000).

Moreover, not only are there differences in the younger and older generations but also in the different markets. According to the Swedish trade council in Prague, roughly 30-40% of the existing relationships in various industries have a foundation in the old system. However, this also varies depending on markets and old system and old generation relationships are more important in traditional industrial markets, such as gas. However, as the older generation is going into retirement within the next ten years, the importance of having those old systems, old generation relationships are likely to vanish. Instead business will be based upon western values, competition and relationships different from the old ones (Zumr, 2000).

In order to establish relationships (with both generations) social connections are useful and common interests can bridge gaps. Referrals from mutual friends carry a lot of weight and a person being referred has an easier time to establish a relationship with a third party (D. Rott, 2000). One should also be aware of the fact that there is a lot of lobbying taking place in the Czech business markets and political influences continue to be great, especially in traditional markets (Zumr, 2000). To be able to build a relationship with a Czech, a person needs to prove himself and that he is serious about establishing a relationship. If a foreigner establishes a relationship, it helps to have an understanding of the culture and to respect the culture (Stankova, 2000).

Relationships are formed smoother and quicker between Czechs than between Czechs and foreigners mainly due to the language barrier that still exists.

7.3.2 Financial linkage

Solvency and financing difficulties continue to be a problem for Czech business and often companies can not pay on time. Payments should not be taken for granted in Czech. Sometimes a customer can not pay because they in turn has not been paid by their customers; it is a domino effect. It is important and necessary for companies wanting to do business in Czech to have financing packages (Zumr, 2000).

In the truck market financial solutions are a must as the trucks are so expensive. In the Czech market, Mercedes has a major advantage in that they can provide quick, easy and good financing for its customers. Many Volvo and Scania customers have Mercedes finance their trucks. The financing makes the relationship easier and more long-term. The financing also forms a foundation for building a long-term relationship and there has to be a continuous contact between the supplier and the customer (Kafka transport, Besico, 2000).

7.3.3 Service

Service is becoming increasingly important in the CE markets and today it is crucial to have good service and availability of spare parts in order to satisfy customer demands. This is especially true for the truck and car industries. In the Czech truck industry a customer seeks out a supplier with good service. If service turns out to be unsatisfactory, it is a valid reason for the customer to leave the supplier. Poor service also affects the personal relationships and could destroy an otherwise good relationship (Zumr, 2000).

Historically, spare parts and service stations availability were poor, which led to many truck owners doing their own repairs to save time and money. This is changing due to the complexity and sophistication of the new trucks. One of the factors that has made Skoda and VW so popular and successful in this market is that they have many service stations and there are always spare parts available. Service was in the past one of the parts missing in business. As there was monopoly nobody cared about giving service. Today therefore, service is greatly appreciated and a company that can provide its customers with good service will be in a favorable situation (Zumr, 2000).

7.3.4 Product

Both VTCz and its customers claim that traditionally in the Czech market price has been an important factor in linking the customer to the supplier. However, price is becoming less and less important and customers are becoming more concerned about quality and other intangible features of the product. But this also relates to what type of product it is; if it is a consumer or industrial product. As trucks are high involvement industrial goods the product bonding

becomes a variable for Volvo to take into consideration. Czechs are becoming aware of the fact that quality usually pays off in the long run and therefore price is becoming less important in the truck industry even though it is still remains as a decision variable. VTCz has a great advantage in its brand name and the brand and the quality bond the customers to VTCz (Besico, 2000).

The technical advancements are a part of the product and play a substantial role in the linkage between the product and the customer. The Czech customers are becoming more interested in technology and now realize what technology can do for their company. Many of the customers are also eager for Czech Republic's entrance into the EU as the logistics industry will most probably grow, due to the strategic location of Czech in the heart of Europe. The customers know that there are higher standards in the EU and are preparing themselves for the entry (Kafka Transport, 2000).

Highly related to the product are the informal adaptations in the product and the value added services. In the truck industry informal adaptations become an important aspect of customer bonding. For a truck company it is important with informal adaptations as the trailers need to be fitted to the truck as perfectly as possible for maximum loading. If a producer can not make the necessary adaptations to the truck, the customer have to turn to another supplier. Other informal adaptations necessary are the financial adaptations that are very important due to the solvency problems many customers have (Knoph, Besico 2000).

7.3.5 Information

If a company is interested in attaining and exchanging information depends on the management. A smart and developing company wants to share information with its partners, so that in return the company can get information and learn. The younger generation is fact finders. They enjoy finding facts and learning about products. The younger generation is open to information sharing and development, while the older generation relies on its existing knowledge and the already established relationships (Zumr, 2000).

Information bonding in the truck market has not been so important, but with technological developments it will become important in the future. However, simpler forms of information exchange are greatly appreciated by customers. The customers are very concerned about getting information regarding products, the market, and new developments. Research and statistics of test results are valued sources of information. The customer wants to know what is going on in the market and the industry. They want to know about upcoming models and enhancements and it is an advantage for a company if they supply this kind of information to the customers (Besico, 2000).

7.4 Dissatisfaction factors in the Czech truck industry

In the truck industry in Czech Republic factors such as service, price, and overall experience with the product are significant and are often the reason for a customer to switch to another supplier. All those parts need to work well, if one of them is slacking or missing then the customer will probably start to look for a new supplier. Personal relationships are also important, but a customer will not stay with a company just because the relationships are great; the tangible factors are too important (Besico, 2000). In addition, a customer expects to get special treatment for being a faithful and long-term customer. Such treatment could be price reductions and quantity discounts and if this special treatment is not given then it is a reason for the customer to leave the supplier (Besico and Kafka Transport, 2000).

One company said that they had bought Mercedes trucks because of their good financing terms, good reputation of the brand, and technologically advanced products. What initiated the interest for Mercedes were their advertising campaigns, which received a huge response from buyers. However, after a while the company realized that the quality was not so good, service was bad and the trucks turned out to cost a lot. Service was poor due to overloading. After this unsatisfactory experience the customer started to look for a new supplier (Kafka Transport, 2000).

Other reasons for switching to another supplier are personal referrals. Word of mouth is a powerful marketing tool in the trucking business. The history of a company and the reputation of the brand is another factor for why a company wants to try another product (Kafka Transport, 2000).

7.5 Trust and commitment

7.5.1 Trust and commitment in the Czech society

Almost all respondents agree that overall trust carries the same value as it does in western countries. It means that you can rely on a person, group or company and that the party will not fail you or leave you stranded. In Czech, trust is something that takes a long time to establish. The communist system and its rules of conduct is still affecting people and as a result trust is hard to establish with Czech people. People in general do not have faith in other people or believe what they are saying. Consequently, Czechs have a tendency to only rely on and trust their immediate family and as an outsider it takes a long time before being admitted into the inner circle. Despite the lack of trust among people, it is considered to be an important ingredient in relationships.

A prerequisite for establishing commitment is that trust is established first. Therefore, it is not surprising that commitment is low in the Czech Republic. Both the Czech and foreigners that I interviewed agreed that on the whole, people in the Czech Republic tend to have low levels of commitment and tend to be less committed to tasks, people etc than people in western countries. Past experiences with fairness, truthfulness, honesty and reliability form the foundation upon which the commitment is to be built. If those experiences are bad, which they often were during the communist era, then there is no foundation to build the commitment upon (D. Rott, 2000). However, according to Laczova, Czech people show a higher degree of commitment than to neighboring countries Slovakia and Hungary.

Connected to commitment is loyalty. Three of the respondents claimed that loyalty is something Czechs save for their families, they do not bother to be loyal to a new acquaintance or friend. This also has to do with the fact that

Czechs are a bit egoistic, lazy and not very honest. One foreign respondent said that even if there is an established relationship one can not always count on the friend being there to support you. But of course there are always individual cases and loyalty has a lot to do with the situation and the individuals involved.

7.5.2 Trust and commitment in business

A few of the respondents said that even though people know it is important to have trust in others when doing business, few people actually do have faith in their partners. Once again the communist system haunts the Czechs, they have a hard time establishing trust because of the bribing, corruption and other unethical behavior that has taken place in the business environment in the past. Some of these behaviors linger on, so when doing business it is hard to know the intentions of your partner. Are they genuinely interested in you, or are they just trying to rip you off? As one business man said “I hope my clients have faith in me and trust me. I personally have no trust in my clients. In the different clubs where I am a member I also have a hard time to trust people just because people are not always truthful”.

The younger generation has more trust in people in general and is more open when doing business. The older generation tends to only trust the partners with whom they have a established social relationship. The older generation tends to go behind peoples backs when doing business. This relates back to the fact that the older generation keeps carrying out business the way it was done during the communist times, when bribes and corruption were common parts of business (Zumr, 2000).

7.5.3 Trust and commitment with westerners

All of the Czech respondents said that during the communist era most Czechs thought of the west as being the source of truth. There was no truth to be found anywhere within their own country; politicians lied, the newspapers were full of faulty information etc. Most of the respondents also said that many people in Czech still think that Czech companies are doing some dirty business and are using bribes in order to conduct business. In addition, there is a lot more bureaucracy in Czech companies and it is often easier to deal with a western company. Czech people have always viewed the Americans as truthful and

honest. Stankova and Laczova said that in most instances working for, or representing a western company can be a major advantage since westerners are seen to be truthful and fair. Often Czechs think of a westerner as a more serious business partner.

A few of the respondents said that Czech people have a tendency to act better if they are engaged in a relationship with a foreigner either professionally or personally. However, the relationship may take on a different form than a Czech to Czech relationship as the intentions of the Czechs may be egoistic and of pure self interest. Western companies have more resources and often bring in new technology etc so people believe that they can learn something by working for or with a western company. Therefore, as Czechs think they can gain something from the interaction they will behave better and will try harder.

7.5.4 Relationships with Swedish companies

According to the Swedish trade council, Czechs and Swedes have good relationships. Sweden is highly respected in the Czech society and common interest such as sports ties the two countries together. Moreover, Sweden exported many different goods to Czech during the communist era, and now that helps as the companies have built up an image of high quality goods. During the communist era, all foreign goods looked good in the eyes of the Czechs. However, most Swedish companies have not taken advantage of the beneficial image the country has in the Czech market. Investors should be more aggressive and use the image more. At the same time, Swedish companies are often bad at using Czech resources and are choosing of importing parts and materials to Czech. Other companies such as Mercedes are using parts from Czech producers and this helps bring up the image of Mercedes. In general German investors have been more aggressive than Swedish ones and have taken advantage of strategic windows that existed (Zumr, 2000).

Western companies should use this competitive advantage better as it makes a difference when establishing personal relationships and building brand name (Zumr, 2000).

8. MAJOR CONCLUSIONS

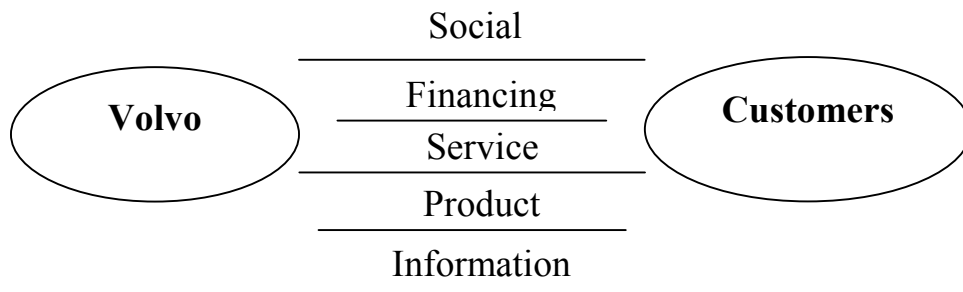
In this section certain major conclusions will be drawn. During the research I have discovered that relationships in the Czech market take on a different form than they do in western markets. The background affects not only the way relationships are built and their significance, but also first mover advantages. I will compare the existing theories with the reality in the truck industry in Czech Republic in order to see what holds true for the market.

8.1 Linkages

Jansson (1999) states that there are five major linkages that a firm can use to link its customer to the company; product, information, knowledge, social and finance. For the truck industry in the Czech Republic those five linkages change. The changes are also partially due to the fact that VTCz is a dealer (sales and service) and not a producer. Knowledge is not a relevant linkage and instead service is added.

One constantly has to be aware of the fact that the younger and older generations in Czech carry some values that are different and it is extremely important to distinguish between the two. Most of the respondents said that it is wrong to generalize and put the two groups together. The younger generation of Czechs is somewhere between their old culture (generation) and western cultures such as Sweden. One constantly has to keep this in mind in order to make a true judgment.

Fig. 8.1 Linkages in the truck industry in Czech Republic



Source: Jansson, 1999 Modified

8.1.1 Social linkage

Ford (1998) states that personal relationships (social) are the most powerful linkage that a company can have with its customers. In the Czech truck market the social ties are more important with the older generation and especially in the establishment phase. However, the social ties and the interaction between VTCz and all its customers has to be smooth and well functioning otherwise the customer will leave the company. In addition the social linkage can help correct flaws in the other linkages and therefore it has the power to make the overall relationship stronger.

In Czech a person needs to prove to the other party that they are serious about the relationship and that they respect the relationship. I believe that VTCz can prove themselves through the other linkages. So, if the other linkages (financing, service, product and information) are working well then VTCz has proved themselves and there is a more stable ground to build the social relationship upon. The social ties are important but they are not by far the sole variable that the relationship is based upon, all the other variables need to be well functioning as well.

8.1.2 Service linkage

Jansson (1999) includes service under the product linkage as it is one of the features of the product. However, in the Czech truck market it is so important that it has to be stated as its own linkage. Customers need to have good service,

otherwise they lose money. Bad service also brings down the total cost of the truck and affects the image of the product. In the end poor service affects the quality of the relationship. Excellent service is crucial in order to be successful in the market.

8.1.3 Financial linkage

According to Lehtinen (1996) the former centrally planned economies are turbulent and many companies lack solvency and reliability. Financing has been said to be the most valuable ingredient in order to be competitive in the formerly centrally planned economies. In the Czech truck market financing is very important since customers can not afford to buy a truck if they are unable to get financing. Few customers, if any, can afford to buy an expensive good such as a truck with cash. So without financing there will be no business. Customers are now able to attain financing from banks and leasing companies. However, terms at those companies are often bad and it is a hustle for the customer to attain the financing. Therefore the financial services that VTCz can provide its customers with will be highly valuable.

8.1.4 Product linkage

Jansson (1999) claims that products are important when linking the customers to the company. This is true for the Czech truck market as well. The quality of the product and the technical advancements are getting more and more important in the market. People are now beginning to understand the concept of quality and reliability and in the future those attributes will only become more important. VTCz should be in a very favorable spot as the company has excellent technology and this will only improve with the production and research synergies that the acquisition of Renault provides.

8.1.5 Information linkage

According to Jansson (1999) information sharing can be a very strong link between a producer and its customer. In the Czech market, information is yet not a significant link; however, in the future it will gain more importance. One reason is that customers are getting more and more interested in attaining information about products and comparing various products. Another reason is that the trucks are getting more sophisticated and information is linked to the

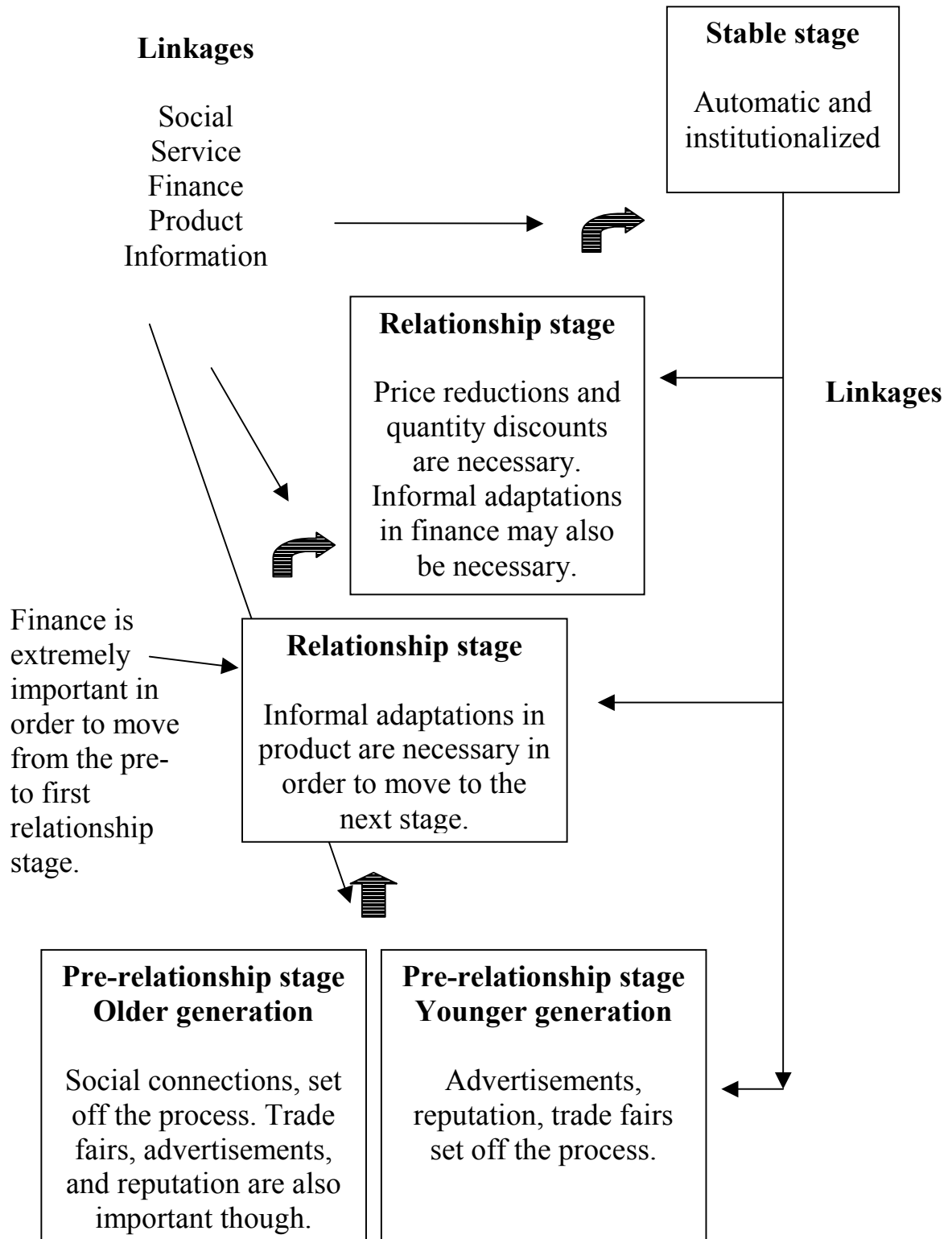
technology of the trucks. So in the future it will be possible to give customers information about the trucks by reading off the meters etc in the trucks.

Currently, information is a nice way to build customer loyalty and have interaction with the customers.

8.2 The development of relationships

The development process looks different in the truck market in the Czech Republic than it does for other western markets. The process is in general longer and for the older generation it is a bit longer than for the younger generation. To see the original model see figure 2.2.

Fig. 8.2 The process of development of buyer-seller relationships in the truck market in Czech Republic



Source: Ford, 1998

8.2.1 Pre-relationship stage

In the Czech truck market the relationship development process is set off by advertisements, trade fairs, and the reputation of the company. With the older generation social ties are necessary when establishing the relationship, it makes the process much easier and sometimes it may be the only way to establish relationships. However, VTCz needs to be aware of the differences that exist between industries. In traditional industries social connections are very important and often the only way to conduct business. For a sales person it is an advantage to know already before what the customers want or expect.

In addition, financial solutions must be available for the customers or the process will never be set off. Compared to the west very few customers in Czech can afford to buy a truck in cash and financial solutions therefore become necessary in order for a relationship to start.

8.2.2 Relationship stages

In the second stage in the west, commitment is of great importance and in the third stage learning, adaptations, and informal adaptations take place. This is slightly different from the situation in the Czech truck market where I have chosen to call the next two stages the relationship stage. According to Ford (1998) informal adaptations have to be made in order to move the relationship to the stable level. However, informal adaptations in the product are necessary already in the first relationship stage in Czech, as it is a crucial determinant for whether the customer will buy the product or not. Informal adaptations so that the truck and trailer can fit together are extremely important and if these can not be made the relationship may not develop any further. The customer then has to look for a new supplier and the supplier has to start looking for new customers. For example, one of VTCz best customers chose not to buy a Volvo truck because VTCz were not able to make the necessary adaptations to the truck. The customer went to Mercedes instead, as they could provide the customer with the solution he wanted. Other customers have also said the same thing. VTCz has to be able to provide the customers with a truck that can be fitted to any kind of trailer. Competitors can do this, so why can not Volvo? In

addition, VTCz needs to solve the trailer partner issue so that whole solutions can be provided to the customers.

In the second relationship stage other informal adaptations such as financial plans and payment conditions may become crucial for the continuance of the relationship. In addition to informal adaptations, price reductions and quantity discounts become very important. Customers expect special treatment after being regular and faithful customers. If there are no quantity discounts or special prices customers may leave VTCz.

There is little commitment and trust by any of the parties in either of these relationship stages. Throughout these relationship stages VTCz needs to be flexible and try to cater to each individual customer and adapt the products and the value added to meet the customers needs and expectations.

8.2.3 Stable stage

The last stage in the west is characterized by stability and mutual value sharing. For VTCz the situation will be different. A prerequisite for the relationship to develop and deepen is that the customer and VTCz feels that the overall experience has been satisfactory. Trust and commitment between the partners can be reached in this last stage; the parties then reach a situation similar to the ones in western markets. However, there may be no trust and commitment between the parties and the relationship may never even reach such a high level as it can in the west, due to the lack of trust and commitment among the Czechs. For VTCz I believe it is rather difficult to reach this stage. The company needs to offer the customers products that integrate the customers' products so that deep bonds and mutual value sharing can be established.

8.2.4 The linkages role in the development process

The linkages work as both bonding and dissatisfaction factors and can appear at any of the stages in the development process. If any of the linkages are not met, then the relationship process will fail and the partners will go back to the pre-relationship stage with another supplier or customer. So the linkages are a way of moving the relationship forward towards a more integrative stage, but they

can also spoil the whole relationship. As a result it is extremely important that the linkages work well.

8.2.5 Trust and commitment

Due to the background and the impact that communism had on people many, Czechs have little faith in others and it takes very long to establish any kind of trust and commitment. In order for VTCz to attain trust and commitment the relationship must have been existing for a long time and the company must prove over and over that they can trust and rely on VTCz (Besico, 2000). Therefore, trust and commitment comes into the process at the last stable stage instead of during the exploratory stage as it does in the west. Instead other variables are important. If VTCz can successfully fulfill these other variables, it also builds a ground for the establishment of trust and commitment. But it is also important to notice that the younger generation have a bit more trust and commitment in their partners than the older generation does. Therefore trust and commitment can be established a little earlier with the younger generation.

8.2.6 First mover advantages

Jansson (1999) and Lehtinen (1996), have stated that it is important to establish customer relationships in these markets, but that is also said to become harder as a second mover. A first mover can establish trust and commitment with its customers and make the customer reliant upon the company.

Relationships built upon social connections are important and are key to achieving success in traditional industries in Czech Republic. The truck industry in itself is not considered as being one of these traditional industries and therefore, one can not say that the old social connections are crucial for VTCz in order to be successful in the Czech market. However, if customers belong to one of these traditional industries it may make a difference, but few of VTCz's customer actually do belong to any of these industries.

Further, trying to establish a first mover advantage in the market by building relationships based on social connections will not create a sustainable advantage in itself. The customers value other factors (service, financing, and product) highly and are willing to switch to another supplier if one of those

other factors is unsatisfactory. One can look at Mercedes and Scania; both companies moved into the market approximately five years before Volvo and had sufficient time to capitalize on the first mover advantage, but they did not. The relationships they built up the first couple of years before Volvo came into the market were not enough to keep the customers and VTCz has been able to catch up. Mercedes followed up its initial strong advertising campaign with lousy service and lower product quality than the customers expected and lost market share (Besico, 2000). Scania moved into the market with a excellent product and service, but the other competitors soon had the same offering and Scania lost market share (Kafka Transport, 2000).

Using financial services is the best way to get a first mover advantage that can be sustained. The financing and solvency are problems for most companies in the Czech Republic and they are therefore heavily dependent on financial solutions. Mercedes has been successful in providing its customers with financial solutions and has built strong bonds with its customers through the financial services. Many customers that would have left due to the poor service and unmet product expectations are staying with Mercedes due to the financial bond and the good financing terms (Besico and Kafka Transport, 2000). If VTCz could implement financial services, those solutions will tie the customer to VTCz, as payments have to be made for a long time. So, even if a customer wanted like to pull out of a relationship, it would be very difficult.

It is harder and more difficult for a second mover to come into the market and be successful. But in the truck market one can not say that personal relationships provide a company with a long-term first mover advantage. The old social connections are becoming less and less important in order to conduct and establish business. The younger generation has no connections in the old system and does not use those connections. In addition, the customers are willing to open up to new companies if they can provide with a product and value added services that are better than what is currently being used by the customers. It is not a problem for Volvo to establish close relationships, even

though they have moved in to the market later as long as they can provide their customers with competitive solutions and products.

Furthermore, relationships are very short term focused and Czech people see little incentive in building long term relationships. I believe this is why the relationships look the way they do that they are more “hard value” (service, finance etc) oriented instead of “soft value” (trust, commitment) oriented. It is not strange however that the relationships take on this form. Solvency problems are a huge problem for many businesses and there are many failures in the various markets, short term is the only secure perspective, the long term is just too uncertain. All those factors also result in the fact that relationships and business are transaction based. There is little integration between partners.

8.3 Competitive strategy

The competitive strategy is the means by which a company competes.

8.3.1 Price

Price remains one of the most important purchasing factors in the truck industry; however, as in the car industry the truck industry becomes more about being able to provide “whole packages” to the customers. Such packages include service, financing and trailers. In the future the value-added services will provide the companies with the most profits and also lead to competitive advantages (Commerzbank Securities, Sep. 2000).

VTCz is not competing on price, but tries to compete on the value added attributes and want customers to focus less on price and more on value added benefits and the total costs. VTCz, does not consider producers that have lower priced trucks to be major competitors. However, Mercedes is trying to price their trucks lower than both Volvo and Scania. So, even if they all compete on differentiation strategies, price is still important.

8.3.2 Promotion

8.3.2.1 *Direct mail*

VTCz is the only company together with DAF (which is not considered to be one of the major competitors) that sends out a magazine to customers and potential customers. It is a great opportunity to give the customers and the prospective customers the information many of them crave. It builds brand awareness, but also customer loyalty and VTCz should continue doing this and

even try to improve the magazine so that competitors will have a harder time to copy it.

8.3.2.2 *Branding*

VTCz has done a good job with its brand advertisement. There is a high awareness in the market and VTCz was able to build market share quickly due to effective marketing. In addition, Czechs are very impressed by western companies. They believe that western companies are more truthful and sell/produce high quality products. VTCz needs to play on this and use it. It is a free advertising concept and it is there to be used. However, all the members of the “A group” have this reputation and VTCz needs to find a concept that separates them from the crowd.

8.3.2.3 *Word of mouth advertising*

Referral from a friend carries a lot of weight in the market and VTCz needs to make sure the customers are happy with the relationships, products and services so that they will spread positive critique. Czech people trust their friends and are likely to try a product they have been referred to. Word of mouth advertising is an effective way to reach customers and build customer loyalty.

8.3.2.4 *Integrate the database into the promotion mix*

VTCz has a database over its customers and it is updated regularly. However, the sales staff could use the database more efficiently. The database is an effective tool in building closer customer relationships since it helps the sales

people to better meet the customers need and it should be used in everyday activities. If VTCz wants to implement more of a relationship marketing strategy then money needs to flow from the marketing budget into IT so that the database can be expanded to contain more information about the customers and competitors' customers.

8.3.2.5 Loyalty programs

Loyalty programs is one of the best ways to build up a relationship with a customer, it promotes loyalty and long term commitment from the customer's side. VTCz has loyalty programs concerning both the trucks and the service. The customers expect to be rewarded for buying many trucks or being a long term customer, if they do not get rewarded they will probably leave for another supplier.

8.3.3 Personal selling

VTCz needs to build the same flexible and mutual needed relationships as Scania has in order to establish trust and commitment. As said before it is hard to establish trust and commitment in the Czech market and therefore it becomes even more important to build relationships that are needed by both parties. If VTCz also is in a more vulnerable position, the customers are likely to open up to the relationship and make room for trust and commitment.

VTCz is flexible in terms of matching the sales people to the customers. This opens up the door for establishing trust and commitment as the customers can work with a person they like and have faith in.

8.3.3.1 Proactive interaction

Another important point to make is that VTCz should have a continuous dialogue with the customers. Today, many customers call VTCz instead of VTCz calling them. This approach that customers call VTCz is too inactive. There need to be more proactive actions from the sales staff. Customers should not have to call VTCz, if it is not a special case. Otherwise it is the sales staff's responsibility to make sure that the customer and VTCz have an ongoing relation.

8.3.3.2 *More education*

The sales force at VTCz is, just like the customers, affected by the cultural heritage and its implications. The older generation is likely to have traces from the communist way of doing business, some of those traces can reduce overall effectiveness and performance. The younger generation will lack some basic skills and knowledge even though they have not been directly influenced by the old system. Most of the employees of VTCz are likely to lack some fundamental business sense. They need to get up to date education and become aware of the concepts of relationship marketing, so that they can improve their business skills and become more successful in interacting with the customers.

8.3.4 *Place*

None of the three “A members” have production in the country and all of them bring in trucks from abroad. Therefore, distribution has little impact on the competitive situation and will not be analyzed any further.

8.4 Analysis of competitive advantage

8.4.1 *Total costs*

For a truck owner the monthly cost is the most important figure (price) when buying a truck and it is getting more important with the rise in fuel costs. The total cost includes price, service costs, durability and reliability, cost of parts and fuel consumption. VTCz has a competitive advantage in the total costs. Even though there has been a rise in fuel costs, the costs for VTCz’s customers have gone down.

None of the other “A group” members have been able to do this. The road to get where VTCz is today is rather long; Mercedes needs to improve the quality of the trucks and improve service. Those are major improvements and take a long time. Scania could catch up as their quality of the trucks are good and service better than Mercedes. However, I believe that Scania will run into trouble with costs in the future if the company can not create synergies with another truck manufacturer. Volvo is likely to be able to improve quality and technology even more due to the production synergies that the acquisition with

Renault provides with. Therefore, I believe that the competitive advantage VTCz has in the total costs is sustainable.

8.4.2 Total solutions

The differentiation strategy undertaken by VTCz is a good strategy if one looks at the way the market is going. One of the pillars of the differentiation strategy is to use value added services in order to increase the overall experience for the customer and justify the higher price of the product. Total solutions are becoming crucial in the truck industry and the differentiation strategy is therefore an excellent strategy to use. The companies pursuing low costs

strategies will face difficult times as they will have to integrate total solutions in order to stay competitive, but they will not be able to charge a premium price for them. So these companies will have higher costs, but will be restricted from charging the customers a higher price.

VTCz has a good starting point for the future; however, the company needs to add certain value added services in order to stay competitive in the future. First and foremost VTCz needs to have financial services in its product/service portfolio. Secondly, VTCz needs to solve the situation with the trailer agreements, because without it VTCz will not be as successful. Lastly, VTCz is losing customers due to the fact that Volvo is not always able to make the necessary adaptations in the trucks. Those three things are crucial for the future success of VTCz. The other players are better at this and therefore VTCz needs to catch up fast. I believe that VTCz can become very successful in the market if those three issues are solved. Today VTCz is the second largest supplier and was the last one in to the market, so in the future if those three issues are implemented it will be difficult for the competitors to beat VTCz if they do not introduce some radical strategies regarding quality, service and total costs.

8.4.2.1 *Financing*

Financial services are crucial in order to be competitive on the Czech market. VTCz is aware of the fact that the company needs to implement financial services and have in-house financing. First of all, VTCz will make a profit by

financing the trucks. Today Mercedes is making a profit from VTCz's customers as some of them take their trucks to Mercedes to get them financed. Secondly, it will build better relationships. The customers do not have to go to several different places in order to get financing for the trucks, so it is much easier for the customer. Finally, it will provide a bond between VTCz and the customers since there will be an ongoing interaction between VTCz and the customer. But most importantly, VTCz loses some customers due to the fact that they can not provide them with financing. Today Deutsche Bank and Volksbank turns down some of VTCz customers, and those customers have to turn to another supplier in order to buy their truck.

8.4.2.2 Trailer agreements

VTCz is aware of the fact that they need to establish a relationship with a trailer producer in order to stay competitive. It is crucial that this takes place as soon as possible as it is a part of the total solutions and those solutions are crucial for customer satisfaction. In addition, the relationship with VTCz will also be more valuable to the customer as the product they are buying requires a larger investment.

8.4.2.3 Informal adaptations

Even if VTCz tries to make informal adaptations to the trucks, the customers are not impressed by VTCz's efforts. Volvo are open to adaptations, but may not always be able to carry out the necessary adaptations to the trucks in order to satisfy their customers. Informal adaptation can also concern financing. The general solvency that is a problem for Czech businesses is also a problem for many of VTCz's customers. VTCz tries to work out special payment plans together with the customers and tries to help the customer instead of taking the trucks back (Knoph, 2000).

8.4.2.4 Service

VTCz is the market leader in terms of service; however, service can still be improved as it is a bit inconsistent. By improving service VTCz can differentiate itself from the competitors even further. The 24-hour action

service is giving Volvo a competitive advantage in the market. One improvement in service would be proactive service. VTCz should tell the customers when they have to bring in the truck, with the technology existing in the trucks this should be possible. This way service will take less time. In addition it will build customer loyalty since problems will be fixed before they actually become problems.

VTCz has said that there are sometimes problems with the service personnel as they are not always so concerned about the quality of the service. This is likely to result from older values and old business ethics. The service personnel are most likely not aware of the importance they have in building the overall success of VTCz. Even if they are told that they have to do a better job and do it consistently, they probably do not understand why. They also need to get some education about relationship marketing. I see it, together with paying commissions, as one way for VTCz to get rid off the inconsistency in service. In addition, the service people can become more involved in the overall relationship building process. For example, if a customer has had a truck on repair the service person should call the customer after a week or so and ask if everything is ok.

8.4.3 Human resources

8.4.3.1 Overloading

The sales staff at VTCz are heavily overloaded. The resources VTCz has are not enough to cover the customers in a proper way. VTCz has to assess its customers and the customer portfolio, so that some resources will be freed or VTCz has to hire more sales people. The customers are not getting sufficient support and attention today and if VTCz wants to implement a relationship marketing strategy, the personal interaction is even more crucial and there would be a need for a lot more human resources.

8.4.3.2 Recruitment

VTCz should use the importance that personal relationships actually have in the market and when recruiting new sales people the company should try to recruit

competitors' sales people. These people then come to VTCz with the right connections and it may be possible that they have such strong social ties with his/her clients that the clients are willing to switch supplier as well.

8.4.3.3 Commissions

VTCz should take advantage of the motivation drive Czech people have. People are willing to work hard if it pays off and most Czechs like commission and they work harder if they can get a commission. This is partly due to the fact that during the communist era there was no incentive to work hard and there were limited chances of getting promoted. Service personnel can also be paid on a commission base and it would give them an incentive to do a great job. Service needs to be outstanding as it is one of the most important linkages in the Czech market.

8.4.4 The customer portfolio

8.4.4.1 Revenue Generation over time

The net revenue of relationships is likely to vary over time. First there are a lot of initial investments in the relationship by both parties involved. Those investments include adaptations, administration, learning and handling of the relationship. The pay back time could be as long as several years. Management should be prepared that it takes a long time before a relationship becomes profitable (Ford, 1998).

It is a very important choice management makes when it decides how the customer portfolio should look. Some companies have a very narrow portfolio; trying to serve a very limited amount of customers. Other companies have wide portfolios consisting of many customers. VTCz can either increase its revenues by acquiring new customers or develop more business with existing customers. The following matrix shows the options available to a company in order to increase its revenues (Ford, 1998).

Fig 8.3 Strategic scope for revenue generation

		Customer Relationships	
		Existing	New
Relationship Scope	Existing	1	3
	New	2	4

Source: Ford (1998), p.85

There are four options for companies in order to increase their revenues. The first option is to increase the offering to the existing customers with the existing relationship scope (existing product offerings). This could be a result of increased business by the customer or because a customer is buying less from another supplier.

The second option is to widen the relationship scope (or product offering) to the existing customers. This is an important part of relationship marketing and usually is accomplished by introducing new services or products. For VTCz this option is the most suitable as the company wants to increase its revenues but not acquire more customers. In order to keep the same customers and still make more profits, VTCz needs to integrate financing into the product/service portfolio. VTCz also needs to be more flexible in adaptations to the products and finally VTCz should also make sure that all the customers go to Volvo service stations and not to independent ones. Those solutions increase the relationship scope and include new product areas. The result will be increased profits from the same customer base.

The third option is to broaden the relationship scope by acquiring new customers with the existing products. Lastly, the fourth option is to widen the

relationship scope (new products) and also widen its customer portfolio (new customers) (Ford, 1998). However, neither one of those solutions is an option as this is not what VTCz wants to do.

8.4.4.2 Customer portfolio

The customer portfolio requires planning, investment and management in order to be successful. The management of the portfolio not only includes the constellation of the portfolio, but also the short and long-term management of each relationship. At the same time VTCz should be aware of the fact that they are included in a similar portfolio.

Far from all relationships are profitable. Sometimes a company establishes a relationship with another company to get access to technology or knowledge and not to make a profit from the actual relationship. Relationships could also help spread costs that may be necessary in another relationship. For managers it becomes a tricky issue to balance the profitable and unprofitable relationships. On the one hand they have to make sure that they have relationships that provide qualitative input (information, knowledge etc), but the company also needs to get some quantitative input (money) in order to survive.

VTCz's resources are not abundant and therefore if the company spends more time in one relationship, less time can be given to another. Over stretching the resources can lead to failure in establishing new relationships and existing ones will suffer due to a lack of attention. This has led many companies to focus on customer retention instead of always trying to chase new customers (Ford, 1998). However, as stated before, it is possible for companies to extend their customer relationships and grow, but there needs to be an awareness that resources put into new relationships are at the expense of already existing relationships.

The customer portfolio is managed approximately the same way as a financial portfolio. The investments have to be balanced, with different risks and rewards in order to maximize the outcome. However, there are some differences

between a financial and a relationship portfolio. First, the customer portfolio requires a wider range of investments, ranging from money and time to process development skills and physical resources. Further, the customer portfolio is perishable, it requires continuous maintenance but the returns can be a lot greater than from a financial portfolio. In addition, in the relationship portfolio there is risk of a carry-over effect. What happens in other relationships in the portfolio can affect the other relationships.

8.4.4.3 Customer segmentation portfolio

I have chosen the customer segmentation portfolio out of several models that show how to segment the customers, in order to show how VTCz should assess and segment its customers for the future. The benefit of using this model instead of another one is that it is easy to understand while still being thorough.

Fig. 8.4 Segmentation of customer portfolio

Customers- Current	Profitable	Manage	Reward ★ and Invest
	Unprofitable	Fire	Discipline
		Unprofitable	Profitable
		Customers- Future	

Source: Gordon (1998) p.43

The star customers of the company belong to the category reward and invest. Those customers are profitable today and will continue to be so in the future. VTCz should reward these customers and more money should be invested in them. Customers belonging to this category are, for example, Shell, Coca Cola, Pepsi, various larger distribution companies and large international haulers. Targeting large companies is good from a financial standpoint. Smaller companies often have more solvency problems than large ones and if VTCz

targets large companies the solvency problem becomes less of an issue. The larger international companies are also more stable and are likely to survive the changes that are predicted to take place in the market when the country enters the EU. These companies are prepared for the changes and most of them have already adopted western standards etc.

The second category is the customers that are to be managed. These customers are today very profitable but are not likely to be so in the future. Maybe they are active in a declining industry. Customers belonging to this category could be customers belonging to an industry that is likely to go under due to Czech Republic's entry into the EU or any other external or internal forces. However, they have to be handled with care and there need to be many talks between the supplier and the customer so that both parties agree that the relationship will not be profitable for either party in the future.

Thirdly, there are customers that are not profitable today, but can be so in the future. These customers have to be disciplined so that they do not cost the supplier too much money right now, as they are not bringing in any profits. In Czech there could be many of these customers. Certain industries are likely to increase a lot when Czech Republic becomes an EU member. A potential membership of the Czech Republic is likely to change all the markets in the country. The country has a very strategic location in the heart of Europe and one could suspect that the logistics and transport industries will pick up a lot. It is also interesting to see what effects the membership will have on different industries. If VTCz could forecast how the market is likely to change then the company could target potential customers already now, and the company would know what industries are likely to grow and where the profitable customers will be.

Lastly, there are customers that are clearly unprofitable and that have to be fired by VTCz. Those customers are costing the company money, examples of such companies are small domestic firms. VTCz has some customers that they believe are unprofitable. Those customers are using old trucks and still demand

that there should be no problem with them. These companies are likely to be smaller companies and these could also have reoccurring problems with payments. Those customers consume a lot of human resources at VTCz. However, before they are terminated, they should be carefully analyzed so that no mistakes are made. In addition, VTCz should be aware of the fact that a competitive advantage can be earned if another company, like Scania or Mercedes, take on these customers. Another company will have to invest in these customers and will not be able to give other profitable customers the attention that they need. However, if the decision is taken to fire those customers then the firing should be done with care. No supplier want to have a reputation of firing is customers brutally and being a bad partner.

8.5 Theoretical conclusions

Following is a summarization of the theoretical conclusions. However, figure 8.2 also provides with a through picture of how relationships and the establishment of those relationships work in the Czech market. So, in order to get the best understanding of the situation the following theoretical conclusions should be used in addition to figure 8.2.

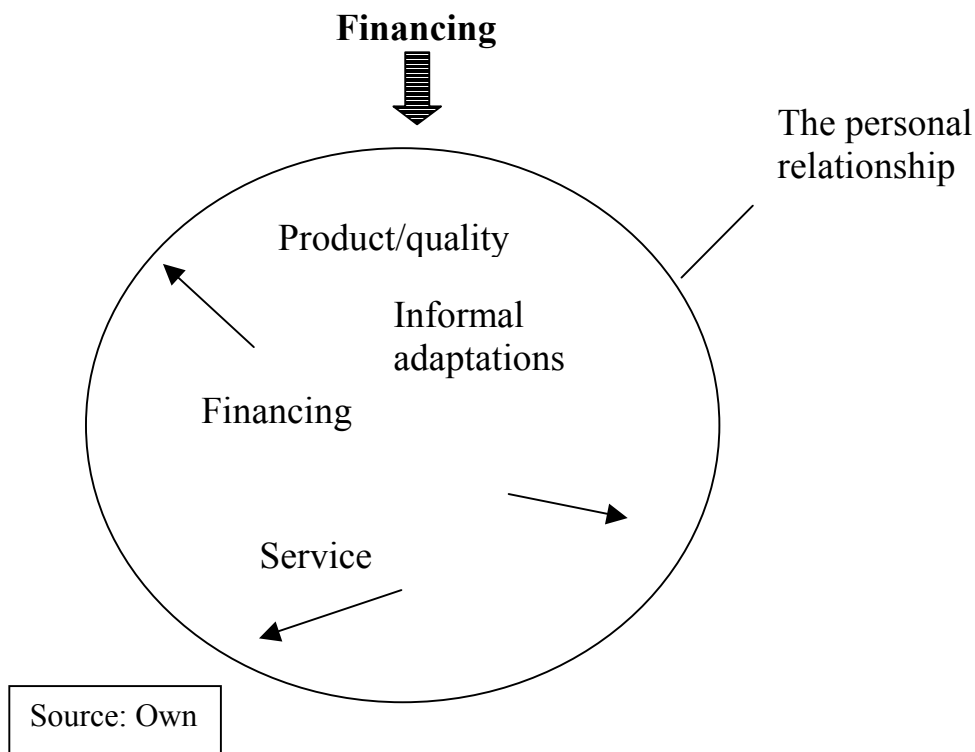
First of all, a company active in the Czech truck market must have financing or be able to provide financing to its customers. If financing can not be given, then the customer will not be able to start the relationship, as most customers are not likely to be able to purchase a truck in cash.

When the relationship has been established; financing, service, informal adaptations and the quality of the truck become very important for the continuance of the relationship. Those variables need to be excellent otherwise the customer will not be satisfied and will choose to start a relationship with another supplier instead. Financing is not only important in order for the relationship to start but is also a significant variable in the relationship. In addition, since there is a lack of trust and commitment among the customers, it is even more important that those factors function well. The company will

prove themselves (to be reliable, honest, sincere etc) to the customer by being able to deliver a product and valued added services that are consistent and of high quality and it will create some sort of trust and commitment with the customer.

The personal relationship in itself has the power to make the whole relationship stronger, so that when one of the variables is performing poorly, strong personal relationships can sustain the negative pressure. Therefore the personal relationship is important in order to succeed in the market. However, if too many of the factors (service, financing, informal adaptations, quality) do not work or one is performing really badly it does not matter how strong the personal relationship is, it will not be able to sustain these forces and the customer will seek out a new supplier. Following is a model that summarizes this in visual way.

Fig. 8.5 Relationships in the Czech truck market



8.6 My final thoughts

Industrial marketing in the Czech market is according to me likely to become more “normalized”, it will become more like western industrial marketing. I do not believe that relationship marketing will become more important in these markets than in western ones in the future. The way relationships are built and maintained is likely to change in the next ten years. The older generation then goes into retirement and the younger generation attains important positions in society. The younger generation has no connections in the old markets, so in the future there is no need for business to be based upon old personal relationships and connections. In addition, the younger generation is very infatuated by western cultures and wants to become westernized. Czech Republic’s membership in the European Union is also likely, according to me, to push the values towards the western ones. I therefore believe that in ten to fifteen years, values will converge to western ones and industrial marketing will be more “normal or westernized”.

9. RECOMMENDATIONS TO VTCZ

In addition to the above conclusions, I will give some additional recommendations to VTCz. Those recommendations include strategic recommendations and what should be done in the future in order for VTCz to stay competitive in the market and be able to build more of a relationship marketing strategy.

9.1 Price vs. Total solutions

VTCz is today lacking some of the total solutions needed in order to be successful in the Czech market. It is even more shocking if one considers the fact that there are price variations within the “A group” and that VTCz has the highest price in the market, but is still not able to provide all the necessary and fundamental total solutions to its customers. VTCz should be the best at providing these solutions, instead Mercedes that has the lowest price out of the three is able to provide those total solutions to the customers.

Total solutions increase the value of the offer, which provides for a more flexible pricing. But total solutions also establish a stronger bond between the customer and VTCz, due to more continuous communication. However, the solutions (financing, service, informal adaptations, product) need to be better than the competitors' if VTCz is to gain a competitive advantage from it. If VTCz wants to keep its high price, the total solutions are crucial in order to stay successful. If the total solutions can not be implemented, then VTCz has to lower prices in order to stay competitive. I believe that it should be no problem to add the total solutions necessary if one considers that VTC has them, they just need to give them to VTCz. In addition, VTC needs to become more aware of the fact that informal adaptations in the trucks are crucial for the customers and they are losing customers if those adaptations can not be made.

On the positive side, VTCz has the lowest total costs in the market while still having the highest prices and this clearly shows how good the trucks are. VTCz

needs to let customers know that even if the initial price is high the total cost per month is actually lower than for a Mercedes owner.

9.2 Promotion

Regarding promotion, VTCz should keep doing what the company has been doing so far, the promotion works well and should be kept almost the same. However, minor improvements have to be made in order for VTCz to be more successful in a relationship marketing strategy.

The loyalty programs, as said before, are an important ingredient in building long term relationships with the customers. VTCz's service loyalty program is being improved and that is very good; however, so far the program only includes the really big customers. I feel that the service program should include all the customers, this way VTCz would get more out of it and it would build better relationships with all customers. The volume based loyalty programs, concerning the quantity of the trucks bought, could be improved and include other variables. Comparing the system with the "frequent flier" programs (some of the most developed loyalty programs) there could be many improvements. For example, a frequent flier gets upgraded for free if there are available seats, they have certain relaxing lounges to go to during the trip, they can bring extra luggage etc. All those extras build customer loyalty. VTCz should for example let its frequent buyers go to the front of the queue when they need service.

VTCz is on the right track regarding the loyalty programs but the company should not stop developing it. It should always be developed to better meet the customers needs, so that the relationship between VTCz and its customers can be improved and the customer will be more tied to VTCz.

If VTCz wants to implement more relationship marketing, money needs to go from the "regular" marketing budget into human resources and the database. The employees are the most valuable resource in a successful relationship

marketing strategy. However, the employees also need help from the database in order to perform optimally. So, even if the marketing is to be kept almost the same, some changes have to take place. The database is necessary because it helps the sales people to build stronger customer relationships and loyalty. In addition, VTCz can also plug in information about competitors' customers so that a proactive approach can be taken in order to have those customers choose a Volvo truck the next time they purchase a truck. Following are some suggestions of areas where the database could be used:

-Service or sales people could call a customer that had the truck in service a month ago to ask if everything is ok.

-Sales people can call a customer ahead of time when the truck is getting old and ask if the customer has thought about getting a new truck and make suggestions or schedule a time for a visit.

-It can be used to send Christmas gifts, anniversary gifts and birthday gifts to the most loyal customers.

When using the database it becomes easy for the sales people or service personnel to access this kind of information and personalize the interaction with the customers. A well functioning, loaded database is a useful tool in order to build customer loyalty in a cost effective and efficient way, it helps the sales and service personnel do their job better.

In the advertising campaigns VTCz should utilize the competitive advantages the company has regarding the brand. There are two such competitive advantages; Volvo's brand name and "old customer loyalty". The brand name, Volvo, is well recognized in the market and Volvo was also present in the market during communism and earned customer loyalty many years before competitors did. Those two factors separate VTCz from its competitors and this concept needs to be utilized. In addition, VTCz is doing a good job with its sales force. The company is using native Czech sales people, who have an

easier time building relationships due to language barriers, together with the favorable image of Volvo.

Because “word of mouth” advertising is so effective in the market it is also important not to spoil the favorable image of Volvo. In order not to do this VTCz has to keep promises, this is something the sales people are very good at, but the message needs to be communicated to all employees at all levels, from service personnel to top management.

9.3 Proactive interaction

Today the old customers and the sales staff at VTCz have a fairly automatic relationship. This is nice for VTCz in one way as they do not need to waste resources on these customers. But at the same time it can be dangerous if the relationship becomes too automatic. Then the sales people may not be able to respond to customers' needs, and the customers may choose to go to another supplier instead. The same is true for the new customers that know the trucks. Those customers are not getting as much help and support from the sales people as they may want or need. This can result in a bad service experience even before the relationship has moved into the second phase and therefore the customers may choose to enter the first stage again with another supplier. This costs money for both VTCz and the customers. The customers that are not familiar with the products receive a more proactive approach from the sales people. This sort of approach is what all the customers need, even the ones that have been customers for a long time. Otherwise, the two parties may move in opposite directions creating a gap between them that will be hard to overcome; they will grow apart!

I suspect the inactive approach taken by the sales people could be related to the fact, which many of the Czech respondents pointed out, that Czechs are a bit lazy. Another reason, which I believe is more likely, is the fact that there is a deficit of human resources at VTCz. The employees have too much to do, they do not have the time to be proactive. VTCz needs to hire more people.

Meanwhile, it is crucial that the sales people recognize the problem and try to be more proactive.

9.4 Benchmarking

VTCz should benchmark other Volvo dealers around the world in order to understand how they work and what strategies they have taken on. For example, to watch sales people in successful markets is a good way to get an indication of how to build relationships for the future. The Czech market is likely to change dramatically in the next fifteen years due to generation changes and EU membership. I believe that the Czech market is likely to look like a western market in the not too distant future. Therefore it is good for VTCz to benchmark Volvo dealers in western markets so that the company can plan a long-term strategy already now and be prepared when the changes take place.

Further, VTCz can also benchmark other companies in different industries in the Czech market. In order to make the benchmarking as easy as possible, it is best for VTCz to benchmark a company that is in a similar industry with similar products. It is harder to see similarities and differences from a company that is selling consumer goods as the market structure and the relationships look different.

10. FUTURE RESEARCH AREAS

In this section I will present future research areas for VTCz and academia. During the thesis writing I came across several topics that would be interesting areas for research in the future. The network perspective is also important before any final conclusions can be made.

10.1 The network perspective

VTCz is involved in a network that consists of competitors, suppliers, supplementary producers and customers. I had to limit my thesis to the customer side. However, in the VTCz case, a network perspective would have been interesting, as all the actors in the market are involved with each other. I also believe that VTCz would greatly benefit from engaging in a proactive network strategy. As time goes by, value added services and total solutions are becoming increasingly important in the truck industry and the network then becomes even more important. Cooperation between various players makes it easier to provide the customers with the solutions, but it is also necessary for the companies to cooperate with other companies in order to survive. Competition is constantly increasing and that puts pressure on companies to cut costs. In the truck industry this trend is picking up, many companies are merging so that synergies can be created.

Moreover, the relationship with VTC in Göteborg could be improved. Sometimes I got a feeling that there are many barriers within Volvo and therefore VTCz can not perform optimally. All the dealers around the world are not treated the same. The dealers are very independent but at the same time very dependent on what VTC lets them do. Sometimes the people at the headquarters do not know what is going on in the market and it would be better to give the dealers more freedom. So, looking into the relationship between VTC and its dealers around the world would be interesting. I believe that the company will be a lot more competitive if some of the internal barriers could be reduced.

As a conclusion, the network is the key to VTCz performance in the future, therefore it is important that all the nodes are well functioning and run smoothly.

10.2 Measuring Relationship Marketing

It is hard to sell a concept to a company without being able to measure it. Relationship marketing is highly qualitative and therefore hard to measure. Are there ways to measure relationship marketing? How can a successful relationship marketing strategy be measured? For the survival of relationship marketing management it is important that there are concrete ways to measure the outcome of an implemented strategy.

10.3 Changing cultures

Another interesting phenomenon I came across during the research was the changes that have taken place in the CE markets. These countries are changing, but researchers, businessmen, and tourists from the west do not see the changes, or disregard them. There are changes towards more western cultures, especially the younger generations are changing and are moving closer to the western values. In my opinion there are new cultures emerging in these markets. Cultures that are a mix of new and old values. Those changes affect business life in those countries.

My thesis is focused on the industrial marketing. However, changes are also likely to occur in the consumer side of marketing. How is it changing? What are the criteria for a successful marketing campaign today? Marketing is still not the same as in the west, but it has changed a lot the last ten years. Marketing campaigns are different from the ones in the west. Walking around in Prague one can see many ads that play on “sexual stimuli”, sometimes I have wondered if everything can be sold by the image of a half naked girl. There is a marketing culture emerging and it is formed by old and new values and the result is different from the western marketing. How can a western company that

sells consumer goods market its goods in these markets, attracting locals while still keeping its identity and western values?

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APPENDIX 1

Interview Guide

The societal institutions

Questions to people outside VTCz (no customers etc)

Country Culture

Background with the totalitarian (communist) system

Czech people

Business codes and the way business is carried out

Legal system

Perceptions of Western/Swedish companies

Trust

Commitment

Loyalty

Other values in relationships

Relationships- what does it mean

Second chances

Long time to form relationships

Differences in interaction- Czechs vs. foreigners

Steps to form relationships

Trade environment

Barriers to trade

First mover advantages

Swedish investors

Structure and importance of personal relationships

Time to form business relationships

Important factors

Bonding- How to establish the following

- *Product*
- *Information*

- *Knowledge*
- *Finance*
- *Social-personal*

Other important bonding factors

The organizational fields

Questions to VTCz

Questions regarding Volvo Truck Czech, to Are Knoph

Background

Resources

- *Tangible: Financial and Physical*
- *Intangible: Technology, Reputation and Culture*
- *Human: Socialized skills and knowledge, Communication and interactive abilities, Motivation*

Capabilities

Strategy and goals

Relationships with customers

Satisfaction

Marketing (what do you do today to attract customers)

How to build relationships

Questions regarding competition, to Are Knoph

Competitors current goals and objectives

Performance

Are goals likely to change?

Strategy- how is the firm competing

Assumptions the competitor may have

Resources and capabilities- strength and weaknesses of competitors

Experiences

Structure and importance of personal relationships

Informal adaptations

Bonding

-*Product*

-*Information*

-*Knowledge*

-*Finance*

-*Social*

Questions regarding Volvo Truck Czech, to Petr Kotrsal

Relationships- important factors

Relationships with customers

How to take contact

Competitors

Informal adaptations

Sales staff

Reasons for leaving Volvo

Quality of relationships

Tangible/Intangible criteria

Important criteria in relationships

First vs. Second movers

Questions to the customers

Questions regarding Volvo

How long with VTCz

Experience

Satisfaction

Future

Personal relationships

Questions regarding competitors

Scania- general

Mercedes- general

Differences between the three

Multiple suppliers- why?

Factors that makes you look for a new partner

Competition

Personal relationships

General questions

Important factors in products

Intangible features (service, relationships etc)

Tangible features (price, product)

Purchasing criteria

Partner

Relationships (important in decision making?)

Criteria (for forming relationships)

Trust

Commitment

Honesty

How to build relationships (facts)

How to build relationships (real life)

Bonding

- *Product*
- *Information*
- *Knowledge*
- *Finance*
- *Social*

How to attain those, which is most important (rank) and other ways to bond with Czech customers.

Negotiations

How to show serious interest

Informal adaptations

First vs. second movers