Creating New Market Space
Business Development and Relationship Building in New Ventures

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Abstract

The rate of technological change and speed of technological diffusion are high in most industries. Structural changes and globalisation based on worldwide economic development are also adding to the complexity and uncertainty for many firms. However, the resulting market disequilibrium is also representing opportunities for entrepreneurial firms and creates possibilities for business development for others. Many firms are therefore involved in innovative activities where relationship building with different types of actors becomes intervened and interrelated. To some extent the relationship building can be based on existing actors, but in many business situations firms need to build up new, or reconsider prevailing relationships with actors in the business network. Taking examples with products from the innovative packaging sector, the aim with this paper is to highlight the interrelation between business development and relationship building with three types of actors. This relationship building can be discussed in relation to three different relationship archetypes – the business developer, the business innovator or the business inventor. These archetypes are also influenced by the important actors in the business network such as – investors, suppliers and customers.

Keyword: Business Development, Relationships, Supply Chain

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Introduction

The rate of technological change and the speed of technological diffusion are high in most industries. Structural changes and globalisation based on worldwide economic development are also adding to the complexity and uncertainty for many firms. The global dimension represents both direct and indirect opportunities and threats for the single firm. The resulting market disequilibrium from influencing driving forces and changes in the market are also representing opportunities for entrepreneurial firms and create possibilities for business development for others (Dimitratos et al., 2003; Hogg, 2003). Most managers want their product development projects to become breakthrough products that will enable their firms to grow, or to maintain high margins in the future. In most cases they will acquire incremental improvements for existing products, since they do not have the capacity, or knowledge to develop, or reach breakthrough products. On the other hand, improved products will immediately help the firm with product line extensions or higher customer satisfaction. Business development is a foundation that needs to offer a solid base for reaching a sustainable competitive advantage, the key to any successful business strategy (Aaker & McLoughlin, 2007). A sustainable competitive advantage is an element of the business strategy that provides a meaningful advantage over both existing and future competitors (Day & Wensley, 1988; Barney, 1991). Nordic pulp and paper mills is an example of an industry that provide a cost advantage due to its scale of economies, market power, logistical efficiencies, and value proposition for the customer and international location assets. A sustainable competitive advantage should be substantial enough to make a difference in relation to competitive offerings, since a marginal difference e.g. in quality is not enough. Sustainability also means that any advantage needs to be supported and enhanced over time (Day, 1994; Slater, 1996). Firms build competitive advantage by utilising a unique set of resources and competencies. Many successful and profitable business strategies are built on differentiation, offering customers something they value and that competitors cannot present. However, many firms concentrate only on their products and services, whereas a firm can differentiate itself at every point where it comes in contact with customers – from the moment customers realise they need a product or service, to the time when they make dispose of it.

The authors believe that if firms open up their strategic thinking to customers’ entire experience with a product; they can discover opportunities to position their offerings in relation to competitors. This will also enable management to develop, or reinforce the relationships with different customers. A business seeking to differentiate itself is based upon persuading customers that an offering is superior to that presented by competitors. A firm differentiating its product or service is creating something that is perceived within the industry as being unique. Differentiation can provide insulation against competitive rivalry due to brand loyalty by customers and resulting lower sensitivity to price. Differentiation can be based on product features, or by creating customer perceptions that a product is superior. This will also put pressure on the actors in a value chain in order to support different activities in favour of the differentiation. A differentiation strategy is likely to necessitate emphasis on innovation, awareness of particular customer needs and marketing. An important aspect to any partnership is the commitment of both parties to develop a relationship and demonstrating that in real activities for building trust in each other for the future. This can be done by investments in common projects, or by taking part in development work. Establishing long-term relationships is an important part of strategic marketing for any firm (Morgan & Strong, 2003). Previous research also shows that most firms in business markets have only a few customers and suppliers that account for the major part of their total sales and purchases. These relationships and relationships with third parties are crucial for the performance of the firm (Håkansson & Snehota, 1995).

Aim and Scope of the Paper

The purpose with this work-in-progress paper is to conceptually investigate how the processes of business development and relationship building are related in new ventures. Many companies are
involved in innovative activities where relationship building with different types of actors becomes intervened and interrelated. To some extent the relationship building can be based on existing actors, but in most situations companies need to build up new, or reconsider prevailing relationships with actors in the business network. The process of business development is an area that has reached some research interest, whereas product development has been studied by several scholars (Cooper & Kleinschmidt, 1993; Nijssen & Frambach, 2000; Griffin, 2002; Menon et. al., 2002). Innovation is another subject that has been studied from different aspects (Lynn, et. al., 1996; Cooper, 1998; von Hippel et al., 1999; Shepard & Ahmed, 2000; Chapman et. al., 2001). Relationships and relationship building is also a subject that has been studied by many scholars within the IMP group (Ford et.al, 1997; 1998; Håkansson & Snehota, 1995; Möller & Halinen, 2000; Ritter, et al. 2003; Mouzas, 2006). The subject matter is arguably important both for practice and academia. Even if there has been much ongoing research on product development and innovation on the one side, we believe that more should be done, conceptually and empirically, how this is interrelated with the business development process. In this process a firm has relationships with existing customers, but it can also be necessary to reinforce and work up relationships with new actors in the network. “A firm is embedded in a network of ongoing business and non-business relationships, which enable and constrain its performance” (Ritter, et al., 2004 p.175). The challenge for managers in a business development process is therefore to build relationships and thereby build a networking ability that enables the firm to connect different resources to other actors. This can be of particular importance in a business development project where it might be necessary to have the customer and other actors involved in the developing phase of the project. “In order that supplier-customer relationships develop over time, it is necessary for both suppliers and customers to make some degree of investment in relationships”(Turnbull, et al., 1996 p. 49). This paper is a part of a conceptual and empirical research project concerning business development and internationalisation within the Swedish manufacturing industry. Taking examples with products from the innovative packaging sector, the aim with this paper is to highlight the interrelation between business development and relationship building with three types of actors (investors, suppliers and customers). The paper presents three short narratives as a basis for a preliminary assessment when a firm is trying to introduce something that is different to the existing market. The rest of the paper is organised as follows. The next section continues with a theoretical point of departure followed by the research design and a section with the findings. The following section continues by analysing the interplay between the processes of business development in relation to relationship building and concludes with the implications of this analysis.

Theoretical Points of Departure

To be successful any company must be in tune with its business network. This also necessitates a strategic fit between what the company can provide and what is needed from customers in the network. Business development has therefore become an important area for meeting customer demand for a firm, but little research has been devoted to the subject area. Business development refers to the process of linking technological and market knowledge together, although the wider organisational and management implications could differ between diverse firms (Dougherty, 1992; Burgers et al., 2008).

Business Development

Business development requires that companies can build customer relationships with new and prevailing customers by leading change through innovation. The business development process can involve customers to participate in the design and progress of a new product, or service development process, but in most cases it is an internal affair. Business development can engage and involve multifunction groups within a company. A particular innovative company is Gore-Tex where the basic material with its unique attributes is used in sports wear and shoes. However, Gore-Tex has also been used in an innovative way in more than a thousand of different products such as for micro-
wave owns, isolation in mobile phones, filters, in heart operations and for guitars to mention a few of its other applications.

Figure 1: A conceptual Model of the Business Development Process

All industries are subject to external forces and trends that affect their business over a certain period of time. Most company’s management try to adapt by incremental steps and few are in a position to come up with breakthrough products, or services that will offer the company a completely new market. The market space needs to be created by developing existing product lines (von Hippel et al., 1999). In the business development process companies are searching for business opportunities that can provide possibilities for improving existing products, or offer ideas for innovations (Johne, 1999). A business opportunity is the option to do something differently and better than an existing solution. The possibility to exploit the business opportunity can also lead to an innovation and create a new market space for a company. One of the most common forms of innovation is the creation of a new product either by exploiting an existing technology, or by the outcome of a completely new technology (Cooper & Kleinschmidt, 1993; Cumming, 1998; Narayanan, 2001). A product offering is not just the physical core but can also play an important role for satisfying other needs such as emotional needs. Branding is an important aspect of this. This can give the company the possibility to differentiate the product from competitive offerings. Services are also open to new ideas and innovation just like a physical product (Oke, 2007). This is important since it is possible to be innovative by adding a customer service component to the product in order to make it more attractive to the end user. Development in product technology can even allow new stand alone service concepts to be innovated. Products and services are delivered by operating practices that to some extent can become routines. This can be the base for business development reaching new operating practices. Customers can in most cases only use products and services that they can access in their business operations. The distribution system is consequently an important element in business success. A distribution system offers a rich potential for innovation (Stank & Goldsby, 2000, Tan, 2001). This can be in the path of the distribution, or in the means of managing the distribution. A common innovation is to find a more direct route by cutting out distributors or middle-men in a supply chain (Christopher, 1998). A new way of delivering the product or service to the customer can obviously create new market space for any company. Presumptive customers will only use a product or service which is available and they know about. New means of informing customers about the
product concept create another opportunity to exploit business opportunities. Both the message that is promoted and the means, by which the market communication is done, give opportunity for innovative steps. The outcome of the business development process will to a great extent depend on the performance of the organisation. The structure of an organisation offers considerable scope for value creating innovations (Johne, 1999; Rainey, 2006). This can involve new ways of managing relationships within the organisation. Organisations are also sitting in a complex web of relationships with other organisations creating opportunity for new ways of managing relationships between organisations. Successful business development requires also access to necessary resources for creation of new business opportunities. The combination of resources will form the basis for reaching new market space by innovation. Management’s capability to build internal and external relationships is a fundamental base in the business development process (Rainey, 2006).

The interaction approach
Business relationships evolve through interaction processes (Gadde & Håkansson, 2007). Managing relationships with customers, suppliers, and competitors is now an integrated part of a firm’s agenda, either the firm is dealing with consumer, or industrial products. Management of buyer and seller relationships involves the consideration of a multiplicity of different relationship types (Håkansson & Snehota, 1995; Ford et al., 1998; Donaldson & O’Toole, 2000). The early stage of any relationship development begins often with an initial contact that over time can evolve to a level of institutionalisation where expectations of both parties are set. During this process both parties explore and expand this relationship and establish sequentially more structured and established relations. These relationships are built up by different episodes and steps where supplier and customer have several discussions during a development process (Halinen, et al., 1999; Biggemann & Buttle, 2007; Schurr, 2007). Within each stage of the relationship building there are many mini stages in the form of business episodes between the supplier and the customer, e.g. when a supplier is trying to introduce a new product in a particular market. In the first stage the supplier is trying to convince the customer to consider the actual product at all as a supplement, or replacement of the existing use of a product. After initial contacts the process can develop to an opportunity to deliver a trial quantity of the product for further test before it is possible to get a trial order for the product. This stage can take further time before a decision is made to go for a full test of the actual product. Further stages involve an evaluation of the product before a final decision is made to use the product. When a supplier has reached this stage it is only a beginning of a long trip before the supplier and customer can establish a long term relationship. The interaction process is how the parties in the relationship interact. However, at its base it is an assumption that relationships become reciprocal, long-term and mutual (Håkansson, 1982; Andersson et al., 1994). The interaction approach has four dimensions that can be used for analysing a relationship. The first one refers to the interaction process and involves the exchange processes between the parties, but also the adaptations made and the long-term institutionalisation. Another dimension of relationship analysis refers to

| -Initial contact  | -Discussion about product specification |
| -Development phase of samples | -Discussion about samples  |
| -Trial order | -Trial runs at customer plant |
| -Evaluation phase | -Follow up discussion |
| -Acceptance of trial results | -Minor order |
| -Discussion about results | -Ordinary order |
understanding the interacting parties either the organisations or individuals. When two parties are interacting it is necessary to be familiar with not only the company and its organisation, but even the people and processes that are involved in doing the actual business. A third dimension in the interaction approach is the relationship atmosphere, where the exchange is taking place. This dimension describes the commitment in the relationship and can contribute with an analysis of the closeness and corporation between the parties. The atmosphere affects the relationships and supports an analysis of trust among the parties. The forth dimension is the relationship environment and provide the possibility to analyse how external factors influence the relationship. This dimension can describe the rate and direction of environmental change upon a relationship, but also the influence of internationalisation on a market or the relationship. The position in a particular channel structure will also influence factors that are influencing the relationship environment. The interaction approach can therefore provide us with a framework for an analysis of different relationship archetypes that can be used when investigating business development.

Relationship archetypes
In order to attract and retain customers management have realised that they need to put the customer in focus of their business activities. In this respect they try to build long-term relationships that are mutually beneficial and profitable for both parties. Many market exchanges are considered as transactions between parties, whereas interactions between two parties over time are considered as relationships (Donaldson & O’Toole, 2000; Möller & Halinen, 2000). A supplier can therefore classify different types of relationships in relation to one-off sales and more important long-term relationships. It can also be possible to identify different type of supplying occasions in relation to the interaction process and the relationship building. In this paper we introduce three types of business developers. One category is the business developer introducing an improved product to the existing customer base. Another category is the inventor introducing something radically new to the market. A third category is the innovator combining a demand on a market with a new or modified product. Despite the category any company need to build relationships with their customers to survive in the long run.

The business developer – archetype
In this situation the company is developing its business relationships based on a prevailing customer base. The company is actually looking for creating new business in relation to an improved or modified product. The intention can also be to make an extension in relation to an existing product assortment.
The business innovator - archetype
In most cases the company needs to attract customers to this innovative product or service. The demand can be among existing customers, but even require that more emphasis is on building up new customer relationships.

The business inventor – archetype
A radically new product in the form of an invention to the market often requires a more basic work for building up a new customer base for the company. This will probably take more efforts and resources in building up new relationships.

Research Design

The empirical part in this working paper is based on mini-cases where the unit of analysis is the business developer. The mini-case is based on a triangulation of field visits, narratives and documents. The data for the empirical part has been collected through:

- Analysis of documents and reports
- Internet documents and information
- Field visits at firms and exhibitions
- Participation in industrial seminars
- Narratives from business developers

The use of multiple data sources is different from other qualitative methods that primarily depend on one method of data collection (Johnston, et al., 1999). The field visits at the firms has made it possible to get an overview of their operations. Field visits gives a rich opportunity to collect information about different subjects in relation to the company, but even to get information that could not be reached though an ordinary interview either in postal form or by an personal interview. Through field visits it has been possible to understand how the companies are actually working with their processes and performances. Another source for the empiric part is the narratives that have been provided. The narratives are provided by business developers within firms of the packaging sector representing three product areas. This data was then analysed with the focus of interest in these mini-cases.

Findings

Product development and innovation offer all companies an important means to gain a competitive advantage. Product development is based upon a technological superiority either by something that is unique in the product’s performance, or in its design. This uniqueness gives the company the possibility to focus on a differential, or focus strategy (Porter, 1990; 1996). From a strategic perspective innovation can also open up new markets by combining existing product solutions to new market areas. The business development process and the interaction process with activity links are described in figure 3 below. Three case studies based on narratives are representing different types of business development cases are presented to illustrate diverse business developer archetypes.
Figure 3: Activity links in the interaction process of business development

The business developer – archetype
Packaging reflects our life-styles in many ways by the way we eat at home, or through solutions of take-away. The use of freezers and microwaves has also had a dramatic impact on the way we preserve our food and cook it by the use of different packaging materials and packages. The way we live by smaller households and expectations about health and higher disposable income gives more individual choices and requirements on packaging size. Packaging has also become an important factor in the way we conduct business by driving business to business supply chains whether that is moving products from the manufacturer to the supermarket, or moving products from manufacturers to business users (Packaging Federation, 2006). Improved packaging solutions has therefore become an opportunity to create new business areas for suppliers of board material in co-operation with fillers and there business associates. One important driving force behind the development of new packaging concepts are new life styles and smaller size of the households creating demand for new products to be introduced on the market. One such business development is packaging materials and packages for take-away food. It has to be quick in the supermarket and in the kitchen. Several trends have been in relation to different cuisines due to more travelling and a general gourmet trend. It all started with Tex Mex and now the interest has focused on Asian food where an urge to experiment and pressure of time have encouraged food producers to develop new concepts and packages in co-operation with their suppliers. One such type of development has been with packaging board material and in a new innovative package; the packaging kit contains all the necessary spices and ingredients whereas the chicken or meat has to be bought separately (Korsnäs, 2008). The package has been awarded a design prize and both colours and shape are eye-catching on the shelf. This is only one among several packaging solutions that has become important business developments within the food sector. The need to build up new relationships is depending on the degree of newness to the customers since an incremental development can mean an improvement of an existing business concept, whereas a radical change create opportunity to attract new customers.

The business innovator – archetype
New technology for supporting logistics management has the potential to assist the organisation in the achievement of both a cost and a value advantage in a supply chain. Such new technology can be
the implementation of Radio Frequency Identification (RFID) into the supply chain. RFID is not a new invention, but the development of tags and other kinds of equipment has suddenly taken a rapid development step when big retailers have found it of great value for product tracking and inventory purposes in a supply chain. RFID has also found many other uses within other sectors, such as for transport payment, animal identification, and human implants, for passports or in libraries. RFID technology has suddenly become a device for solving intelligence problems within international distribution systems and retail chains. The RFID device serves the same purpose as a bar code or a magnetic strip on a credit card. A significant advantage of RFID technology is that the RFID device does not need to be positioned precisely in relation to the scanner or swiped through a special reader. A main disadvantage has been the price of the device in relation to the package, e.g., juice package. The RFID technology is based on an automatic identification method relying on storing and remotely retrieving data using devices in the form of tags or transponders. An RFID tag can be attached to or incorporated in a product or package but can also have many other applications, e.g., in passports. The purpose with the tag is for storing or tracking information about a product or package with the help of using radio waves. Chip-based RFID tags contain silicon chips and antennas. Tags that are passive do not require any internal power, whereas tags that are active require a source of power (Glover & Bhatt, 2006). However, in contrast there is also a growing consumer concern about the implementation of the radio frequency ID tags in shops since consumer groups are concerned about the possibility that suppliers use the tags for monitoring consumers once that they have left shops with their purchases (Erickson & Kelly, 2007). The RFID technology has obviously become an important development project in many areas but the brake through is supposed to come when the price has reached such a level that it can be used for general transport and distribution systems. Areas that are of special interest refer to use within packaging of food and other commercial goods and thereby replacing bar codes (Swedberg, 2007). One of the big opportunities by using the technology is the flow of information that can be transferred in the supply chain between the supplier and the end customer. The new technology can be an important device for reaching competitive advantage for firms in the supply chain, but customer reactions can also be an obstacle and encumber the introduction of new technology and thereby delay the introduction of products. The active or passive tag can either be incorporated in the product, or package of the product. Another possibility is to incorporate the tag in a pallet for monitoring purposes during the passage of the supply chain. In many product areas it seems that supplier wants to implement the tag in the package, e.g., consumer electronics, food products, whereas consumer interests are concerned about implementation into the product itself due to the risk of monitoring the use or consumption of the actual product. The need to build up new relationships with customers is to a great extent depending on the actual supply chain.

The business inventor – archetype

There have been several inventions that have become important innovations within the packaging field. These innovations have also been the base for innovative industries and created the possibility to generate novel markets and build up relationships among suppliers, investors and ultimately relations with new customer groups. Many of the companies that have a leadership position within that category were among the early pioneers who had a vision of providing innovative packaging that addressed the needs of customers. Among the important inventions was a young 3M engineer that invented the first see-through and pressure-sensitive tape and thus supplying an attractive way to seal cellophane food wrap for bakers, grocers and meat packers. Even if heat sealing reduced the original use of the new tape many new areas were found for the original product. Other important inventions in the packaging field have been the aerosol can, ink-jet printing technology revolutionizing the possibility to print on products in a production line. Among the multitude of inventions and innovations within the packaging field are the plastic extrusion of paper board material for different liquid packages, but also for many other end-uses. The possibility for extrusion by coating different plastic materials on paper board material has created the opportunity to develop products with new properties and to develop many new packaging materials. It has also been the base
for new companies and industries, which also has revolutionized the distribution of many products within the food industry.

**Discussion**

Either it is a new venture, or business development has taken place within an existing organisation, management need to create a new set of relationships with its actors for the actual businesses. In most instances those actors will have relationships with a number of other organisations. These ongoing relationships can both enable and constrain the firm’s performances as stated by Ritter et al. (2003). Starting a new venture means redefining the relationships that actors have with third parties and with one another. The new venture needs to enter an existing network of relationships and thereby modify that network of relationships. For a long-term success it is necessary to do this in a way that it increases the overall value of the network for the different actors who make it up. According to Gadde & Håkansson (2007) a business relationship is an important resource since it can be used for resource combining in various value generation processes. “By connecting the resources of two companies a business relationship can improve operational efficiency, as well as contribute to innovation and development” (Gadde & Håkansson, 2007 p. 36).

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<td><strong>Business Innovator</strong></td>
<td>Improve relationships with existing/new investors</td>
<td>Build relationships with existing or new suppliers</td>
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<td><strong>Business Inventor</strong></td>
<td>Build relationships with new investors for achieving necessary capital</td>
<td>Build relationships with existing or new suppliers for a strategic material or service</td>
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**Table 1: Relationship building with three categories of actors in the business network**

The relationship in a particular network can be both competitive and collaborative for its members. The new venture must decide on the path to how these two dynamics are to be complemented and balanced as the network is redefined. This balancing act must be considered in relation to each and every actor in the network. However, a new business venture can only be developed if the company has the necessary resources in form of the right human skill in place. New ventures require productive labour, technical knowledge, business insight and leadership where management is able to build the relationship with its employees. It is also necessary to build up relationships with at least three important external actors in the form of investors, suppliers and customers. One important category of actors which the company needs to build, or continue to improve its relationships with is investors to new, or existing businesses.

A new business venture must compete for the attention of investors and in competition with other investment projects. Investors seek opportunities to invest and they are looking for the best returns on the capital that they provide on the market, consistent with a certain level of risk. Building relationships with prevailing and new investors is therefore a key task for management’s ability to develop new businesses. Since capital is a limited resource, investors are selective in relation to the investments they support. The business idea and plans for a new business activity are important parts in discussions for convincing investors to support a project. Even more important is management’s
ability to build up a comfortable trust with its investors. This trust is often built upon previous experience and management’s ability to complete a project with a satisfactory result (Doney & Cannon, 1997). Building relationships with suppliers is a continuous process from the initial contact through discussions about future deliveries. Suppliers are also important partners when the company is working with new development projects. Suppliers often contribute with important information from other projects and industries. They can even contribute by improving their products, or by developing new concepts in relation with their sub-suppliers. Even sub-suppliers can play an important role in the development of a new business concept by the contribution of novel materials, or technologies. Any business project will fail if suppliers are unsuccessful to build customer relationships. Customers are the key group of actors for any new business venture. When a new venture is approaching a customer it is asking not only that the customer buy the product offer, but even to replace or stop buying a competing solution. The success of the marketing approach will obviously depend on more than the product offering such as the ability to build up a new relationship. If the new business venture is to be successful in the marketing process they need to consider not only the product itself, but also the individual and organisational relationship that exists between customer and supplier in the business network. The new business venture must be prepared to create more rewarding relationships than the existing ones. When starting a new business venture the company is not just offering a short-term of market exchanges since they are breaking and then reforming a new pattern of relationships. These relationships are often formed and managed by formal and informal rules some based on self-interest and others of a multitude of motives. In order to survive managers need to understand those relationships and the rules that govern them so that they can successfully manage their position within the network.

Conclusion

The relationship building can be discussed in relation to three different relationship archetypes – the business developer, the business innovator or the business inventor. These archetypes are also influenced by the important actors in the business network such as – investors, suppliers and customers. Customers are the key actors for any innovative company trying to establish market space for a new business venture. It is the group of customers that find interest in what the venture offers and their willingness to pay for the product or service that contribute to the success. The best way to satisfy customers is to provide them with products and services that actually satisfy their needs, solve their problems and meet their aspirations. This ideal situation is seldom at hand since suppliers do not meet needs that are both explicit and completely unsatisfied. It is more common that they will be offering something that will replace an existing solution and a competing offering. Often a new business venture will be competing with the potential customer’s existing suppliers and deeply established and complex relationships in the network. These relationships may be sustained not only by economic motives, but even by friendship and trust among the different actors. The new business venture must therefore be prepared to create more rewarding relationships than the existing ones. When starting a new business venture the company is not just offering a short-term of market exchanges since they are breaking and then reforming a new pattern of relationships. These relationships are often formed and managed by formal and informal rules some based on self-interest and others of a multitude of motives. In order to survive, managers need to understand those relationships and the rules that govern them so that they can successfully manage their position within the network. Genuine relationships need also to be built in relation to investors and suppliers. In relation to investors for their support of a new business ventures with help of knowledge and capital for financing the development of new business. In relation to suppliers for their expertise within a particular field of materials, but also for supplying knowledge and experience from other businesses. In some areas they can even contribute during the product development process.
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Reference list


