SME’s Alliance Dynamics in the Mobile Marketing Industry

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Abstract

This paper presents a case study of the two similar sized, new, technology-based firms acting as alliance partners in the Mobile commerce industry. The analysis describes how the alliance dynamics in our case study relate to seminal research in the field of business alliance formation. Contrary to the established predictions we find that the negative influence on alliance performance described as a consequence of the dissolved routinized alliance pattern by seminal authors is not present. At the same time, the case study shows that internalization of complementary assets does not by necessity result in dissolution of the business alliance as argued from a resource and competence based perspective.

Keywords: Business Alliance, Complementary Assets, Routine, M-commerce, Case study

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1. Introduction

Since its introduction in the 90’s, the cellular phone has had an immense success (Ahonen and Moore, 2007). Such is the success today that the mobile handset is considered the fourth technology worn by man adding to the traditional wallet, keys, and arguably the wrist watch, which by younger generations are seen to be substituted with the cellular phone, making it an ideal vehicle for individualised marketing (Bauer et al., 2005; Barnes and Scornavacca, 2004). With M-commerce – the use of mobile applications for any type of communication or commerce – still in its infancy, relatively few attempts have been made to explore the opportunities and challenges it poses to businesses operating in this industry (Urbaczewski et al., 2003). The bulk of scholars working with M-commerce perceive it as a special type of E-commerce (Liang and Wei, 2004; Wang and Liao, 2007). Research has primarily focused on the consumers’ perception of mobile applications, pointing out that the main value-adding elements of M-commerce are to be found in functional benefits – such as greater degree of convenience – as these are argued to be the primary drivers for adopting mobile services from a strategic perspective (Carlsson and Walden, 2002; Magura, 2003). In general, there is a lack of conceptual knowledge in the area of M-commerce (Mahatanankoon et al., 2005). In addition to this lack of conceptual knowledge, businesses in this new emerging industry of M-commerce are often new ventures still struggling to get a foothold on their core competencies. To these small businesses alliance formation can be – and is often – seen as a way of combining complementary assets to meet the demand of the customer (Teec, 2003).

2. Theoretical background

Following the seminal work of Kale et al. (2002) the alliance is defined as any independently initiated inter-firm link that involves exchange, sharing or co-development. In the alliance literature alliance formation has been described in a large body of the research literature as to obtain access to complementary assets possessed by other firms (Das and Teng, 2000; Teece, 2003) Determinants of alliance formation have often been studied from a resource- and competence-based perspective (Kogut, 1988; Grant and Baden-Fuller, 2004). Proponents of the social capital theory has concurrently argued that alliance formation cannot strictly be analyzed from a resource- and/or competence perspective, as repeated formation of alliances between the same
alliance partners leads to emerging trust between those partners as their behaviour becomes increasingly predictable to each other (Gulati, 1995; Shapiro et al., 1992). Building on this literature the preliminary expectation would be that stable and predictable relations between alliance partners – such as habitual partner roles – as well as partner complementarities in assets would have a positive influence on alliance performance as defined by Zollo et al. (2003).

3. Aim

The case study describes the alliance partners ‘OC’ and ‘KC’ both of which could be labeled new technology-based firms or NTBFs (Colombo et al., 2006). Two subsequent mutual business projects are introduced to supplement the presentation of ‘OC’ and ‘KC’. The case presentation is followed by an analysis devoted to highlight how the alliance dynamics in our case study relates to the traditional research in the field of business alliance formation as we aim to pinpoint differences in dynamics of alliance formation in the emerging industry of M-commerce. The intention is to contribute to the research based knowledge about business alliances in emerging industries simultaneously adding input to the practitioners’ discussion on alliance formation.

4. Methodology of the study and case description

Our case study follows the guidelines of the seminal work of Eisenhardt (1989) and Yin (1993, 1989) as our research design focuses on a single setting, which is embedded in a context both spatially and temporally. The case study facilitates a study of change as it focuses on the unit in its context. Our focus is the informal alliance drawn between the two M-application providers – ‘OC’ and ‘KC’. The two case firms have been selected from a larger population of SMEs involved in an ongoing research study in the M-commerce industry. The cases are built upon a rich data set consisting of observational studies, workshop meetings with each of the two firms, and formal as well as informal interviews with the founders of ‘OC’ and ‘KC’. All interviews etc. have been recorded and transcribed. Furthermore, several video documents have been recorded. The data was analyzed from a narrative perspective (Flick, 2009, pp.96) dealing with the development of the alliance.

4.1. Alliance partner ‘OC’ – Technical competencies

‘OC´s´ primary competence is web technologies (E-commerce, E-marketing, and CMS) as well as the innovative field of mobile technologies such as gateways and mobile-
applications. The business relations of ‘OC’ is primarily characterised by business-to-business as the firm’s core function is acting as sub-supplier of M-applications to other firms such as ‘KC’ (described below). One of the latest products has been to supply the M-application to the regional bus service company through the relation with ‘KC’. This M-application enables passengers to download the bus schedule to their handset. The schedule is in real time; it is continuously updated thus minimizing the time the passenger/customer will have to spend waiting at the bus stop. ‘OC’ was founded in 1999 by two of the now three formal owners. When ‘OC’ was founded it had a natural focus on SMS-services as this market had a high growth potential at the time. This rather narrow focus has since expanded a great deal and as a consequence the firm has – in spite of the relatively short evolutionary track – obtained a broad tech-knowledge based on both web and mobile technologies. Currently the firm has seven employees including the three founders. The broad business focus paired with the relatively small number of employees has resulted in outsourcing of standard assignments to sub-suppliers. This policy has to a large extent kept the new ‘difficult to handle’ yet innovative jobs in the firm thereby continuously adding to the company’s broad as well as deeply founded tech-knowledge base.

4.2. Alliance partner ‘KC’ – customer relations

‘KC’ had its original focus on E- and M-application to industrial gardening. As this market showed little sign of growth, the founder of ‘KC’ decided to focus on another business sector and entered into passenger information services. ‘KC’ initiated a business relation with the local municipality to deliver passenger information screens at the bus stops showing live information from the municipality’s transportation service. The deal was to a large extent the result of the local networks which the founder of ‘KC’ had managed to create in the preceding five years. The business relation has since been expanded as ‘KC’, in corporation with both the local bus transportation service and – most prominently – with the technical sub-supplier ‘OC’, has launched the SMS-ticket which is their most successful product to date. The small number of employees at ‘KC’ – three at the moment– have in some cases been a bottle neck with regards to large contracts but the cash flow of ‘KC’ does not presently allow for new employees. The bottle neck problem is a double-sided problem for ‘KC’ as they are dependent on their relatively small sized primary network partner ‘OC’. As a consequence thereof ‘KC’ is presently scanning the business environment for an alternative partner. The founder of ‘KC’ has explicitly informed the founders of ‘OC’ of this intent. This has by no means meant a decrease in trust or commitment in the cooperation by neither ‘OC’ nor ‘KC’. The ability to act as a connection between technical competencies and the end
The user of a product has, in many cases, proven to be the core competence of ‘KC’. The founder points to understanding the technology behind the customer interface, the ability to visualise the product to the potential customer, and the ability to establish a network containing the right competencies to solve a problem as key success factors of the venture.

4.3. Business Project 1: SMS ticket system – business partner FyB

FyB is a regional public bus transportation company operating in the region of one of the largest provincial towns in Denmark. The company is the sole operator of buses in city area and also a major operator of the regional and local in the rural areas surrounding the provincial capital. In the recent years the public transportation service has seen stagnation pointing towards a decline in the number of passengers, secondly the costs of operation has escalated. FyB has met this challenge by increasing the convenience of using public bus transportation parallel to a focus on the demands of younger people. The SMS-ticket was initially introduced to do this dual job as it integrates a simple-to-use product to public passenger transport services and an appealing method of payment to the younger segment of customers. Once implemented by the transportation company passengers only need to enter a code on their handset. In return they get a receipt which acts as a ticket. The fare will subsequently be added to the passenger’s cellular phone bill. Following the launch of the SMS-application FyB had a sharp increase in passengers as the number of fares rose by five percent a week in the introductory month. Thus, the SMS-ticket proved an instant success to both the business alliance of ‘OC’/’KC’ and to FyB. As the product is sought to be a standard solution applicable to all public transportation the strategy is to make a bid on a similar project spanning all public transportation in the Danish capital Copenhagen. The invitation to submit tenders for this project was due late August 2008. Both ‘OC’ and ‘KC’ perceive this as the gate way to sell their product to other major cities in Europe.

Figure 1 below depicts the network involved in the SMS-ticket project with the local transportation service company FyB as external partner. The strength of the relational ties is illustrated through the use of different arrow thickness. Consequently the tie between ‘KC’ and ‘OC’ is marked with the thickest arrow.
The SMS-ticket application – launched in February 2008 – draws its valued proposition primarily from the increased convenience for passengers, as they do not need to carry around change or buy tickets at official ticket offices. Added to this increase in customer convenience the bus operator is offered a solution to an alarming problem. Recently there has been an increase in bus driver muggings at bus stops in secluded areas. To counter this tendency new regulation has been introduced for money handling by the drivers much to the regret of the regular passengers because they have been confronted with a no-change policy and with odd ticket prices. This has been inconvenient for both passengers - as their option has been to pay too much for the ticket - and to the drivers who acted as clerks taking the angry customers’ complaints when they were denied change to their payment. In sum, the SMS ticket has erased the problem of money handling from the passenger handling equation solving the problem of mugging and concurrently adding to customer convenience. In addition to this comes a decrease in passenger boarding time, which is important on tight down town/rush hour bus schedules.

The network diagram in figure 1 illustrates how ‘KC’, situated as central node, has acted as the face or lead of the informal business alliance with ‘OC’ in the SMS-ticket
project in specific, but the diagram describes the more general case. In reality, ‘KC’ is the gatekeeper to ‘OC’s connection to the bus transportation company FyB which has also been the case of many of their former mutual business projects. This choice has been made deliberately by the alliance partners in order to counter misinformation and/or ambiguity in information to and from the external partner. Both the founders of ‘OC’ and ‘KC’ do not perceive this asymmetry in information as a problem because the ‘internal’ relations between the two businesses in most cases resemble that of one single company instead of two smaller ventures.

4.4. Business project 2: Mall mobile marketing – business partner ‘R’
The Mall – ‘R’ – is a large size mall relative to the typical Danish mall. Mall ‘R’ is situated on the outskirts of the third largest provincial city in Denmark. In and around this city there are no matching competitors though a number of smaller malls reside in the city area. The main competitors to ‘R’ are situated approximately one hour’s drive from its location respectively ‘F’ in the capital area and ‘K’ in another provincial city centre with approximately the same population density as in the case of ‘R’. ‘F’ is a newly built mall, which has its primary customer group residing in the capital area which is why ‘F’ is not seen as the primary competitor to the managers of our case mall ‘R’. ‘K’ is a traditional, well-known similar sized mall (around 150 shops) established in the early 90’s. It attracts customers from a large area intersecting the potential customers to ‘R’. But time has taken its toll on the facility of and today ‘K’ looks much too traditional adding to the image of an old maroon coloured mall. ‘R’ on the other hand contains a broad span of shops. Development plans include a further 9000 square meters of shopping floors which are supposed to be ready for the next calendar year are in progress. This physical development – also manifested through the increased use of natural lighting in the centre – is aimed at making the shopping experience convenient through having all shops in one location as much as it is meant to underpin an image of the modern mall, differentiating ‘R’ from its competitors. Most recently the managers of ‘R’ have followed the SMS-ticket project with the greatest interest. Stemming from the success seen as a consequence of the implemented payment system – the 5 percent increase factor – the mall managers have come to recognize M-applications as a promising strategic tool to further the development of convenient and modern customer service. The director of marketing at ‘R’ initially contacted ‘OC’ to clarify the possibilities of using M-applications as a strategic tool in the marketing mix of the mall. As a result, ‘OC’ was the natural lead and external liaison of the partners in the new project – Mall Mobil Marketing – as they
had the initial contact to the mall ‘R’ though this is unlike the habitual role of being a sub-supplier to ‘KC’.

**Figure 2: Diagram of the network involved in the mall mobile marketing project**

The network formed in the new project thus describes a change in the roles of the two partners. As illustrated in the above figure 2, ‘KC’s habitual role of being liaison to the end user or central node is interchanged with a position as sub-supplier of user interface to the alliance lead ‘OC’. Concurrently to this ‘OC’ is situated as a gatekeeper to ‘KC’ thereby mirroring the habitual role of ‘KC’ as illustrated in figure 1 (SMS-ticket network).

To ‘R’, M-applications have an obvious appeal as a marketing tool. Firstly, it allows the mall to advertise on location. Secondly, once permitted by the visitor the application enables the mall to advertise to the visitors at their location – most importantly when they are at home. In addition to these obvious incentives, the mall managers recognized a potential effect on the mall image as an added benefit of implementing an M-application. The alliance KC/OC – led by OC – perceived their entry into the Mall-project as part of an innovation of an existing product, namely the SMS-ticket application. This seemed the most natural entry mode to the tech-competent partner ‘OC’. Both ‘OC’ and ‘KC’ saw an opportunity to apply the existing knowledge from the SMS-ticket system into another context. As a result the alliance partners found it paramount to create an easy-to-use application that could be used by the everyday visitor at the mall.
5. The Alliance of ‘OC’ and ‘KC’

Though the final products in the above projects both seem simple they are the result of intense networking primarily between the NTBFs’ of ‘KC’ and ‘OC’ effectively forming an informal alliance between the two (see figure 1 & 2). In the following the alliance is conceptualized as any independently initiated inter firm link that involves exchange, sharing or co-development (Kale et al., 2002). The alliance formed between ‘OC’ and ‘KC’ is informal as it does not involve any formal contractual ties between the two alliance partners. The relation between the two is described mutually as being very strong and it is further strengthened through their ongoing projects as described by Gulati (1995). Research shows that repeated collaboration leads to the development of routinized interaction between the collaborative partners. This suggests that the stable interaction within the alliance enables faster achievement of the strategic objectives (Zollo et al., 2003). In the above case though, it seems that the stable alliance patterns have been broken as the roles of the partners have been interchanged. The routinized interaction described through ‘KC’s habitual role of liaison to the external partners (as illustrated in figure 1) is no longer the case in the mall-project. The alliance initiated in the mall-project (project 2) describes a divergence from known (routinized) patterns of interaction which according to Zollo et al. (2003) should have a negative influence on the performance of the informal alliance. In their study they define performance as being dependent on three interdependent measures. Firstly, alliance performance is dependent on ‘the satisfaction with the knowledge accumulated from participating in the collaborative agreement’ (Zollo et al., 2003; Hamel, 1991) which by both the founders of ‘OC and ‘KC’ was rated as unchanged throughout the new alliance formation. Second, performance is related to the extent to which the alliance created new opportunities for the firm (Zollo et al., 2003) as many authors consider opportunities to be an important value formed through collaboration (Kogut, 1991). The opposite seems to be the case as both ‘OC’ and ‘KC’ perceive new opportunities as a result of the new non-routinized alliance constellation. Thirdly, performance should be conceptualized as the degree to which the alliance satisfied the partnering to encapsulate the strategic intent of the alliance initialization. When it comes to the degree of satisfaction of both ‘OC’ and ‘KC’, the founders state a positive attitude towards the newly formed pattern. ‘KC’ explicitly states that the new project leaves room for engaging in new projects (with ‘OC’) as the role of sub-supplier it is not as time consuming as acting lead to the alliance. Thus, the negative influence on alliance performance predicted by Zollo et al. (2003) as a consequence of the dissolved
routinized alliance patterns it remains to be proven in the case of the ‘KC’/‘OC’. The partners are still primarily organized – in their newest projects – through an informal alliance aimed at developing new products and initiate new projects. Both ‘KC’ and ‘OC’ put a great deal of trust into their respective alliance partner in the dyad which is manifested through their non-contractual relations. This stems partly from the ongoing interaction in which familiarity of each others’ norms and behaviour has been reached (Shapiro et al., 1992). This could partly act as explanatory variables to the above contradiction. In the dyadic context of the ‘KC’/‘OC’-alliance habitual routines add to the synergic element of the alliance because it makes it easier for them to initiate new alliances between themselves (Cyert and March, 1992). Studies describe how repeated formation of alliances between the same alliance partners leads to emerging trust between the partners as their behaviour becomes increasingly predictable to each other. Determinants of alliance formation have also been studied in a resource- and competence-based perspective (Kogut, 1988; Grant and Baden-Fuller, 2004) both at firm and industry level. In general, firm-specific characteristics, firm size, the intensity of R&D expenses and the outcome of innovative activity have been highlighted as being positively associated with the likelihood of a firm being engaged in alliances (Colombo et al., Piva 2006; Hagedoorn et al., 2000). The (networking) alliance of ‘KC’/‘OC’ follows these predictions as they resemble each other in firm size as well as in sharing a high expense – time spent – in development of a finished product.

Among a large body of research on alliance formation Teece (2003) describes the wish of firms to obtain access to complementary assets possessed by other firms as their main incentive to alliance formation. Adding to this, the synergy obtained by the partners’ complementarities has been regarded by economists and managerial scholars as the primary incentive for alliance formation (Das and Teng, 2000). From this perspective it follows that the likelihood of cooperation grows when firms possess perceived valuable assets that make them attractive to other firms and these concurrently lack some complementary assets. As a corollary of this it should be stressed that these indicators are adding to the attractiveness if and only if an internationalization of the sought after asset(s) is perceived to be ineffective. From a resource- and competence based perspective, the two partners need each other to succeed as ‘OC’ lacks the competency of acting liaison to an end user. ‘KC’ on the other hand lacks the tech-competency of ‘OC’. The alliance ‘KC’/‘OC’ follows these predictions in prior projects such as the above described SMS-ticket project. But in opposition to the argument posed by Teece (2003) among others aiming at explaining alliance formation and continuance through conjoining of complementary assets’ –
technical knowhow and networking ability of ‘OC’ and ‘KC’ respectively – the case study shows a contrary tendency. In their newest project the alliance partners’ change of roles, which in effect, puts the partners in a situation where they act as their alliance complements. In opposition to the theoretical arguments put forward by several authors, the ‘KC’/‘OC’-alliance does not describe business relations in which each firm get access to their complementary assets as put forward by Teece (2003) which would result in a capitalization on the synergy argued to stem from this (Cyert and March 1992). In reality, acting lead of the alliance ‘OC’ is complementing their habitual alliance role of sub-supplier. Consequently ‘OC’ internalizes the sought after asset held ‘KC’ but without – as predicted by the theory arguments posed above – cutting their alliance to ‘KC’. From the theoretical argument based on a resource- and competence perspective this would foreshadow the end to the alliance. This, though, remains to be seen as ‘OC’/‘KC’ continue to form an informal business alliance venturing into new projects.

6. Conclusion

From the above it could be argued that the business model of both ‘OC’ as well as ‘KC’ includes alliance formation as the business model concept is defined by how a particular business is operating (Hamel, 2000). Through the introduction of two mutual business projects we have illustrated an alliance which is deeply rooted in both ‘OC’ and ‘KC’. The dynamics of the alliance in the emerging industry of M-commerce follow the prediction of Colombo et al. (2006) as the alliance partners resemble each other in firm size as well as sharing a high expense in developing of a finished product. As predicted by the theories of Teece (2003) the alliance is used by the small NTBCs to compensate for their small size and to get access to complementary assets technology know-how and enabling the firms to act as lead, respectively.

But as a supplement to these rather trivial findings our case study shows no apparent negative influence on the performance of the informal alliance stemming from the fracture of the routinized interaction between the collaborative partners otherwise predicted by Zollo et al. (2003). Secondly, in opposition to the argument of complementary assets (Teece 2003) our findings show signs of alliance continuance without an existence of complementary assets. ‘OC’ continues the alliance in spite of the internalization of the complementary assets of the alliance liaison.
7. Managerial Implications

The analysis of the case above clearly demonstrates that being a new firm in a new industry with a new business model is quite difficult. Using mobile technology to build new types of business is the aim of both firms in the case – even if their approaches are not identical. Both firms face problems and challenges in at least these areas:

- New technology. The mobile technology is not new in itself but using the technology for e.g. payment of bus tickets can be seen as a radical innovation.

- New industry. A lot of firms are selling mobile solutions – telephones etc. – but to use the technology for a service like the one in the aforementioned case can be seen as the first step towards a new industry.

- New business model – or maybe several business models. As Morris et al. (2005) point out that a successful, innovative entrepreneur is typically based on a new business model, new ways of seeing the customers, new types of revenue etc. Whether this is the case in terms of these two firms is maybe too early to answer.

- New partners and relations. As shown, both firms have to cooperate with a large number of partners and participants in the project – the bus company, the local municipality, telephone companies, ticket companies and so on.

This all adds up to an extremely complex task of dealing with all the abovementioned areas for both firms – and we have to remember that both are quite small and newly founded. How is this possible and what are the managerial implications? First of all, both firms can be described as *agile* – fast moving firms, which are able to establish new contacts and see new opportunities quickly. As shown, this is a result of the resources, which the companies and especially the founders have. These resources are not financial or founded on e.g. patents, but can be labeled as social capital.

The advice to new firms in an emerging industry is thus, to be extremely aware of their social capital – the relations and networks of especially the founders. Social capital, in itself, is not enough to build a successful firm, but combined with a technological and business knowledge – as evidenced in the case above – this is clearly the foundation for success.
References


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