

# The Unwilling Customer

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## How Organisations Deal with Customer-Related Problems on an Imperfect Market

### Abstract

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According to neo-classical market theory the market is self-correcting and strives towards equilibrium. There are however instances when market imperfections occur. Market imperfections relating to customers can involve for instance customer inability to pay, insufficient knowledge or information, or lack of commitment or interest in consuming a product which is valuable for the customers. In these cases when market theories about a self-correcting equilibrium do not apply, there is a need for organisations to intervene in the market. In doing so there are certain mechanisms that organisations can use, and their actions are based on a certain logic. This thesis addresses how organisations handle imperfect markets with a customer-related problem and how their behaviour can be explained.

The findings are based on one principal case study on Company X, and three complimentary case studies on organisations facing a similar problem. The findings conclude that customers often do not behave in a rational way, and organisations therefore use different organisational mechanisms to organise the market. Organisations create market imperfections in the form of barriers to entry to prevent competitors from entering the market, and switching costs to ensure that customers remain loyal to the own organisation. These market imperfections, that are positive for the organisation itself, are used to overcome the market imperfection stemming from a customer-related problem.

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Stockholm,   December 2012

**Keywords:** Imperfect markets, customer, market organisation, organisational mechanisms, decision-making process.

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## 1 Acknowledgements

We would like to thank everyone who has supported us in the process of writing this thesis.

For providing us with excellent supervision, thoughtful comments and helpful hints, we would like to thank our supervisor Mats Jutterström.

For giving so generously of their time, allowing us an insight into an interesting industry, and for providing us with the empirical material that forms the basis of this thesis, we would like to thank Company X, especially the CEO and the Business Manager.

Finally, for their time and consideration in providing us with comments on our work, and for their unwavering support of our academic careers we would like to thank Evalottie Larsson, Conny Holmström, Annica Wohlin Wottrich and Gustaf Wottrich. Without you this thesis would not have been possible to write. Thank you.



Andrea Holmström



Erik Wottrich

## 2 Abbreviations

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BoP	Base of the Pyramid
CSR	Corporate Social Responsibility
NGO	Non-governmental organisation
USD	US-dollar
VAT	Value added tax
WHO	World Health Organisation

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## 3 Definitions

In this thesis the following words are defined as:

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Company X	Primary case company
Product Y	A water purification product
End-user	Consumer of a product or service
Customer	Individual or organisation purchasing a product or service
Organisational mechanisms	Membership, rules, monitoring, sanctions, hierarchy
BoP market	Market of people living on less than two USD per day
Imperfect market	Market without immediate match of buyers and sellers
Customer-related problem	Demand-side challenge where offering is valued and/or valuable to the market, but not consumed

## 4 Introduction

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*The paper begins with an introduction of the background to the study and the subject's relevance. This is followed by the purpose, an introduction of the case company, the problem formulation, and delimitation, in order to provide a thorough description of the aim of this study. The chapter ends with a presentation of the disposition of the paper.*

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### 4.1 Background

This paper aims to investigate imperfect markets with a customer-related problem from a neo-classical perspective. The paper is written within the area of Management and Organisation, i.e. how to lead and organise organisations and markets. Therefore the aim is to understand how organisational theory can be applied on markets in comparison to how economic theory suggests that the market functions. In the field of economic theory the *economic man* or *homo economicus* is a commonly used definition of the human being, assumed to be selfish and rational with the aim of maximising his or her own wealth. The market is described as a place where buyers and sellers meet, and the ideal market appears when demanded quantity is equal to supplied quantity. The market then reaches equilibrium, where the price that the buyer is prepared to pay is equal to the price the seller asks for. When the market is in equilibrium it is stable, and there is no tendency of moving away from this state. If the market is not in equilibrium there is a tendency of self-correction towards equilibrium. These assumptions about how the market functions are commonly accepted in microeconomics (Ahlersten, 2010).

What kind of market that will take shape is determined by; the degree of concentration of buyers and sellers, product differentiation and barriers to entry. This will in turn determine the price. Perfect competition is argued to exist when the following criteria are fulfilled; all actors are price takers; products are homogenous; all production factors (e.g. capital and labour) are variable; there is perfect information; and no hidden agendas or agreements. Many organisations actually strive for market imperfections where different means, such as barriers to entry, switching costs, collaborations and so on, are used to exclude competitors from the market. In reality few markets are facing perfect competition and most markets can be described as imperfect in one way or another (Ahlersten, 2010).

Other activities that contribute to shaping markets, but receive less attention, are for instance rules and hierarchy. Such activities are part of organisational theory and influence the

organisation's internal environment on a daily basis. Rules are influencing the market in the shape of directives, standards and norms, which determine how the market actors are allowed and expected to act. Hierarchy is many times a necessary coordination mechanism, shaping organisations in terms of administration and control (Levacic, 1991). Some authors claim that these kinds of organisational mechanisms are essential for how markets take shape while others argue that the interaction between businesses, government and society is an even more important factor. Economic, political and social activity by the three main institutions; businesses, governments and society, are by these authors seen as core mechanisms that set the conditions for any market (Steiner, 2009). The reasoning behind this argumentation is that for a business to meet its objectives (economic and non-economic), influences from both government and society must be taken into consideration. These influences originate from different actors that exist in the organisation's internal and external environment which have a stake in the firm. Freeman (2010) defines them as stakeholders (see appendix A for a basic two-tier stakeholder map).

The above mentioned organisational mechanisms are all part of organisational theory which compared to economic theory offers another perspective on how markets take shape. Organisational theory might therefore provide some valuable insights in understanding how organisations go about handling imperfect markets. However, as described previously, the economic man can in itself be a factor shaping the market regardless of if it is imperfect or not. Decision-making theories can therefore contribute, in addition to organisational theories, with explanations of why certain behaviours are observed on a market.

## **4.2 Purpose**

The purpose of this study is to increase the understanding of how organisations act when they operate on a market that does not function as neo-classical market theory suggests. Out of the many different elements that exist on a market, e.g. customers, suppliers, competitors, society, governments and so on, one element will be studied, namely the customer, and specifically, a market facing a customer-related problem. What do organisations do when the customers are not able to pay for the product or service offered, or lack sufficient knowledge, information or commitment to consume the product or service? How do organisations go about handling markets where neo-classical market theories with a stable and self-correcting equilibrium do not apply? What mechanisms do organisations use to overcome the challenges, and what is the reasoning behind their interventions? These questions are the starting point of this research study.



In order to understand the impact organisational theories have on shaping markets, a real life case will be studied. The case is about Company X, an organisation that faces challenges with its customer. The customer on the case organisation's market does not behave as one would typically expect a customer to behave. The customer is part of the *base of the pyramid (BoP) segment*. The BoP market includes communities with people living on less than two US-dollars (USD) per day, according to the International Finance Cooperation this group has a purchasing power of 5,000 billion USD per year (Financial Times, 2012). The case company offers a product that could significantly improve the lives of the BoP segment as well as reduce CO<sub>2</sub>-emissions. There is an extensive demand for the product in the segment as well as potential to supply the product to the market. Still, the market does not reach equilibrium and has no tendency of self-correction towards equilibrium. Therefore other methods have been explored in order for the company to achieve its objectives, one such method is the company's stakeholder approach. The aim of this study is therefore to shed light on organisational mechanisms that can be used by an organisation to reach a market that faces a customer-related challenge.

#### 4.2.1 Research question

Following the purpose of the study the main research question is:

- *How do organisations handle imperfect markets with a customer-related problem and how can this behaviour be explained?*

The research question has been divided into two sub-questions:

- *How do organisations act on imperfect markets with a customer-related problem?*
- *Why do organisations on imperfect markets with a customer-related problem act as they do?*

#### 4.3 Introduction of case company

The thesis is based on an in-depth case study of *Company X*, a privately owned company that was founded in 2006 based on a water purification product, *Product Y*. At the request of the case company it has been anonymised and will be defined as Company X throughout the paper. Company X operates on the market for water purification products targeting the BoP segment. Access to safe drinking water is a basic human need. Despite this, 1.2 billion people live without access to clean water which causes the death of approximately 1.8 million people each year (WWF, 2009) (Svenskt Näringsliv, 2011). According to the World Wide Fund for

Nature over 80 million households around the world boil water to make it drinkable. Lack of safe drinking water is therefore not just affecting people's lives but also the environment when wood or coal is used for fires when boiling water (WWF, 2009).

With its functions and features Product Y meets the World Health Organisation's (WHO) guidelines for safe drinking water. The innovation does not only have a positive impact on social issues but also environmental ones. If the innovation would be distributed to 20% of the 80 million customers in the targeted segment it would reduce CO<sub>2</sub>-emissions by 26 million tons per year by 2020 (WWF, 2009). The CEO describes the idea as follows:

*"I developed Product Y after seeing the problems caused by the lack of safe drinking water in Indonesia. I had just spent time in Australia. It took many years and prototypes, but eventually the idea was realised. My mission is to provide the product to everyone who has the need for safe water. We believe that we can get the product to the people at the BoP where it can transform people's lives. I strongly believe in self-help so it is important that we make it affordable, wherefore the product is offered at a highly subsidised price, and that the users invest in it, so that they value the product and take good care of it."* (Company X, 2011)

In developing countries women are usually the ones responsible for the household, in which drinking water is an essential component. By using the water purification product the user can save on average 21 hours per week, time that can be spent on other productive activities such as education or entrepreneurship. Politicians therefore describe the innovation as something that can contribute to solving social issues on a large scale. Helping women to get access to clean water will decrease their workload, which will increase freedom and thereby decrease inequalities (Aktuell Politik, 2011). The product does also contribute to reaching the United Nations' eight Millennium Development Goals, which indicates the value of the innovation for the whole society (Company X, 2011):

1. *Eradicate extreme poverty and hunger:* Waterborne diseases are often the cause of children suffering from poor nutrition and poor weight gain, which can be solved by providing access to safe drinking water. The time that is saved by using Product Y can be put to more productive use, thus reducing poverty.
2. *Achieve universal primary education:* Both through cost savings on fire wood and coal, and through reduction of the prevalence of diarrhoea, more children would be able to go to school if their family used the product.
3. *Promote gender equality and empower women:* In developing countries parents often choose to send boys rather than girls to school if they cannot afford both. Through cost

reductions and time savings parents would not be forced to choose which child to send to school.

4. *Reduce child mortality*: Using the water purification product reduces the incidents of child diarrhoea, which in turn reduces child mortality.
5. *Improve maternal health*: Having access to sufficient amounts of clean water during pre- and post-birth reduces the risk for life-threatening infection at childbirth.
6. *Combat HIV/AIDS, Malaria and other diseases*: Improved water supply, hygienic practices and sanitation reduces the susceptibility to many major diseases.
7. *Ensure environmental sustainability*: For every household that switches from using fire wood and coal to boil water in order to make it drinkable to using *Product Y*, CO<sub>2</sub>-emissions would decrease by 1.2-2.6 tons per year.
8. *Develop a global partnership for development*: Company X aims to engage people, organisations and other companies throughout the world to create awareness, practical action and business opportunities, both locally and globally.

#### 4.4 Problem discussion

Company X is an example of a company that faces some of the challenges associated with imperfect markets. The company operates on a market with a huge demand and a stable supply. However, the customer lacks the ability to pay for the product, which impedes the company's development on the market.

To operate on the open market is difficult for an organisation like Company X, as it requires the product to be free of charge or to hold a very low price in order to be affordable for the BoP segment. Company X therefore ends up in a price versus quality dilemma, where the company is not willing to compromise on the quality of the product (CEO, Phone interview - Company information, 2012). The company has therefore identified other strategies on how to organise the market which builds on a division between *end-user* and *customer*. The end-user can be found in the group of people living below two USD per day and in need of a water purification product like Product Y. The customers on the other hand are companies and organisations that supply end-users with social innovations. However, to convince customers to purchase the product is a complex process. Procurement takes time, as the organisations need to be persuaded about the product, its features and the quality. The customer needs to be assured that Company X is able to produce a sufficient amount of products and is able to distribute it to remote areas (CEO, Company information, 2012).

One way of handling the situation is to offer the product at a subsidised price. The goal with such a strategy is to create a willingness to pay for the product among the end-users. By selling Product Y at full price to the customer, who sells it at a discounted price to the end-user, the end-user will be able to try the product and see the value of investing in it. A first step to accomplishing this has been to initiate reference projects in developing countries, where companies and organisations are able to try the product on the market. This is a way of reaching customers, which has potential for large-scale procurement and distribution, and to create awareness and acceptance among the end-users, (CEO, Company information, 2012).

#### **4.4.1 Comparative case studies**

Other organisations operating in a similar context, facing a similar dilemma, have the same need for organising the market. To gain a wider understanding of the phenomenon the thesis builds on an in-depth case study of Company X and three minor case studies of organisations on markets with similar characteristics. By studying additional organisations both generalisability and credibility of the study are enhanced. Organisations that face a similar situation as the case company offer insights about factors that might be general in nature. This gives the thesis more depth and enables more general and accurate conclusions.

The four case organisations suffer from a customer-related problem, and are trying to organise their respective markets under their preconditions. The aim of a comparative study between Company X and three additional case organisations is to:

1. Identify how different organisations act to handle challenges related to the customer
2. Understand why organisations act as they do by applying organisational theories and decision-making theories
3. Identify similarities and differences between behaviours
4. Draw general conclusions on what kind of organisational mechanisms that are most commonly used, and why, to handle a market that suffers from a customer-related problem

One of the comparative studies will be conducted on D.Light, a small entrepreneurial organisation that also operates on the BoP market. The product that D.Light offers is a social innovation in the shape of a solar cell powered lamp. D.Light was chosen as a case study in order to have an organisation with as many similar characteristics as possible with Company X. Besides studying two organisations on the BoP market, the Swedish Pension Agency on the premium pension market, and Sony Music Entertainment on the market for recorded

music, will be studied. As a governmental organisation, the Swedish Pension Agency has different preconditions than Company X. Still, the organisation struggles to entice savers to make an active choice about their premium pension. This case is interesting to compare with Company X as it indicates how much organisational form and the legitimate right to set rules impacts the ability to organise a market, and being successful in doing so. Sony Music Entertainment on the other hand is a large multinational corporation with financial strength. However, the company struggles with customers who lack willingness to pay for music. The case is interesting to compare with Company X as it can provide insights on how much financial strength and reputation has to do with the ability to successfully organise a market.

The three benchmarking organisations D.Light, the Swedish Pension Agency and Sony Music Entertainment have been chosen based on their similarities with each other and the case company regarding one factor; each organisation operates on a market where the customer does not consume the product or service even if it is valued by or valuable to the end-user. The reason for not studying one market and four similar organisations is the loss of generalisability. Why organisations engage in certain types of market organisation would then only apply to the specific market, and not to imperfect markets with a customer-related problem in general. This would undermine the research question: how organisations handle imperfect markets with a customer-related problem, as it would only provide insight about interventions on one type of market, from which no general conclusion about the impact of organisational theory on imperfect markets can be drawn.

## **4.5 Delimitation**

### **4.5.1 Case study**

The research concentrates on one in-depth case study, which will be further discussed in section 5.1.3. By only studying one case in-depth, insights have been obtained which otherwise would have been lost or weakened if several in-depth studies had been carried out considering the restrictions in time and length of the thesis. The reason for not covering more than three secondary case studies is also related to the limitation in length and time. Given the constraints of the thesis, additional case studies would most probably decrease the insight and value of each study rather than improving it, as it would be a too complex comparison.

### **4.5.2 Theory**

As the existence of imperfect markets is a well-known phenomenon, it has been taken as given in this paper. The thesis does therefore not include any discussions on researchers'

views on neo-classical theories and the reason why markets suffer from imperfections. The focus is rather on organisational theories and decision-making theories, and whether such theories can explain how organisations on imperfect markets act and why. As a market consists of many different market elements, one of them, namely the customer element, has been chosen. This is due to the limitation in length and time, and for the clarification and simplification of the paper. The thesis does thereby only focus on different types of customer-related problems that exist, and how organisations handle this specific problem.

As the aim of the paper is to understand how organisations can handle any market suffering from imperfections in terms of customers, and not to identify or evaluate how organisations can reach a particular market, theories and business models aimed for specific markets will not be discussed.

## 4.6 Disposition

The disposition of the paper is as follows:

**Chapter 2** The chapter focuses on the choice of method of the research study. It describes the research approach, the research method as well as the case study. This is followed by a description of the type of data and sources of data that have been collected, as well as a discussion about the study's trustworthiness and authenticity.

**Chapter 3** The chapter presents the theory which is relevant for the study. It begins with a motivation of the theoretical framework which is followed by an in-depth description of the chosen theories. The chapter concludes with a presentation of how the theories will be applied in the paper.

**Chapter 4** The chapter contains the empirics in the terms of all data collected. The empirics from each case organisation are arranged under four sub-headings; background, offering, challenges and interventions. For the in-depth case study on Company X, primary data from all respondents has been gathered and summarised. For the comparative case studies, secondary data for each market is presented in the following order; D.Light, the Swedish Pension Agency and Sony Music Entertainment.

**Chapter 5** The chapter presents the analysis of the findings. The first part covers how the case organisations handle markets with a customer-related problem, and includes an analysis on why the case market are imperfect, similarities and differences of the case markets and a summary of the main challenges on the markets. The second part covers how the case

organisations act on their market, and includes similarities and differences between the case organisations, a summary of their actual behaviour, which mechanisms the case organisations use in order to organise the market and what the decision-making process looks like. The third and final part covers an analysis on why the four organisations act as they do.

**Chapter 6** The chapter contains the conclusions from the analysis.

**Chapter 7** The chapter includes a discussion on the topic in which the research has taken place and discusses generalisability, limitations, suggestions on future research, followed by a discussion on managerial implications.

## 5 Methodology

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*The chapter presents the methodology behind the study. First the research approach and research method is introduced. This is followed by a section about the case study, and how data has been collected. The chapter ends with a discussion of the reliability and authenticity of the study.*

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### 5.1 Research design

#### 5.1.1 Research Approach

The choice of research approach influences the relationship between theory and empirics (Wallén, 1996). The research question in this study is descriptive in nature in contrast to normative, as the purpose of the study is to provide an explanation of an existing situation followed by the implications of an identified problem (Holme & Solvang, 1997). The research approach can be described as inductive, close to abductive, as the aim of the research has been to take insights from a single case study and develop those into general conclusions about a phenomenon (Andersen, 1998). The paper is not built around hypotheses to strengthen or discards a certain theory, but around case studies that in comparison to theory gradually has provided insights about the situation (Alvesson & Sköldberg, 1994). Based on data, findings have been analysed in the framework of certain theories which in some cases holds true and in others not. The case study can be described as an explorative study as it aims to act as a basis for further research on how particular organisations in a certain context handle a situation (Andersen, 1998).

#### 5.1.2 Research Method

As the aim of the study is to identify how companies act and why, a qualitative research method has been more suitable than a quantitative method (Holme & Solvang, 1997). The research question requires a wide understanding of the situation and environment in which Company X and the three comparative organisations operates, such as; critical factors in the internal and external environment, market preconditions, and access to resources. This requires a shift between an inner and outer perspective, and between understanding and explaining a phenomenon. A qualitative approach is therefore most suitable (Holme & Solvang, 1997). By observing the organisations closely, analysing their actual behaviour, an understanding of *how* and *why* can be obtained. According to Merriam (1994) qualitative data



can be collected either through interviews, observations or documents. This will be described further in section 5.2.

### **5.1.3 Case Study Approach**

According to Denscombe (2009) the real value of a case study is its opportunity to explain why certain results appear, and not only what these results are. The aim is to highlight the general by investigating the specific; depth rather than width, relations and processes rather than results, natural environment rather than synthetic situations, and gaining a holistic viewpoint rather than isolating specific factors. The choice of case should be based on its relevance for existing theories. The case should consist of certain elements that are especially significant which makes it possible to predict certain results if the theory holds true (Denscombe, 2009). This thesis is written in collaboration with Company X, which struggles with one market element – the customer – for which organisational theories might contribute to explain the situation. The study has been carried out in the company's environment and it has therefore not been possible to control all variables. An experimental approach where different variables have been manipulated in order to study certain behaviours has therefore not been suitable. For the three additional case studies, less empirical data has been gathered as these cases stand as a comparison to the primary case study of Company X in order to increase the applicability of the conclusions.

#### **5.1.3.1 Anonymisation**

As Company X has requested to be anonymous, limited information about the company and the product is revealed. The reason for anonymisation is because the company may be at a disadvantage if its identity would be revealed. Company X is a start-up, and in the process of releasing its innovation to the market. The company has put a lot of time and effort into product development and research on how to establish the product on the market. It faces media scrutiny and wants to control what kind of information that is published to avoid misinterpretation of strategically important information. Reliability or the quality of this thesis should not suffer from an anonymisation, and therefore the name of the organisation, the product and those interviewed will not be revealed to the reader. To ensure that the company's identity is kept anonymous, references that contain sensitive information has been anonymised as well. Certain references can therefore not be verified by the reader, even though they are available should verification of the sources be necessary. Only the authors and the supervisor of this thesis are aware of which company and what people that have taken part in this study.

## 5.2 Data

### 5.2.1 Primary Data

For the in-depth study primary data has been collected and consists of interviews with employees at Company X. The case company is small and decentralised, and all employees with insight of the organisation and the subject have been interviewed. In total four out of six employees have contributed with data. The remaining two have a more administrative role and/or is newly hired, which is why they have not been interviewed. Besides meetings with several employees at once, individual interviews have been carried out with each respondent. In total 10 interviews have been conducted in person. Besides this there have been a number of phone interviews as well as email correspondence where information has been clarified and confirmed. Below is a description of each respondent and interview setup.

Respondent	Interviews
CEO	Data gathered through two meetings, one individual interview, several phone interviews and email correspondence
Business Manager	Data gathered through two meetings and one individual interview
Project Manager	Data gathered through two meetings and one individual interview
Communication Manager	Data gathered through one individual interview

The interviews have been semi-structured (Andersen, 1998) meaning that a questionnaire with open-ended questions in three different areas (past, present, future) have been asked. This has enabled the respondents to phrase their answers as they like and highlight areas of importance. This has provided opportunities for follow-up questions and in-depth explanations. The questionnaire can be found in appendix B.

### 5.2.2 Secondary Data

Secondary data, such as information from books and articles, has been used for the theoretical framework. In addition to this, secondary data about the specific case, Company X has been gathered through internal documents from the company itself as well as from official news articles and other internet based sources in which Company X is mentioned. The comparative study of the three organisations; D.Light, the Swedish Pension Agency, and Sony Music Entertainment is based on secondary data due to limitation in time and length. This data has been identified and gathered online and through databases with journals and articles, and constitute an essential part of the secondary data for this study. As it would take too much time to get access to three additional organisations, identify respondents and gather data through interviews, secondary data was the most feasible option. This enables a comparison

of not only two, but four organisations, which increases the possibility for more perspectives on the issue even if there is no primary data from these additional cases.

### **5.3 Methodological Discussion**

Validity and reliability will determine the credibility of the study and are therefore important criteria to evaluate (Andersen, 1998). However, researchers question their relevance for qualitative studies. This has led to the adaption of the criteria, summarised in section 5.3.1 and section 5.3.2 (Bryman, 2012).

#### **5.3.1 Trustworthiness**

Trustworthiness refers to credibility, transferability, dependability and confirmability. In order for the study to be credible, good research practice should be adhered to, and findings should be shared with respondents in order to confirm that the social world has been correctly understood (Bryman, 2012). This enables for a correction of information that might have been misinterpreted. A confidentiality agreement, warranting Company X the right to read and approve all company related information in the thesis before publication, was signed as the data collection commenced. For the benchmarking study, data has been gathered through secondary sources which causes certain loss in credibility as data is not verified other than by the reliability of the source itself. Secondary data does however enable a large amount of empirics from many sources to be analysed, something that can increase the transferability of the study. Thick descriptions of empirics make it possible for others to decide the level of transferability of findings to other contexts (Bryman, 2012). Due to the limitation in length for this study the most insightful empirics about the case company have been summarised and included, whereas data about the benchmarking organisations has been kept brief and short in length. One of the reasons of adding additional cases, as a complement to the in-depth case study, is to increase transferability. Even if data aimed for the benchmarking study is secondary and brief in nature, the comparative study itself increases the possibility to compare and transfer findings to other contexts, and lift the analysis and discussion to a higher level. As the main discussion relates to one organisation in one specific context, it is not guaranteed that the findings hold true in other contexts. This reduces the generalisability and the level of transferability. The study aims to increase the understanding of how organisations handle problems on the customer side of markets with an unimpeded supply and a product or service that brings value to the end-user. Research on how organisations can organise the market in such a context is fairly limited and this study does therefore lay the foundation for further research.

Dependability ensures that complete records are kept of data collected during the study (Bryman, 2012). As interviews have been recorded and saved digitally, and additional information is available over the internet, findings can be shared and confirmed if necessary. Dependability is closely related to confirmability which refers to the authors attempt to act as objective as possible while conducting the study (Bryman, 2012). As the thesis has been written in a pair of two students, there is automatically less risk for subjectivity, as data is shared and discussed for a second opinion. This does not ensure that personal values or theoretical inclinations are excluded, but should decrease the risk of it.

### 5.3.2 Authenticity

Authenticity refers to fairness and truthfulness. First and foremost the study should include a fair representation of different viewpoints among the respondents (Bryman, 2012). As Company X is a small organisation, it was possible to interview the majority of its employees. This has enabled each one of them to provide their individual opinion on the subject. The questions asked have been open-ended, encouraging other thoughts, perspectives and topics to be highlighted. Regarding the benchmarking study, secondary data causes a reduction in the level of fairness. Representatives from each organisation have not been offered opportunity to explain, confirm or discard the data presented in this thesis. Well-known and reliable secondary sources do eliminate some of the issues related to fairness.

Ontological- and catalytic authenticity are relevant for this thesis as it describes the impact and potential contribution of the finding for concerned parties. Ontological authenticity refers to the research contribution in helping the respondents to better understand their own setting (Bryman, 2012). Company X possesses high expertise in certain areas (i.e. technical knowledge about the product, insights about specific challenges in relation to production, sales and distribution). This study can provide the company with a wider perspective on the environment in which the company operates. Studying the organisation as third parties gives room for new insights that can increase the understanding among the respondents of certain challenges the organisation faces. One part of understanding one's surrounding is to understand its members' different perspectives on a situation (Bryman, 2012). Being a small organisation enables Company X to set up close collaboration between its employees. Internal sharing of different opinions, experiences and perspectives is therefore relatively high and the study might not contribute with new, ground-breaking insights that the respondents are not already aware of. As Company X is standing at a crossroads, making decisions in what direction to take the organisation, the study can hopefully contribute with valuable insights

about what strategies that can be more successful than others given the context Company X operates in. This can be referred to as catalytic authenticity or the studies potential in motivating the respondents to engage in actions to change the circumstances (Bryman, 2012).

To conclude, trustworthiness can be argued to be somewhat higher than authenticity in this study as the main focus is to increase the understanding of the organisation's external environment and not to deliberately push for changes in its internal environment. Authenticity with regards to how the study will affect the organisation internally, and its potential for causing radical changes, is thereby medium, as this perspective plays a minor role in the research.

## 6 Theoretical framework

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*This chapter presents the theory which is found to be most relevant for the study. The chapter includes a motivation of the theoretical framework followed by a description of the chosen theories; market theory, organisational theory and decision-making theory. The chapter concludes with a description of how the theories will be applied and set the structure for the remainder of this paper.*

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### 6.1 Motivation of theory

The neo-classical market theory presents a set of assumptions on how the market and its actors operate. Markets are assumed to take shape through mutual adjustment, causing spontaneous order, and the market actors are assumed to behave rationally, described as the “economic man” (Aspers, 2011). This idea has however been criticised by economic sociology which states that the actors on the market takes other aspects into consideration, for instance social ones. The market is rather the result of social constructions than spontaneous order according to economic sociology (Helgesson, Kjellberg, & Liljenberg, 2004).

Moving beyond the critique of neo-classical market theory presented by economic sociologists; Ahrne, Aspers and Brunsson (2011) present a model for how markets are organised. According to this model at least some characteristics of organisation, e.g. membership and hierarchy, can be found in almost all markets. Organisation is carried out by one of three categories; “others”, “profiteers” or “market actors”. The authors suggest that organisations themselves can engage in organisation of the market through different market mechanisms. In line with the research question this theory could add valuable insights on how organisations behave on imperfect markets where different interventions are necessary in order to make the market function in a desirable way. Organisation of the market might be the most feasible solution for organisations facing challenges on an imperfect market, which could provide an explanation to why certain behaviour can be observed.

As the study concentrates on one market element – the customer, there are reasons to create a better understanding of the behaviour observed in the customer group. The customer behaviour might explain why the organisations serving them act as they do. Decision-making theories offer frameworks from which a greater understanding of why different actors behave in certain ways can be gained. Decision-making theories are made up of rational choice theories that are normative in nature and describe how people should behave, and descriptive

theories which describe peoples' actual behaviour (Tahler, 1980). The following sections will describe the above discussed theories in more detail.

## 6.2 Market theory

This part of the theory section will first provide a brief overview of neo-classical market theory, followed by a critique of neo-classical market theory brought forward by proponents of economic sociology.

### 6.2.1 Neo-classical theory

The neo-classical market theory is based on a set of assumptions of how the market operates and how the actors in the market act. These assumptions could be summarised as by Aspers (2011):

- *“Actors are assumed to behave rationally and thereby know the consequences of their actions.*
- *Each actor is an atom who acts independently of others and is indifferent about with whom she interacts.*
- *Each actor's influence is limited, and is thereby without power to influence the market.*
- *Transaction costs are zero, and there is free entry and exit in the market. This also includes the fact that there are no patents.*
- *Products in markets are homogenous.*
- *The market is the only way of acquiring goods.*
- *The system is stable in relation to external shocks.”* p. 121-122

The way in which the market is created is, according to neo-classical theory, in the form of mutual adjustment, also known as spontaneous order. This view holds true that the creation of a market is an unintended effect of actors' activities, and dates back to the “invisible hand” of Adam Smith (Aspers, 2011), and has been further explored by for instance Hayek (1976 cited in (Aspers, 2011)) and Nozick (1974 cited in (Aspers, 2011)). In this spontaneous making of markets it is implied that neither state nor any other organisation participates in the making of markets.

This view of the market is a consequence of how the actors in the market act. According to neo-classical theory, the market is populated by *homo economicus*, the economic man. The

economic man is actor in a market populated by his peers, that all enter into agreements by signing contracts, through which order in the market appears spontaneously. The idea of the economic man stems back to John Stuart Mill, and the axiom of “pleasure over pain”, which is the foundation of the rational choice approach, a decision theory under scarcity, which in turn has produced a set of assumptions about how actors operate in the market. The rational economic man acts in accordance to a set of preferences and more or less rationally to achieve goals, without being affected by social interaction (Aspers, 2011).

### 6.2.2 Economic sociology

Weber (1922, cited in (Helgesson, Kjellberg, & Liljenberg, 2004)) could be seen as an evolution from the pure neo-classical market theory, without subscribing fully to the ideas of economic sociology. The argument goes that the more different actors take each others existence into consideration, the more social the action is, the more competition, and thereby the better the market. The market can be seen as a social structure, where buyers and sellers take consideration of each other, which would stabilise the market. This points to that the market is not an anarchy, but rather socially organised. This organisation can however go too far, which means that the conclusion is that some degree of market organisation must be present, but that there is a risk for over-organisation of the market (Helgesson, Kjellberg, & Liljenberg, 2004).

As opposed to the natural emergence of markets according to neo-classical market-theory, economic sociology would subscribe to the idea of organised market making. Organised market making is a process where at least two actors come together to create a market, based on an active decision made by these actors (Aspers, 2011). Aspers (2011) describes the beginning of the process as:

*“At least two actors have some ideas concerning the market, what will be traded, and how it will operate, in addition to a reason “why” there should be a market. Based on this, they may attempt to organise a market.” P. 158 (Ahrne and Brunsson 2008, cited in Aspers (2011))*

This market making can in turn be divided into two different types; “state-governed market making” and “self-governed market making”. Examples of self-governed markets are often illegal markets, but other legal examples include French strawberry farmers and the US diamond industry (Aspers, 2011).

Abolafia (1996, cited in (Ahrne, Aspers, & Brunsson, 2011)) states that the social constructivist perspective suggests that markets do not occur spontaneously, but rather that



buyers and sellers produce institutional arrangements such as rules, roles and relationships that make the market exchange possible. These buyers and sellers can be seen as the creators of the market, that organise it by upholding the rules, roles and relationships.

Amongst the critique of the economic man the idea of bounded rationality, referring to the limitations of information and cognitive capacities of man in general (Simon, 1955 cited in (Aspers, 2011), points in the same direction as many other critics. A colourful, almost satirical description of economic man points to the proposed misfit between theory and reality:

*“The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogenous globule of desire of happiness under the impulse of stimuli that shift about the are, but leave him intact. He is an isolated, definitely human datum, in stable equilibrium except for the buffets of impinging forces that displaces him in one direction or another.” (Veblen, 1898 cited in (Aspers, 2011) p. 73)*

Rather than seeing the market as populated by actors acting as the economic man, economic sociology researchers would argue that the actors in the market are acting rationally, much like economic man, but that they are doing so under the influence of their social relations (Aspers, 2011). This has been described by Granovetter (1985 cited in (Aspers, 2011)) as “embeddedness”, in that economic actions are also social actions, and these embedded actions are influenced by social relations.

### **6.3 Organisational theory**

It is not within the scope of this thesis to settle the dispute between neo-classical economists and economic sociologists regarding the natural or constructed nature of market. Instead, the thesis subscribes to the ideas of organisation of markets brought forward by Ahrne, Aspers and Brunsson (2011). In their seminal work *How are markets organised?* the authors argue that nearly all markets are organised, but the degree and type of organisation may differ.

In order to focus the discussion of markets and organisation relevant for this master thesis it is necessary to define these terms. This will be done using the definitions provided by Ahrne, Aspers and Brunsson (2011). The market is defined as a social structure for the exchange of owner's rights, having buyers and sellers that have the right to the good that is being trade. The trade should also be voluntary, and a price has to be determined. A formal organisation is defined by having membership, rules for the actions of members, a way of monitoring its members and issuing sanctions, and a hierarchical principle (Ahrne, Aspers, & Brunsson, 2011).

Even though there may be markets in which the actors are not decided by membership, they act in accordance with their own wishes and are not under threat of sanctions, it is more common that markets are combined with organisation to some extent. Markets that are organised can be either completely or partially organised. Completely organised markets are quite rare, as few markets are organised within the framework of a formal organisation, with noticeable exceptions such as stock exchanges. Partially organised markets are more common, and characterised by having a combination of one or more elements of organisation. These elements can be focused on different parts of the markets, concerning for instance the goods traded, the sellers, the buyers, the exchanges, the prices or the competition.

1. **Membership** can be used on markets to decide which actors that are allowed to participate in market. An example of this is those that arrange a market in a town square, that have to decide who can sell on the market, as there is often limited space in the market place. The organiser will then make a selection of which sellers that are allowed to participate, based on for instance the kind of goods that they sell, or other specific qualities. Sellers can also strengthen themselves by using membership in a non-exclusive way, for instance through the use of trade associations, with the aim of giving the sellers a particular identity as serious or reliable. Buyers can also be organised through membership, something that many retailers take advantage of through organising membership clubs, or airlines that have frequent flyer customer clubs.
2. **Rules** can apply to for instance product specifications, how the market actors should act, prices or in which way the exchange should take place. This aspect of organisation is probably the one that has attracted the most attention as being an attractive way of influencing the market. Many of the rules on the market are set by the state as so called directives which are set by the legislature in the form of binding written rules, for instance regulating the sale of medicine and firearms. Violating directives will result in punishment of some kind from the authorities. There are also market rules that are not set by the state, rules in the shape of standards, i.e. written rules that are not binding and optional to follow. Such standards are often set by other organisations, e.g. international standardising organisations or trade associations rather than by states. These can concern for instance clothing sizes, screw dimensions and computer components, as well as which goods that can be considered environmentally friendly. The setting of standards can limit the variety of goods that are offered, as there is no

point in marketing a computer component that does not follow established standards. The buyers' choice can also be influenced by standards, for instance in the case of eco-labelling. The last kinds of rules that can exist on a market are norms, i.e. unwritten rules. Norms are influencing how one expects things to be and others to behave. A silent agreement of what one perceives as right and wrong, good and bad, ethical and moral.

3. **Monitoring** can be focused on for instance maintaining competition, or ensuring that goods are not dangerous. As with rules, monitoring is a quite common feature of market organisation. Monitoring is often carried out by other organisations that certify or accredit the actors in the market or the goods that are traded. Companies can for instance be certified as a quality business or as being socially responsible. An example of a monitoring organisation is financial ratings institutes, such as Moody's or Standard and Poor's, that evaluate the creditworthiness of businesses. In some cases the monitoring takes place against the will of those monitored, in other cases the monitoring takes place on the initiative of those monitored, that would then apply and pay for being certified.
4. **Sanctions** can consist of either rewards or penalties, such as awards in the film industry or refraining from trading with a certain actor. Organised monitoring is often followed by organised sanctions, and can for instance lead individual buyers to refrain from buying from certain sellers. Being awarded a certification can be seen as a positive sanction following organised monitoring, whilst refused certification can be seen as a negative sanction. A common example is restaurant reviews, where a bad review can drive a restaurant out of business, whilst a good review can lead to it being fully booked for a long time ahead. Positive sanctions are not only a way of promotion the organisation receiving a reward, but also a way of advertising the awarder of the rewards.
5. **Hierarchy** means that the leadership of an organisation makes decision that are binding for all members, often exemplified by looking at the state, which can decide on membership, rules, monitoring and sanctions. Another example is organisations for buyers and sellers, where the market actors have given up the right to make decisions on rules, monitoring and sanctions, that they must follow as long as they want to remain members. Members of a trade association may for instance be forced to comply with certain ethical rules. It is however relatively uncommon that organisations for buyers and sellers take this action, as they are meta-organisations,

i.e. organisations that have organisations as members. These organisations often find it difficult to make binding decisions that are controversial among members. Instead this type of organisation often uses standards, voluntary control and avoid negative sanctions (Ahrne, Aspers, & Brunsson, 2011).

There are three major categories of organisers of the market: “others”, “profiteers” and “market actors”. “Others” are persons and organisations that do not act themselves, but rather give advice on how other people and organisations should act, e.g. economists. Markets that are ethically controversial are said to attract many “others”. “Profiteers” are those that wish to make money on markets, e.g. states and brokers. “Market actors” can be subdivided into “sellers” and “buyers”. “Sellers” are to some extent bound to their market, if an organisation sells a certain type of good it cannot simply switch to selling another. Therefore many sellers engage in the process of market organisation, by for instance supporting or opposing others’ attempts to organise the market, lobbying to see a development of a market in a certain direction, organising buyers with the help of membership, or setting standards for the goods traded on the market. “Buyers” have an interest in promoting competition among sellers, and common examples of buyer organisations are consumer associations (Ahrne, Aspers, & Brunsson, 2011).

#### **6.4 Decision-making theory**

A theory that can help explain how decisions are made, and the grounds for why customers consume the products or services is decision-making theory. James March (1994) describes two decision-making processes, one drawn from intended rational calculation and one drawn from rule following and fulfilment of an identity.

The rational choice theory assumes two things; that decision processes are consequential, and that decision processes are preference-based. Consequential refers to the belief that actions depend on expectations of the future effects of current actions. Preference-based refers to the belief that consequences are evaluated in terms of personal preferences. March (1994) describes a rational choice procedure as one that follows the logic of consequence based on four questions;

1. Alternatives: What actions are possible?
2. Expectations: What future consequences might follow from each alternative and what is the likelihood of each possible consequence?
3. Preferences: How valuable are the consequences to the decision-maker?

4. Decision rule: How is a choice to be made among alternatives based on the values of their consequences?

Studies of decision-making illustrate that all alternatives are not known, that all consequences are not considered and that all preferences are not induced at the same time. Decision-makers only consider a few alternatives, they do not consider all consequences of the alternatives, as relevant information about consequences are not searched for and available information not used, and usually incomplete and inconsistent goals are making up the preferences. Even decision rules are not based on risk level and expected value in order to determine the “best possible” action, but on actions that are “good enough”. These insights have led researcher to introduce the concept of bounded rationality. Even if decision-makers are trying to be rational they are constrained by limited cognitive ability and incomplete information and actions might therefore be less than rational, despite the best intention to be so (March, 1994). Others argue that if bounded rationality means taking actions that will result in a lower payoff than what would have been obtained with infinite time for research and analysis, then bounded rationality becomes a logical requisite (Herbert, 2004). Studies also show that decision-makers more often seem to satisfice rather than maximise, where satisficing is to choose a good-enough solution, an alternative that exceeds some criteria (the position of an alternative relative to a target) and maximising is to choose the best alternative (the relative position of one alternative to another) (March, 1994). Satisficing might however constitute the more promising choice, as maximising may trade one alternative, with familiar risk level and possible consequences, for one that nothing is known about. Maximisations might also result in transaction costs, which would be avoided if aiming for a satisficing outcome as maximisation requires extensive data gathering and analysis of all alternatives. This requires both time and resources. The alternative chosen might also be more radical in nature than an alternative based on a satisficing approach, and available information about the alternatives might be so imperfect that a comparison between them has low value (Herbert, 2004).

Decision-making as rule following is applied when individuals or organisations are trying to fulfil identities. Rules that are seen as appropriate to the situation are followed. March (1994) describes a rule following procedure as one that follows the logic of appropriateness based on three questions;

1. Recognition: What kind of situation is this?
2. Identity: What kind of person am I and/or organisation is this?

3. Rules: What does a person such as I, or an organisation such as this, do in this kind of situation?

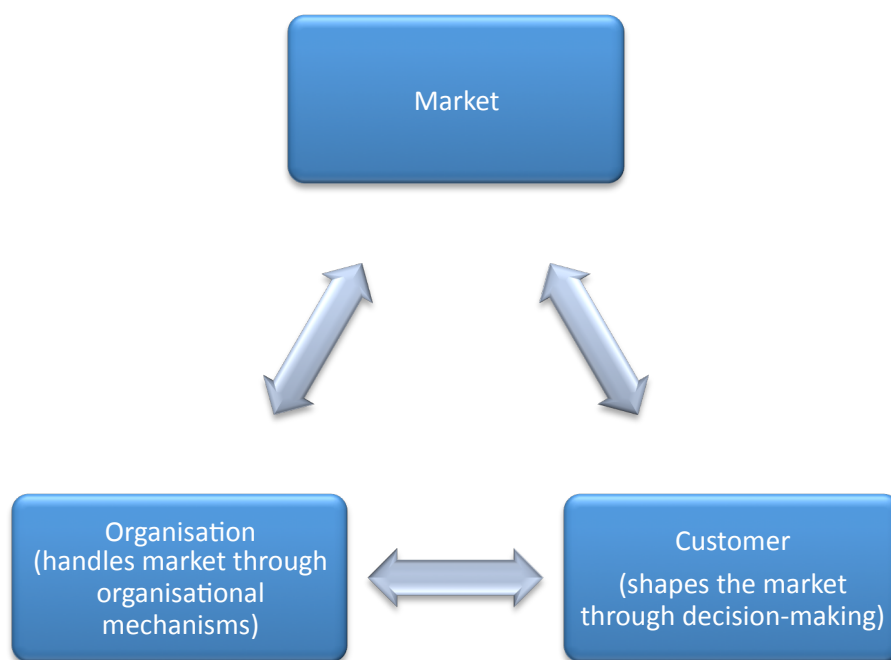
The reasoning behind a rule-following decision process is to establish identities and match rules to recognised situations, it involves learning to act in a particular way. Some might argue that even rationality is a rule that requires decisions to be made consequentially. Individuals describe themselves in terms of occupational, group, familial, ethnic, national and religious identities. Different decisions call for different identities and thereby different rules to follow. In order to determine the relevant identity and rules for a certain decision four elements are considered; experiential learning, categorisation, recency and context of others. Experiential learning refers to the fact that individuals learn to adapt a certain identity by previous positive experience of that particular identity in the past. Categorisation refers to that central conceptions of one's identity are more frequently evoked than others, for instance people who view the world in a certain way are likely to see the central feature of a certain situation in the same way. Recency refers to identities and rules that recently have been called forth and thereby are likely to be evoked again. Context of others states that in the presence of others definitions of identities leads to conformity, distinctive people become more aware of their own identity within a group of people and such identity confirmation evokes the dimension of differences in the group. The rules applied are adapted and shaped by the environment through for instance; analysis (expectations of future consequences); bargaining (negotiation among decision-makers with inconsistent identities); imitation (copying of rules by others); selection (creation and survival rate of rules and the decision making unit); learning (changes of routines) (March, 1994).

## **6.5 Application of theory**

Following the description of the selected theories, the application of the theories on the study will be discussed and clarified. The research question aims to answer how organisations handle a market with a customer-related problem and how this behaviour can be explained. The question is approached from an organisational perspective, and the organisational theory presented by Ahrne, Aspers and Brunsson (2011) will be applied separately on the in-depth case study of Company X as well as the three secondary case studies. The aim is to understand if, and to what extent the five organisational mechanisms mentioned in the model are applicable on the case organisations' attempts to organise their respective market. Decision-making theories will be applied as a second step where the main customer group to each organisation will be analysed in the light of rational-choice theory and decision-making

as rule following. The aim is to investigate which of the two decision-making processes that are most prevalent, how it steers the customer into certain behaviours and what implications this has for the case organisations. Together, these two analyses, drawn from application of organisational theory and decision-making theory respectively, will create a better understanding of how organisations handle imperfect markets with a customer-related problem.

The model, illustrated in Figure 1, suggests that customers shape the market toward imperfection by their behaviour and organisations try to handle the consequences through attempts to organise the market in a way that is favourable for them. There is not only an impact on the market by the customer and the organisations, but also an impact by the customers on the organisations, and by the organisations on the customers, through the market (indicated by the arrow connecting Organisation with Customer). The below figure illustrates the theoretical approach which will be applied throughout this paper.



**Figure 1 Organisation and customer impact on market and each other**

## 7 Empirics

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*The chapter presents findings from the data collected for the study. The empirical material is presented by each organisation studied. It describes the background of the organisation, the offering, the main challenges each organisations faces, and their efforts to handle the situation.*

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### 7.1 Company X

This case study will present Company X, whose operations revolve on their ground-breaking invention in water purification – *Product Y*. It will present how Company X has worked to overcome the challenges on the market the company is active in and its attempts to organise the market to meet its objectives.

The practical testing of the product started already in 1997, based on an idea of the founder. The initial vision was to have an impact and to make a change to the daily lives of some of the one billion people around the world who live without access to clean water (CEO, Company information, 2012).

Company X was not able to secure any support from governmental agencies in the start-up phase but received a research grant from a UN organisation (CEO, Company information, 2012). The grant enabled the company to conduct product pilots in a developing country for seven months to investigate how the product worked in the field, and how it would be received by end-users. The aim of the product pilots has been to verify that the product can deliver the quality and impact that the company aims for. Additional pilots enabled the company to conduct substantial product development. The company secured some support from a governmental agency for innovation to evaluate the impact of the product. The product development has been a costly process, and the overarching goal has been to produce a high quality product, that will work in the long-run, and be both durable and sustainable. This has led the company to see itself as a technology provider (CEO, Company information, 2012).

#### 7.1.1 Offering

Product Y is a water purification product that enables people to make unclean water drinkable. The result meets WHO guidelines for safe drinking water and if used carefully the product has a lifetime of seven to ten years (Company X, 2011).



## **7.1.2 Challenges**

### **7.1.2.1 End-users lack money**

As the end-users cannot afford to pay for the product up-front the main challenge is to find other ways to sell and distribute the product to the end-user group (CEO, Company information, 2012).

### **7.1.2.2 Market lacks knowledge and information**

The end-user also lacks sufficient knowledge and information about the products features and benefits. The company has noticed that big multinational corporations in water purification, for instance producers of chlorine, use vast amounts of marketing to sell their products. These multinational corporations have managed to define the market for water purification, and it is a challenge for a small company like Company X to establish and redefine the market (CEO, Company information, 2012).

To become accepted as a supplier to certain institutions the company must show that supply is secured in terms of production capability and that the company can guarantee delivery. Company X is today an accepted supplier to eight UN-organisations, but as a new technology it is difficult to find the right definition of the product category in the system (CEO, Mail correspondence - Company information, 2012).

### **7.1.2.3 Market structure**

It is more difficult to operate as a limited liability company than it would have been to operate as for instance a foundation on this kind of market. In its current form the company cannot apply for any grants or aid money themselves. Instead the company is dependent on other organisations, such as charitable organisations or non-governmental organisations (NGOs) to apply for grants or aid money (CEO, Company information, 2012). A constant concern for Company X is the political climate in the developing countries where it conducts its business. Having a clear focus on the BoP segment leads the company to operate on markets that do not have the same stability as is prevalent in developed countries. The company states that there are many examples of deals that have fallen through due to changes in the political situation in the respective countries (CEO, Company information, 2012).

### **7.1.2.4 Systems and processes**

Another challenge is the systems, routines, evaluation processes, which exist among potential partners and customers. The international organisations that Company X sees as potential customers have rigid structures and a main challenge is to influence the way in which these

organisations do business. Slowness with which they respond to change is a big challenge, as well as to thoroughly understand the structures and decision-making processes (CEO, Company information, 2012). The process on the institutional market is more challenging than what the company believes it would face on the business to consumer market. There is a long list of requirements and standards that need to be fulfilled in order to become a certified supplier of water purification products, and the evaluation process can be described as slow and time-consuming (CEO, Phone interview - Company information, 2012).

### **7.1.3 Interventions**

To handle the above mentioned challenges Company X is focusing on mainly four areas; market segmentation, reference projects, collaborations and lobbying.

#### **7.1.3.1 Market segmentation**

Company X has segmented the market into a primary and a secondary market in order to handle challenges related to the targeted segment's inability to pay and market structure (CEO, Company information, 2012).

##### **Primary market**

The primary market is the BoP market, where the actors on the buyer side have been segmented into end-users and customers. The end-user is the person in the BoP segment that will eventually use the product. The end-user however lacks the ability to pay for the product up-front, and can only afford to purchase units that are heavily subsidised, perhaps 10% of the market price for the product (CEO, Company information, 2012). The customers on the other hand consist of NGOs, governments, institutions and international organisations that provide the subsidies that enable Product Y to be sold at a heavily subsidised price to end-users (CEO, Company information, 2012). These organisations can apply for grants or aid money that they can use to purchase and distribute the product (Business Manager, 2012). The product also aims to attract households where access to clean water is expensive or unreliable. Therefore, the target market includes additional segments besides the BoP market even if this segment is prioritised (WWF, 2009).

As the end-users rarely are able to pay upfront for the product, it is necessary for Company X to find other solutions. Different kinds of payment solutions, for instance micro-finance, savings groups or payments by instalments, could be one way of handling the end-users inability to pay. There is a clear end-user benefit of using the product, as there is a high return

on investment, with a payback-period of less than one year. As more and more end-users are made aware of these benefits the willingness to pay for the product is thought to increase. With more satisfied end-users, acceptance and trust increases, and through the spread of positive word-of-mouth Company X believes that sales of Product Y will reach a tipping point. At this point the company believes it will be able to reduce the subsidies, as the end-users know that the purchase of a unit pays off. Other payment solutions will then be implemented in order for the end-users to be able to pay for the product (CEO, Phone interview - Company information, 2012). The company believes that a subsidised product probably will be necessary for a long time to come. If a subsidy scheme could be found, the company believes that it could start selling the product to the end-user in a much larger scale (Business Manager, 2012). The company itself would define the market as “quasi-commercial”, both commercially adapted for the BoP segment and partly subsidised (CEO, Mail correspondence - Company information, 2012).

## **Secondary market**

The secondary market can be divided into; the Corporate Social Responsibility (CSR) market, the climate compensation market, the disaster-relief market, and corporate clients.

- In the CSR market, Company X is targeting companies that want to pursue CSR initiatives for their own interest, which the companies can use in their marketing. This could be to provide suppliers who lack access to safe water with access to Product Y, or to subsidise products to developing countries as a social responsibility initiative (CEO, Phone interview - Company information, 2012).
- In the climate compensation market, Company X offers companies a way of compensating for CO<sub>2</sub>-emissions by purchasing and distributing Product Y in developing countries, as the product is found to reduce CO<sub>2</sub>-emissions. Through a project in conjunction with a carbon offset company, Company X is able to offer companies carbon reduction and in turn sell the product to end-user with a subsidy (CEO, Company information, 2012). This market is volatile, and emission rights that previously cost €25, today cost only €5-6. This has had a significant impact on the product offering that Company X has compiled for its corporate clients interested in climate compensation (Business Manager, 2012).
- Another alternative that was addressed early on was the disaster-relief market. The disaster-relief market is governed by large international NGOs, as well as

governmental organisations, that buy disaster-relief products in bulk and store them for use in emergency situations (Project Manager, 2012). The customers on this market are relatively easy to identify and consist mainly of UN-organisations. Similarly to the NGO market the main challenge for Company X is to fit into the procurement process, and to be able to make its way through it (CEO, Company information, 2012).

- Corporate clients are a group of customers that would use the product in their own operations. This could be plantations, such as coffee or tea plantations, or companies involved in building infrastructure in developing countries and lack access to clean water (CEO, Company information, 2012).

#### *7.1.3.2 Reference projects*

Reference project is a way to overcome challenges related to insufficient information and knowledge as well as existing market structures. The company has worked actively on building its reputation, based on for instance success cases of satisfied end-users. These are of growing importance for the acceptance and awareness among end-users and potential customers. (Communication Manager, 2012). Company X realised early on that in order for customers to be interested in purchasing Product Y it would be necessary to prove that the product worked as promised, and could deliver on the many promises it made, for instance in terms of decreased energy consumption. They did therefore conduct pilot studies that could be used as reference projects (CEO, Company information, 2012). Reference projects have several different objectives:

1. The first objective is to create acceptance and awareness. For many of the customers it also provides necessary proofs that the production and distribution is reliable, and that the product is sought after by end-users. Reference projects are therefore an important way of influencing systems and speeding up processes among customers.
2. The second objective is to create a connection with end-users, and internalise them in the process. If the end-users have a high level of acceptance it will increase the chances of them demanding the product, i.e. influencing customers to distribute Product Y instead of for instance chlorine tablets. This would create a pull effect of the product to the market.
3. The third objective is PR. Reference projects is a way of building brand awareness and reputation, and thereby important in the marketing of the product.
4. The fourth objective is opportunities for product development. This is done through

product testing during reference projects, to ensure quality, sustainability and opportunities for long-term use, as well as to gather insights on the needs of end-users.

5. The fifth objective is to create tools for project evaluation, as a sort of control measure that NGOs can use to evaluate the product. This is turn is used for PR purposes (CEO, Company information, 2012).

#### **7.1.3.3 Collaborations**

Collaborations are a way of overcoming issues related to market structure. From the start, the company wanted to be open to many different kinds of partners, in order to evaluate for itself which partners to work with. The company wanted to find partners that are good at implementing and distributing the product to remote areas, and gradually narrow down the amount of partners to four or five (CEO, Company information, 2012). The goal has been to find organisations that are the most appropriate, transparent and cost efficient, with the ambition to provide safe drinking water to the BoP segment in a sustainable way (CEO, Mail correspondence - Company information, 2012) (Company X, 2011).

Collaborations with NGOs and local distributors have been crucial for Company X. Today collaborations with NGOs consist of organisations doing the implementation of 100% subsidised products, focusing on sales and training. In some challenging areas there is a potential 20% profit margin or bonus system in place in order to incite better sales and distribution. The company has found that local NGOs are sometimes more effective in comparison with international NGOs. Company X therefore prefers to work with local ones, however many corporate clients prefer international NGOs for the implementation of subsidised products. The reason for this is that international NGOs are well known, and as there is a higher prestige and marketing value working with these organisations (CEO, Company information, 2012).

Local distributors are equally important as international NGOs since local distributors have both access to, and understanding of, local networks and structures (Communication Manager, 2012). Finding a local distributor with sufficient clout is however difficult, and the company is making more of an effort to ensure that the local distributors the company engages with do indeed have sufficient influence in their local market (CEO, Company information, 2012). Beyond the initial demands of having a good track-record, a good spread, a good reputation, and previous experience of working with the BoP segment, local

distributors must now commit to higher volumes, and determine a niche that they wish to focus on (Communication Manager, 2012).

#### **7.1.3.4 Lobbying**

In order to handle challenges related to system and processes Company X is working with lobbying. These efforts are geared towards international organisations, the local government and foreign governments.

Through lobbying efforts towards international organisations Company X tries to influence international regulations and standards to redefine rules and mind-sets. Today the company pays full value added tax (VAT) on the product and a cost reduction of import duties could have significant impact on Company X's ability to compete. A new standard for the product category would thereby have a large impact on the company's operations. Another part of the lobbying efforts towards institutions is to become part of the procurement processes of these organisations, for instance the UN. The challenge is to fit into the procurement process in order to find a way through the rigid system for a new and innovative product like Product Y (CEO, Company information, 2012).

Lobbying efforts towards the local government are focused on convincing the government to procure national innovations for aid relief investments. This approach is followed in the US by the governmental development aid organisation, United States Agency for International Development, which focuses on what domestic products and inventions that could be used for aid relief in developing countries. If the local government would follow a similar approach of investing aid money in domestic products, this market opportunity could prove fruitful for Company X (CEO, Company information, 2012).

Lobbying of foreign governments is aimed towards the departments of health, education, environment and energy and is being considered as an alternative to influence the local government. In trying to influence foreign governmental agencies the company has found a number of criteria that most departments ask for before considering any products for procurement. The product must be available in the country with well-functioning import processes, be kept in stock in the country, include technical support, be accepted by national standards, and the analysis of the quality of product must have been conducted according to national standards (CEO, Mail correspondence - Company information, 2012).

#### 7.1.4 The Base of the Pyramid market

Below follows a section that will provide some additional information about the BoP market as the characteristic of the BoP market has major implications for the case company studied.

The consumers of the world can be divided into four tiers. *Tier one* is those who have an annual income of more than 20,000 USD, which is between 75-100 million people. These people are the middle- and upper class of developed nations, as well as the rich elite of some developing nations. *Tier two and three* are those who have an annual income of between 1,500-20,000 USD, which is between 1,500 – 1,750 million people. These people are the working-class of developed nations, as well as the middle-class of developing nations. *Tier four* is those who have an annual income of less than 1,500 USD which is about four billion people. The sum 1,500 USD is what is considered to be needed to sustain a decent life. Over a billion people in tier four earn less than one USD per day. The skewed income distribution gives the impression that the four billion people in tier four are unable to participate in the global market economy. In fact the BoP segment represents a multitrillion-dollar market. For a range of reasons that will be explored in the following paragraphs, this customer segment has remained largely invisible to companies (Prahalad & Hart, 2002),

Prahalad (2004, cited in (Karnani, 2007)) make three propositions with regards to the opportunities for companies to target the BoP segment:

1. There is much untapped purchasing power at the bottom of the pyramid. Private companies can make significant profit by selling to the poor
2. By selling to the poor, private companies can bring prosperity to the poor and can thus help eradicate poverty
3. Large multinational corporations should take the leading role in this process of selling to the poor

Unlike Prahalad, who is one of the pioneers on targeting the BoP segment, Karnani (2007) is of a different view on the prospect for companies that target the BoP segment. Karnani (2007) argues that the BoP proposition is too good to be true, going as far as to call it a “mirage”. Prahalad’s view has however been supported by other researchers, and more and more companies are becoming interested in the BoP segment (Halme & Laurila, 2008) (Porter & Kramer, 2011).

Karnani (2007) states that the cost of serving the BoP segment is high due to the small size of each transaction, and difficulties with distribution in developing countries. He argues that there are two options of helping the poor and alleviate poverty (1) lower price to increase income among poor people, (2) raise income among poor people. The most sustainable option according to Karnani (2007) is to raise income among poor people and view power people as producers.

The overall challenge for managers who wish to target the BoP segment is to visualise a market where there today only exists extreme poverty. The most pressing challenge for companies that wish to target the BoP segment is however of another nature. The customers in this segment lack the ability to pay for the products, at least up-front. To increase customers' ability to pay, companies have two options, either to offer access to credit or to offer means for the BoP segment to increase their income. Furthermore, the customers in the BoP segment often suffer from lack of information about products available to them. The customers in the segment also suffer from lack of access to information technology, such as mobile phones and computers. The BoP segment is also physically and economically isolated, in that the customers mainly live in rural areas or slums and shantytowns near larger cities (Prahalad & Hart, 2002).

## **7.2 Comparative case studies**

As discussed in the introduction of the thesis, the case company, Company X will be compared with three other organisations facing challenges related to the customer. A comparison between how different organisations handle the same kind of market challenge will enable a wider understanding of the phenomenon and increase the generalisability of the findings. Below follows a presentation of secondary data related to the three comparative case studies; D.Light, the Swedish Pension Agency and Sony Music Entertainment.

### **7.2.1 D.Light**

The company was founded in 2007 in San Francisco as a social enterprise, with a mission to replace unhealthy, dangerous and poor quality kerosene lamps in the developing world with clean, safe and bright solar cell powered lamps (D.Light, Give Light, 2012).

The company describes its' mission as:

“Enable households without reliable electricity to attain the same quality of life as those with electricity. We will begin by replacing every kerosene lantern with clean, safe and bright light.” (D.Light, Our Values, 2012)



The company's goal is to change the lives of 50 million people by 2015, and 100 million people by 2020. To date, over 10 million people have benefited from access to the product (D.Light, Our Values, 2012). The company is selling its products in a diverse range of markets, from Nigeria to Kenya to India and Myanmar. The company is also currently selling their products in developed countries such as the US, UK and Canada, where the target niche is sporting and camping goods (D.Light, Give Light, 2012).

The company has been able to secure funding from a number of venture capitalists, as well as the Shell Foundation, founded by Royal Dutch Shell to promote sustainable development, and the Acumen Fund, which is a global venture fund aimed at solving problems associated with poverty (D.Light, Investors, 2012). The company has also receive a lot of favourable PR, for instance in The Economist, Forbes and National Geographic, as well as awards and recognitions, such as the Green Oscar, the Ashden Award, and the British Museum's "A History of the World in 100 Objects" (D.Light, In the News, 2012).

#### **7.2.1.1 Offering**

D.Light has invented a product line of solar cell powered energy and lighting products. The company is currently marketing three different products, the D.Light S1, S10 and S250. The product S1 and S10 are two different types of solar cell powered LED-lamps, that are aimed at replacing kerosene lamps. S250 is a combined LED-lamp and mobile phone charger (D.Light, Product Line Global, 2012).

#### **7.2.1.2 Challenges**

D.Light operates similar to Company X on the BoP market and does thereby face many of the challenges discussed in previous sections. As with many products targeting the BoP segment, the products offered by D.Light are too expensive for the customer to buy at the lowest possible price the company can offer. The customer group does also lack information and knowledge about the product in general, and as a new-to-the-world product it is difficult to change current standards and norms on the market (convince the market of the benefits of solar-powered lighting compared to for instance kerosene). D.Light must similar to Company X gain knowledge about local market conditions to be able to sell the product. This knowledge is required in a wide range of fields, in everything from local customs and norms, to knowledge about the customer behaviour and political climate. The company must also redefine systems and processes for how the exchange should take place and how to distribute the product to remote areas (Wiener, 2012).

### **7.2.1.3 Interventions**

#### **7.2.1.3.1 Price/quality balance**

As the customers have a limited ability to pay for the product, the company aims to strike a balance between quality and price, trying to ensure that the products are made with the highest possible quality that the customers can afford. In order to be able to do that, the company focuses on cost-consciousness in all decision that are made, from product design to manufacturing and distribution. This is done in order to make the best possible products at the lowest possible price. Integrity is a guiding principle as the company wants to conduct its business with the highest possible ethical standards (D.Light, Our Values, 2012).

To ensure that customers in the BoP segment get access to the product, the company is using 10% of its net profits from its sales in the developed world to donate D.Light products to communities in the developing world lack access to electricity. This money is employed to provide light to conflict and disaster-ridden areas through partnerships with established NGOs (D.Light, Give Light, 2012). As of 2008 the manufacturing of all products takes place in China (Shukla & Bairiganjan, 2011).

#### **7.2.1.3.2 Local distribution**

To handle the challenging market structure the company has local sales and distribution teams that understand the local business environment. These local teams can build partnerships with large local distributors as well as small local dealers in order to reach customers living outside of the urban areas (D.Light, Our Capabilities, 2012). The company focuses on building these local partnerships, in order to improve the amount of products that can be distributed (D.Light, Our Values, 2012). In Kenya the company is starting a project that would give local women in the slums of Nairobi with the opportunity of becoming entrepreneurs by selling D.Light's products (Kopernik, 2010).

#### **7.2.1.3.3 Customer feedback**

To ensure that the product fulfils the customer need the company employs a strong feedback loop, where the opinions of consumers are integrated into the research and development of the company. This takes the shape of research in ethnographic studies, user studies, market studies, design and technology. The results of these studies influence the further development of the company's products. The company believes that this ensures that the products are unique, with a design that customers find appealing and technology that is cutting-edge (D.Light, Our Capabilities, 2012).

#### **7.2.1.3.4 Marketing**

To influence current standards and norms and counter low levels of information and knowledge, D.Light puts a lot of efforts into marketing. Promotion consists of a continuous comparison between the solar cell powered D.Light product and kerosene fuelled lights, aimed at shifting the norm of lighting from kerosene to solar cell powered lighting among the customers. The company points to cost savings compared to kerosene, where the product is said to pay for itself in a couple of months. Furthermore a better study environment is said to be achieved through using D.Light's product as the quality of light is better. Healthier and safer homes can also be expected, as D.Light's product does not emit any pollutants. Finally the use of D.Light instead of a kerosene-fuelled light would reduce CO<sub>2</sub>-emissions by half a ton over five years (D.Light, Customer Benefits, 2012).

### **7.2.2 The Swedish Pension Agency**

The Swedish Pension Agency is the Swedish organisation that administrates, disburses and informs about the Swedish pension (Pensionsmyndigheten, Vårt uppdrag, 2012). In January 2010, the Swedish Pension Agency was assigned the responsibility for all national pensions meaning that all pensions would be administrated by the Swedish Pension Agency (Pensionsmyndigheten, About the Swedish Pension Agency, 2012). In 2000 a reform of the Swedish pension system was launched, the aim was to make people work longer and make active choices regarding their retirement pension (Lövgren, 2012).

#### **7.2.2.1 Offering**

Every year 18.5% of the salary and other taxable benefits earned by Swedish employees are saved for the national retirement pension. Out of this, 16% are aimed for the income pension and the remaining 2.5% makes up the premium pension. The premium pension is, together with private pension savings, an opportunity for people to choose funds to invest in. People can select funds from the state fund portfolio or from the approximately 800 funds which are registered at the premium pension fund market. If people do not make a choice the money will be invested in the Seventh AP Fund, the default alternative (Pensionsmyndigheten, Den Allmänna Pensionen: Pensionsmyndigheten, 2012).

#### **7.2.2.2 Challenges**

##### **7.2.2.2.1 Lack of knowledge**

The Swedish Pension Agency suggests people to consider two things when selecting funds; risk level and fund fees (Pensionsmyndigheten, How to select fund for premium pension:

Pensionsmyndigheten, 2012). According to a survey presented in a report by the government in 2005 only 6% of the pension savers think they have sufficient knowledge to manage their premium pension, 52% state that they lack enough knowledge. Lack of interest and insufficient knowledge among those making their pension-investment choice for the first-time, and young people in particular, is the main issue on the agenda (Regeringen, 2005). In Sweden, 66% of the population with pension rights made an active choice when the reform was implemented. Today only 2% make an active choice (Guzmán, 2012).

#### **7.2.2.2.2 Information overload**

In the implementation process of the premium pension, diversification of funds was seen as an important factor. This was realised by the Swedish Pension Agency, but the outcome was not as expected. The large amount of funds turned out to be the reason for the low activity among savers. Too many alternatives impeded individuals from choosing at all (Jutterström, 2010).

#### **7.2.2.2.3 Incentives**

Since the launch of the premium pension, non-active savers have received a 5% higher return than active savers, and reasons for not making an active choice increase. According to a study made by the Swedish pension and insurance company AMF, savers that succeed in managing their premium pension can receive five times higher pay-outs. Despite this, the amount of people going for the default alternative increases (Hugo, 2011).

### **7.2.2.3 Interventions**

#### **7.2.2.3.1 Education**

Information initiatives are seen as a central task by the Swedish Pension Agency in order to reduce the knowledge gap and educate savers. Information is available on the website, and the organisation offers savers to meet representatives from the agency, to participate in information meetings or to visit service offices which are operated in collaboration with the Swedish Tax Agency and The Swedish Social Insurance Agency (Pensionsmyndigheten, Informationsmöten och servicekontor: pensionsmyndigheten, 2012).

#### **7.2.2.3.2 Monitoring**

To ensure equality, transparency and comparability of funds, agreements are signed with each fund agency. This is a way to control the fund agencies and exclude them if the agreement is violated (Jutterström, 2010). A consequence of the many funds available has been a creation of a side market, a market for advisory firms. The advisory firms take an annual fee to manage the premium pension for savers which has increased the activity on the fund market

(Jutterström, 2010) (Pensionsystemet, 2010). This kind of administration has resulted in mass switching of funds. In order to facilitate these large fund switches the Swedish Pension Agency has initiated something called 2K (complementing channels) where this can be handled in a structured way through a contract between the Swedish Pension Agency and the advisory firms (Pensionsystemet, 2010).

#### **7.2.2.3.3 System and processes**

To handle the issue of information overload the Swedish Pension Agency has invested in systems and processes. The premium pension system consists of two parts; the information required for the pension savers to make an investment choice and the investment alternatives. The funds available in the system guarantee diversification, and aims to facilitate by eliminating the necessity to choose between individual securities on the financial market (Regeringen, 2005). The Swedish Pension Agency offers an online tool where people can get an overview of where their money is invested, how much to invest and opportunities to select, switch and check funds (Pensionsmyndigheten, How to select fund for premium pension: Pensionsmyndigheten, 2012).

#### **7.2.2.3.4 Bundling**

To handle low motivation and commitment, efforts are focused on good management of the premium pension for the non-active savers. During the spring of 2010 the first reform of the new system was implemented. The risk level of the default alternative, the Seventh AP Fund, was increased to enable a higher future return. The fund did also become available for active savers, which enabled them to return to a passive approach. Besides this, three fund portfolios were created representing high, middle and low risk. This was a way of simplifying for the people who did not know which of the 800 funds to choose and paid money for advisory firms to do it for them (Hugo, 2011).

The Swedish Pension Agency has identified three target groups that need different kind of support and management that depends on savers' knowledge and commitment (Regeringen, 2005).

1. Savers that have neither knowledge nor commitment to handle their premium pension are the primary target group for the Seventh AP Fund (the default alternative)
2. Savers that have the commitment but insufficient knowledge to handle their premium pension are the target group for switching funds with guidance

3. Savers that have both knowledge and commitment are the target group for selecting and switching funds without guidance

### **7.2.3 Sony Music Entertainment**

Sony Music Entertainment was founded in 1929 as the American Record Corporation. It is today the second largest global recorded music company, and is a subsidiary of the Sony Corporation of the USA, which in turn is a subsidiary of the Sony Corporation of Japan. In 2010 the company had revenues in excess of \$5.6 billion. The company has over 20 record labels under which it releases music (Sony, 2012).

#### **7.2.3.1 Offering**

Sony Music Entertainment produces music for the consumer market. The product is mainly in the form of CDs, but increasingly also provided online as digital music files. The company aims to control the whole value chain, from recording of the music, to production of CDs or digital music files, to distribution of the physical or digital product (Sony Corporation, 2012).

#### **7.2.3.2 Challenges**

##### **7.2.3.2.1 Illegal downloading**

Since Napster, the first provider of free music online, record companies have been struggling with customers' decreasing will to pay for music. Customers expect the product to be free of charge, something that has become a cultural expectation. There is no social stigma associated with illegal downloading, and therefore no risk of any type of social sanctions by peers. The illegal downloading of music has become known as internet piracy, and the large scale piracy could result in the end of the market for recorded music (Warr & Goode, 2011). This development is driven by Generation Y, i.e. those born after 1982, who are the company's future customers. Within this group, habit has been identified as the strongest driver for the illegal downloading of music. If this group of potential customers are not swayed from the concept of 'free' music, the company may well loose a large group of potential customers (Warr & Goode, 2011).

##### **7.2.3.2.2 Digitisation of product**

Copying and exchanging music did exist before the internet, but it was then local, limited to groups of acquaintances and limited also to music that was available to this group in physical form. According to Dolata (2011) the advent of file-sharing services freed music exchanges from these limitations, which enabled the changes in how customers expect to acquire the product, especially among young customers. The increased digitisation of the industry has

also lead to a decreased value of traditional manufacturing and sales methods and an increased value of digital methods of distribution. According to Warr & Goode (2011) it has also given producers and artists the opportunity to skip the record companies in the marketing of their music, and distribute directly to the customers.

### **7.2.3.3 Interventions**

#### **7.2.3.3.1 Lobbying**

Sony Music Entertainment, together with many other record labels, has tried to decrease the availability of illegally downloaded music by lobbying for stronger regulation. Sony Music Entertainment supported the introduction of the US laws; the Stop Online Piracy Act, and the Protect IP Act. Once regulation has been put in place the record labels have brought criminal and civil law cases against customers who have been illegally downloading their music (Warr & Goode, 2011).

#### **7.2.3.3.2 Brand community**

On the website myplay.com Sony Music Entertainment is trying to develop a brand community as another way of handling issues related to illegal downloading. There are also additional services provided, such as top lists, fan clubs or suggestions on music genres, as well as collaborations with third parties, such as Spotify. Research has shown that brand communities usually act in the same way as other communities do, they share; a consciousness, common rituals, and traditions a sense of moral responsibility. What companies like Sony Music Entertainment hope is that this sense of moral responsibility will decrease the likelihood of illegal downloading as it can be seen as inappropriate behaviour in the eyes of the community. The intention is also to create an illusory bond between the customer and artists, to create a personal connection with the person who is the recipient of the money paid (Warr & Goode, 2011).

#### **7.2.3.3.3 Subscription services**

Another option which is being explored is different subscription models, where the customer pays a monthly fee to get access to the catalogue of a certain record label (Warr & Goode, 2011). Considering the rampant development of Spotify it is however unlikely that any subscription services that the record labels try to set up will succeed, much as was the case with Apple's iTunes and the record labels' home-grown competitors to iTunes, such as MusicNet and Pressplay (Dolata, 2011).

## 8 Analysis

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*The chapter presents an analysis of the findings in accordance to previous research in the area. The chapter continues by identify how the case organisations handle the imperfect market they operate on, how they act to organise the market, and how the decision-making process in the customer group is made. The chapter ends with a comparative analysis examining why the case organisations act as they do.*

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### 8.1 Introduction

Following the purpose of the study the main research question is: “*How do organisations handle imperfect markets with a customer-related problem, and how can this behaviour be explained?*”. The question will be answered in three parts:

- The first part will focus on the market and discuss how organisations handle markets with a customer-related problem. The section will discuss why the case markets are imperfect, differences and similarities between the markets, and provide an overview of the main challenges on the markets.
- The second part will focus on sub-question one and discuss how the organisations act. This section includes a summary of actual behaviour, an analysis on how the organisations try to organise the market, and implications of the decision-making process among their customers.
- The third part of the analysis will focus on sub-question 2 and consists of a comparative analysis between Company X and the three secondary case studies. The section will investigate why the organisations that have been studied act as they do. The purpose is to identify similarities between the cases that can provide general conclusions on how and why organisations on imperfect markets with a customer-related problem behave in a certain way.

### 8.2 What are the main characteristics of the case markets?

This section will begin with a discussion on the case markets with the aim of further explaining why the markets studied are examples of imperfect markets. This is done to set a foundation for the continued analysis, which requires the case markets to be considered imperfect. Thereafter follows a discussion on what the similarities and differences of the case markets may be and finally an analysis of the main challenges on the different markets.



### 8.2.1 Reasons why the case markets are imperfect

Market	Problem
<i>BoP market</i>	Consumer lacks ability to pay, information and knowledge
<i>Premium Pension market</i>	Consumer lacks knowledge and commitment
<i>Market for recorded music</i>	Consumer lacks willingness to pay

The BoP market, the Premium Pension market and the market for recorded music might at first seem very different. What they all have in common is that they suffer from some sort of market imperfection. The reason for the imperfections however differs between the markets. In the case of the BoP market the consumer has limited financial resources for consumption. The consumer often lacks the ability to pay for products even though the product could have a significant positive impact on the lives of the consumers, and even lift them out of poverty. There is also an information and knowledge gap, where consumers have limited access to both technology and communication channels as well as education. In the Premium Pension market a large share of the consumers lack an interest in making an active choice. The problem is not lack of information but rather information overload, which prevents customers from acting at all. On the market for recorded music, the consumer has the ability to pay as well as information and knowledge, but due to changes in technology and social norms, the consumer lacks the willingness to pay for the product.

### 8.2.2 Similarities and differences of the case markets

In this section similarities and differences between the case markets will be discussed.

There two main similarities that can be observed between the case markets; customer value of offering and type of market challenge.

- **Customer value of offering**

The product or service that is provided on all of the three markets are offerings that the consumers have an intrinsic value of consuming, but for various reasons do not consume. On two of the markets, the BoP market and the premium pension market, there is a value for the end-consumer to consume the product or service to improve their living situation and increase their own wealth. On the market for recorded music there exists a global interest for music, making it a product valued by a majority of people on the market.

- **Demand-side challenge**

All the markets lack a tendency of self-correction towards equilibrium in accordance to neo-

classical market theory. Depending on which perspective one takes this could be seen as either a supply-side challenge or a demand-side challenge. As the problems causing the imperfection is neither a result of regulation (as would be the case with for instance the pharmaceuticals, alcohol or nuclear energy market) nor by information asymmetry (as would be the case with for instance financial services, the insurance industry or rating institutes), external regulation cannot explain why the case markets are struggling. In this thesis the challenges that the four organisations face are therefore seen as a demand-side challenge. The reason for this is that the failure to reach equilibrium is caused by the consumers lack of something, be it ability to pay or motivation to engage.

There are also some differences present between the case markets, such as industry, target market, offering and market preconditions.

- **Industry**

All four case organisations are present in different industries; the industry for water purification products, the industry for lightning, the industry for premium pension and the music industry.

- **Target market**

Two of the case organisations are present on the same market, the BoP market, within their respective industry. Both companies target emerging markets far from their home country. The remaining two markets are one national market, the Swedish market, and one global market, the market for recorded music.

- **Offering**

The offering on each market differs as well. The offering on the BoP market is physical products with a high return on investment. On the premium pension market the offering is a community service, equally important for the national welfare as for the individual person. On the market for recorded music the offering consist of both physical products, in the shape of CDs etc., and digital products, in the shape of music files.

- **Market-preconditions**

The products on the BoP market needs to be distributed to remote areas, which require substantial local knowledge, a reliable place where the exchange can take place, and extensive

distribution networks. As an innovative product there is a knowledge gap on the market about the product and its benefits. It is therefore necessary for both Company X and D.Light to educate the customers about the product. The service offered on the premium pension market is complicated and time-consuming to understand as it requires the customer to possess substantial information and knowledge. Support and simplification of information and options are therefore necessary. On the market for recorded music the product is well-known and easy to consume. There is no direct need to support, inform or educate the customer. What is necessary is to create willingness to pay for the product.

Potential implications of the above mentioned similarities and differences are important to bear in mind throughout the analysis as they might explain why certain behaviour is observed. Similarities can provide an explanation as to why the markets are relevant to compare in the first place, while differences can add insights to why certain elements of organisation are more critical than others on the different markets.

### 8.2.3 Main challenges on the case markets

In this section a summary of the most pressing challenges that the case organisations face on their market is presented.

<b>BoP market</b>	<b>Premium Pension market</b>	<b>Market for recorded music</b>
<i>End-user lacks money</i>	<i>Lack of knowledge</i>	<i>Illegal downloading</i>
<ul style="list-style-type: none"> <li>End-users are not able to pay up-front for the product</li> <li>Organisations must strike a balance between price and quality to ensure the lowest possible price</li> <li>Other means of financing the purchase of the product must be made available to the end-users</li> </ul>	<ul style="list-style-type: none"> <li>Customers lack knowledge (both in regards to the service and the system)</li> <li>Different customer groups requires different kind of support</li> </ul>	<ul style="list-style-type: none"> <li>Illegal downloading of music, where the record companies get no income for their product, is becoming more and more socially accepted</li> </ul>
<i>Market lacks knowledge and information</i>	<i>Information overload</i>	<i>Digitisation of product</i>
<ul style="list-style-type: none"> <li>End-users lack sufficient knowledge and information about the products</li> <li>Established players in the market work actively to keep standards and procurement processes the same</li> </ul>	<ul style="list-style-type: none"> <li>Too many funds and too much information (difficult for the saver to processes)</li> </ul>	<ul style="list-style-type: none"> <li>The digital MP3-format has a growing market share, which is changing the perception of the market</li> <li>The digital product is easier to copy than previous formats, and file-sharing online has meant that sharing has gone from being a local occurrence to being a global one</li> <li>This change in the market entails a decreased value of traditional distribution and sales channels</li> </ul>
<i>Market structure</i>	<i>Incentives</i>	
<ul style="list-style-type: none"> <li>Difficult to define a sustainable revenue model</li> <li>Knowledge of local conditions on developing markets is necessary in order to reach the end-user</li> </ul>	<ul style="list-style-type: none"> <li>The default alternative for non-active savers performs better, on average, than the investments of active saver</li> </ul>	
<i>Systems and processes</i>		
<ul style="list-style-type: none"> <li>It is difficult to adhere to, or change standards and norms that are set in the market</li> <li>The buying and consumption process is difficult to understand and navigate</li> </ul>		

**Table 1 Main challenges on the market**

### 8.3 How do organisations act on imperfect markets?

This part of the analysis will examine what actions the case organisations take in the market to overcome their customer-related problem, and attempts to answer the first of the two sub-questions, namely: *How do organisations act on an imperfect market with a customer-related problem?* The section will be structured in the following way: a discussion on the similarities and differences between the case organisations, followed by a brief summary of their actual behaviour. Thereafter follows a discussion on how the case organisations try to organise the market, and factors influencing the decision-making process.

#### 8.3.1 Similarities and differences between the case organisations

In the previous section, similarities and differences of the case *markets* were discussed. There are also similarities and differences between the case *organisations* which should be considered in order to reach a fair and correct analysis. Important to keep in mind is that the reason for comparing four different organisations on four different markets is to gain general insights on how the organisations, sharing certain characteristics, organise the market. If only studying one market, while comparing similar organisations, the level of generalisability between them would be lost, as discussed in section 4.4.1.

As the case organisations have been selected because they are different, it is hardly surprising that there are few similarities. In terms of similarities the main ones can be summarised beneath the following heading; information and education, and collaboration.

- **Information and education**

Among the interventions that the case organisations undertake the use of information and education to their customers is common to all of them. If the customer is unaware of the benefits of the product or service that the organisation is providing, they are unlikely to consume it. As the product or service that the case organisations provide is beneficial to the customer, the aim of the organisations is to trigger consumption by increasing the customers' level of knowledge.

- **Collaboration**

Also the use of collaborations with third parties is common to all the case organisations, even though they do it in different ways. Company X collaborates with a wide range of stakeholders, from the UN to local distributors, whilst the Swedish Pension Agency has a

more narrow scope in collaborating with advisory firms. The case organisations use collaborations to gain a better understanding of the market and to reach their customer.

The most obvious differences that can be observed are; organisational form, revenue model, organisational goal and type of market actor.

- **Organisational form**

The four case organisations are all quite different types of organisations. Two of the companies (Company X and D.Light) are entrepreneurial organisations that have been founded quite recently, and are small, private, for-profit companies. As a governmental organisation the Swedish Pension Agency has the ability to set rules that must be followed which is not applicable to any of the other case organisations. Sony Music Entertainment on the other hand is a multinational corporation, one of the largest companies in its industry, and has been in business since 1929. This is a company with both financial means and a strong reputation on the global market.

- **Revenue model**

The current revenue model of Company X relies to a large extent on stakeholders, such as NGOs and governments. The company has made a distinction between customer and end-user and sees its customers as the main source of income through high sales volumes at full price. D.Light's business model is focused on the open market using both its own sales channels and retailers. The main source of revenue comes from sales in the developed world which enables development on emerging markets. The Swedish Pension Agency does not have any profit incentives. As a governmental organisation, the motive for the organisation is fundamentally different from that of the other organisations. It has a comprehensive responsibility for the country and its citizens to ensure that savers receive as much pension as possible. Sony Music Entertainment's revenue model can be described as the most commonly known way of doing business. The company focuses on the open market using both retailers and selling directly to the end-consumer to make profit that is invested in the company or transferred back to the owners.

- **Organisational goal**

Another difference is the organisational purpose and goal. Both Company X and D.Light operate with the aim of improving the living situation for poor people around the world. Both

companies have an innovative product geared at solving a societal and environmental issue. The Swedish Pension Agency aim to facilitate for savers to be active and administrate their own pension. Their purpose is to act as a broker for savers and funds. Sony Music Entertainment on the other hand aims to supply consumers with something that they consume because it is enjoyable, purely for their own amusement.

- **Type of market actor**

As presented earlier there are three kinds of market organisers; others, profiteers and market actors. In the definition of market organisers Company X, D.Light, and Sony are all market actors, specifically sellers. The Swedish Pension Agency can however not be classified as a market actor. The Swedish Pension Agency is rather considered a profiteer, in its role as a broker between pension-savers and pension funds.

The similarities and differences of the case organisations might help to explain why a certain behaviour is observed. Considering the diverse markets of the case organisations it is hardly surprising that there are few common similarities between all four case organisations. The differences between the case organisations could be a reason for differences in the observed behaviour.

### 8.3.2 Summary of actual behaviour

In this section a summary of actual behaviour among the organisations is presented.

<b>Company X</b>	<b>D.Light</b>	<b>The Swedish Pension Agency</b>	<b>Sony Music Entertainment</b>
<i>Market segmentation</i>	<i>Price/Quality balance</i>	<i>Education</i>	<i>Lobbying</i>
What: division between customer and end-user, subsidised price, payment solutions, alternative markets Why: - Identify customers able to pay - Enable end-user to afford the product - Realise other market potential	What: find a balance between lowest possible price and highest possible quality Why: - Ensure sustainability - Realise other market potential - Create awareness (get product to the market (any market))	What: provide information and education about the premium pension system through service offices, webpage and information meetings Why: - Increase awareness about premium pension - Increase knowledge about premium pension	What: using lobbying to enact laws against illegal downloading, legal action against people downloading/facilitate downloading Why: - Discourage illegal downloading - Recover lost revenue in form of damages
<i>Reference projects</i>	<i>Local sales and distribution</i>	<i>Monitoring</i>	<i>Brand community</i>
What: reference project on local markets with/for potential customers, create tools for evaluation of projects Why: - Product development - Create acceptance and awareness - Create credibility (opportunity for customer and end-user to test the product)	What: local sales and distribution teams that enable collaborations with local partners Why: - To gain local knowledge (about culture, politics and language)	What: agreements with fund companies and collaboration with advisory firms, implementation of the 2K system Why: - Ensure transparency, credibility and comparability - Overcome the problem of information overload - Facilitate mass switches of funds	What: establish online brand communities Why: - Take advantage of the community's sense of moral responsibility against illegal downloading - Provide information about music and artists - Create bond between customers and artists
<i>Collaborations</i>	<i>Customer feedback</i>	<i>Systems and processes</i>	<i>Subscription service</i>
What: selective choice of partners, collaborations with NGOs and local distributors Why: - Facilitate implementation, distribution and education - Overcome local differences (cultural difference, political systems, etc.)	What: consumer opinion is integrated into research and development Why: - Ensure that products are unique, with an appealing design and cutting-edge technology	What: online tools Why: - Enable easy access - Facilitates the selection process (fund portfolio, risk level, fund fees etc.)	What: provide unlimited access to music catalogue in return for a monthly fee Why: - Enable access to unlimited music as an alternative to illegal downloading - Adapt to new technologies
<i>Lobbying</i>	<i>Marketing</i>	<i>Bundling</i>	
What: lobbying toward national and foreign governments and international organisations Why: - Influence decision-makers - Shape/change structure, processes and systems	What: shifting the standard or norm of lighting from kerosene to solar cell powered lighting Why: - Convince the customer about the product	What: bundling funds in different categories and risk levels, default fund Why: - Simplify selection - Reduce need of prior knowledge - Alternative for non-active savers	

Table 2 Summary of actual behaviour



### 8.3.3 Organisation of the market

The actual behaviour described in section 8.3.2 can be translated into attempts to organise the market through the different organisational mechanisms membership, rules, monitoring, sanctions and hierarchy suggested by Ahrne, Aspers och Brunsson (2011). As the markets are not self-correcting toward equilibrium, interventions by the organisations could be viewed as attempts to organise the market in a desirable direction. The following section will therefore analyse how these interventions can be translated into attempts to actively organise the market. Decision-making theories will be applied in addition to organisational theory as a way of understanding what kind of decision-making processes that are most prevalent on each market, how these might steer the customer into certain behaviour and what implications this has for the case organisations.

#### **Company X**

Studying Company X the most obvious organisational mechanisms are; membership, rules and hierarchy.

Many of the efforts that the company has undertaken since its inception have been focused on membership. Market segmentation, reference projects and collaborations could be described as examples of what Ahrne, Aspers and Brunsson (2011) would define as the mechanism membership. By segmenting the market into end-users and customers the company is creating a community of buyers. Reference projects can be viewed as another example of how to organise the market through membership. The purpose is to show benefits of the product to potential customers and end-users and in the meanwhile build relationships that can facilitate in the process of deciding which organisations to partner with. Through its reference projects, the company is trying to set a standard of who is allowed to sell the product. This standard becomes a requirement, or criteria, for membership for sellers in the market. Collaborations are another attempt to organise the market. By selecting partners with care the company is restricting the amount of actors that they engage with, allowing some to become members, and others not. As the empirics reveals, NGOs must fulfil a certain level of transparency, cost efficiency and shared values while local distributors must have a good track record, spread, previous experience of distributing to the BoP segment and be willing to agree to certain volumes.

Attempts to set or influence rules can be seen in the company's efforts to create or change standards and norms. One attempt to create a new standard is the company's efforts to reduce or eliminate VAT for Product Y by setting a new standard for the product category. Efforts to change existing standards is for instance initiatives of mapping the evaluation processes of international NGOs and governments to identify ways to get into the rigid structure in order to become the only accepted product in its category. Being at the forefront, visible among potential customers, and understanding the procurement process, can give an advantage when policies, routines and guidelines are set for how water purification products should be evaluated and traded. Attempts to influence norms are prevalent in the reference projects. The purpose of the projects is to create awareness and acceptance among customers and end-users by offering a possibility to try the product and thereby make them pull it to the market. This can be seen as a way of influencing values and norms which would benefit the company in the long run. It is also an attempt to influence systems by speeding up the evaluation and procurement processes among potential customers after testing the product. Reference projects also set a standard for measurement by offering tools for evaluation. This can be viewed as an attempt to set a level for how to measure success, i.e. a standard for acceptable outcomes.

As expected, Company X is trying to take as much advantage of existing hierarchies as possible, and change them where necessary. An example of this is lobbying towards governments that have decision-making power over rules, as a way of changing rules. The company for instance wants its local government to invest in domestic products for aid relief. Without taking advantage of existing hierarchies the company would not be able to exert any influence over these rules. What the company however has not done so far is to try to create its own hierarchy in the market that it can control. An example of such a hierarchy created by the company on the own market would be to try to create a sellers' organisation for products in the segment.

As can be seen, there are many elements of Company X's behaviour that can be explained by looking at membership, rules and hierarchy. There are however important discrepancies. The company has made little effort in trying to use monitoring or sanctions as a means of organising the market. The question is then raised if this is because the company has not tried, because these aspects are not important for this market, or if they are difficult to implement.

Furthermore, there are some elements of the behaviour of the company, which cannot be explained through the Ahrne, Aspers & Brunsson (2011) framework. One of the main challenges for the company to overcome is the insufficient knowledge of the product's functions, features and advantages. To overcome this challenge, the company engages in a wide variety of activities to educate the end-user. Among these efforts, reference projects are an essential activity. These activities can however not be fitted into any of the five categories proposed by Ahrne, Aspers & Brunsson (2011), despite being an important part of how Company X organises its market.

### **Decision-making process**

In order to understand the reasons for the challenge Company X face, the decision-making process among end-users and customers will be analysed. This might explain the reason for the interventions that have been initiated by the company. The water purification product is a valuable product for the BoP segment, which is living without access to clean water, a basic need for both nutrition and hygienic reasons, as well as decreased living costs. From an outside perspective consumption of the product can be seen as a rational choice.

Some reasons for not consuming the product are low ability to pay, and lack of knowledge and information. According to rational choice theory the end-user can be claimed to act rationally in the sense that they do not have enough money to purchase the product, even if the rational choice from an outside perspective would be to do so. The consumer consumes other products that are more affordable which could be argued to be a rational decision, or what the theory describes as a “good enough” solution. On the other hand Product Y is claimed to offer high return on investment, as it lowers living costs and frees up time in the long run. It would then be a rational choice to invest in the product to attain these benefits. The reason for not doing so might be explained by incomplete information, e.g. lack of knowledge and understanding of such long-term view and benefits. This would then be an example of what is defined as bounded rationality. The end-user lacks information and knowledge about the product, which makes them base the buying decision on limited information. With more information, or with help to get an understanding of the long-term benefits they might actually decide to consume the product, and might therefore be an important area for Company X to focus on in order to reach the segment. In the effort of doing so Company X could elaborate with the concept of maximising versus satisficing. Even if Product Y would be the better choice for many reasons, the end-user is most probably

satisfied as long as the water becomes clean in one way or another. Which product or process that enables this is of less importance as long as the water becomes safe to drink. This reasoning indicates that for the BoP segment satisficing prevails over maximising, and a “good enough” solution might be prioritised over the “best possible” solution.

Another reason for not consuming the product might be related to habits. Habits could partly be explained by bounded rationality; incomplete information, lack of all possible alternatives, or satisficing over maximising, which makes the end-user rely on a well-known process or product instead of the optimal one. It could also be an example of decision-making as rule following. Habits could be connected to an identity, a way of living or doing things in the specific region, culture or family. Routines or processes for solving problems are based on experiential learning where individuals adapt previous positive outcomes of certain behaviours. Processes that have recently been used are likely to be called for again and conformity makes individuals act like the majority of the group. Such habits are more difficult to influence as they require a change on a deeper level. This requires Company X to change values, access and routines to include Product Y as a natural choice and tool for the problem at hand.

As of today Company X tries to reach the end-user through customers who can afford the product and distribute it at a subsidised price. These customers, most of them large institutions or companies with financial means, seem to adopt a rule-following decision process. According to Company X, Product Y has many benefits compared to other water purification products on the market. Despite that, other products are prioritised and purchased by the customers. Many of the organisations identified as customers possess resources in terms of money and people, and rules and regulations force many of them to apply a public procurement process. You would therefore assume that they have a high ability to evaluate all the alternatives available, and make an as rational decision as possible, following the four steps in the rational decision process (identify alternatives, future consequences, preferences and based on this set a decision rule). However, the Company’s experience indicates that the customer makes decisions based on rule following. There are strong organisational identities in place, and rules that are seen as appropriate to the situation are followed. Evaluation processes take time and existing hierarchies and structures are complied with. The decision process rather goes as follows; recognition of situation, clarification of identity and identification of appropriate rule to follow. To handle this Company X could continue its work to change rules and processes. According to March (1994) rules are shaped by five

elements; expectations of future consequences, negotiation among decision-makers, imitation of other rules, the decision-making unit and changes of routines. Reference projects are one way of influencing expectations of future consequences. Efforts directed towards the decision-makers will probably provide the best results when aiming to win negotiation among decision-makers, make them imitate other rules, or to influence the decision making unit. Focusing on one stakeholder in order to convince one specific customer about the benefits of the product, and change the way of how that single stakeholder makes decision, might get other decision-makers to imitate the behaviour.

### **D.Light**

In the case of D.Light the three organisational mechanisms that can be found are membership, rules and sanctions.

In terms of membership, the company is trying to build a community of sellers by focusing on local sales and marketing teams that can partner with suitable local organisations and individuals. By being selective in which organisations that the company collaborates with the company is trying to ensure that the partners that are selected are the most suitable for the company. There are no stated criteria for who can become a buyer, which means that the company is not trying to create an exclusive community of buyers. It is however worth to note that there is a strong focus on the customer in everything that the company does, from product design to manufacturing and distribution.

In terms of rules, the company is trying to set a new norm with regards to lighting. In those parts of the world that are not connected to the electrical power grid the prevailing option for lighting today is kerosene. D.Light is trying to change the norm in the eyes of the customers from kerosene to solar-powered lamps. This is done by trying to show its advantages over kerosene; with regards to cost, where kerosene is much more expensive, health impact, where kerosene has a negative impact, and environmental impact, where kerosene has high CO<sub>2</sub>-emissions.

In terms of sanctions, the company has worked actively to receive as many different positive sanctions as possible. The awards that the company has received have helped the company in getting financial means as well as in marketing the product to customers and consumers.

D.Light's behaviour in the market can be explained to a certain extent by the organisational mechanisms proposed by Ahrne, Aspers and Brunsson (2011), specifically membership, rules

and sanctions. The company has however not worked extensively with monitoring or hierarchy. A reason why the company has not tried to use monitoring to its advantage could be that it often requires involvement of third parties, and that D.Light has not been able to find a monitoring mechanism that is appropriate. As a newly founded company the company does not have the ability to take advantage of or create hierarchies, which might explain why D.Light has not made use of this organisational mechanism.

There are also aspects of D.Light's behaviour that cannot be explained through the Ahrne, Aspers & Brunsson (2011) framework. As is the case for Company X, D.Light needs to overcome a knowledge gap among their customers, with regards to the benefits of the products that they provide. The importance of information and knowledge cannot be explained by any of the five organisational mechanisms, despite it being an integral aspect of D.Light's organisation of the market.

### **Decision-making process**

D.Light is struggling with the same type of challenge as Company X. The company targets the BoP segment, which is in need of the product, and values it. However, the rational choice is to not consume the product as the product does not even end up among the potential alternatives due to its high price. Just as for Company X, consumption does depend on awareness and knowledge, and thereby bounded rationality. As a new innovation, the segment has little or no knowledge about its existence and its features, and as the target group lives in rural areas, access to the product is not given. Bounded rationality might be more evident in this kind of segment as information is not as easily accessed or transparent as in more wealthy groups, for educational and technological reasons.

To evaluate alternatives and calculate the one alternative that will maximise the benefits is probably difficult for the BoP segment. Therefore satisficing is most likely a more common criteria to base a decision on. The product might not be prioritised by the segment, and for such reasons does not even end up among the alternatives in the decision-making process. Compared to a water purification product a lamp is not necessary for survival. It is something that is nice to have, but it is not critical for survival. For D.Light to be an alternative in a rational decision-making process it might therefore be important to understand what other products or services it competes with, as money is scarce and invested in goods that satisfice rather than maximise certain needs. The importance of light must become one such need if a product like D.Light should be considered at all.

The company does also aim to reach the customer through local distributors. Similar to Company X, this implies decision-making as rule-following since such partners might consist of several individuals, and decisions are based on an organisational identity, i.e. negotiations, previous experience etc. Compared to Company X, D.Light does not seem to invest as heavily in third parties, which might help them avoid many of the challenges related to identities and decision-making as rule-following.

### **The Swedish Pension Agency**

In the case of the Swedish Pension Agency all five organisational mechanisms are present; membership, rules, monitoring, sanctions and hierarchy.

The choice of which funds that is allowed into the market constitutes a very strict application of membership for sellers. This limitation and diversification of funds is carried out to simplify the selection for the customers. Through the 2K system the Swedish Pension Agency is also trying to create a community of buyers, by enabling customers to pool their investments with one advisory firm, and enabling that firm to do mass-switches of funds. The organisation is also establishing a community of buyers by segmenting their customers into three specific target groups (see section 7.2.2).

As a governmental organisation the Swedish Pension Agency has the legitimate right to set rules. Examples of how the organisation uses its right to set directives are its involvement in; what choice about the premium pension that the individual saver can make, criteria for the funds that are available, the fund agencies that are certified to assist savers in the process, as well as the default alternative for non-active savers. The Swedish Pension Agency does also use different rules to facilitate in the decision process, such as creation of bundles, packages and portfolios with certain funds or risk levels.

In terms of monitoring the Swedish Pension Agency would be expected to provide a good overview of the available funds and use another organisation to certify the selection of funds that has been made. The Swedish Pension Agency has made efforts to give a good overview by offering portfolios with three risk levels and a system with information about the funds. The Swedish Pension Agency has however not sought certification from a third party, which could raise the legitimacy of the available funds. What it has done instead is to close agreements with fund agencies and advisory firms. By having criteria for what kind of funds

that are allowed in the fund portfolio, and what fund agencies that are allowed to assist savers the Swedish Pension Agency tries to monitor the system.

The Swedish Pension Agency offers a default fund for non-active savers, a sanction for less active savers. The default fund has however had a better return than the average return for active savers, and the “punishment” that would otherwise be brought on non-active savers has instead become a reward. The attempt to implement sanctions for non-active savers in order to direct them into a desired behaviour is challenging as the Swedish Pension Agency as a governmental organisation has a responsibility for the national welfare. Having non-active customers and punishing them through sanctions goes against the organisational goal and purpose.

As a governmental organisation, the Swedish Pension Agency has a strong influence over the hierarchy that is present in the market. They have a legitimate right to set rules, monitor and implement sanctions according to what they perceive is the best for the country and its citizens. Its role as a broker is in many ways associated with different kinds of control mechanism of what can be done, how and by whom.

As in the case of Company X, there are some elements in the behaviour of the Swedish Pension Agency which cannot be explained through the Ahrne, Aspers & Brunsson (2011) framework. The general public suffers from information overload, which prevents them from making an informed choice. As for Company X information and education is an important element in the organisation of the market, which the Swedish Pension Agency implements through its online tools, service offices and information meetings. This is not mentioned as an organisational mechanism in Ahrne, Aspers & Brunsson’s (2011) framework. The need for knowledge and information has an impact on motivation and commitment, which needs to be stimulated by different incentives. Currently the organisation finds itself in an anomalous position, where the incentive for doing nothing is quite attractive in comparison to making an active choice. This turns Ahrne, Aspers & Brunsson’s (2011) idea of sanctions into a reward, where the Swedish Pension Agency is rewarding a behaviour that the organisation rationally should be punish. As discussed previously a main explanation for this is its organisational form. The framework does thereby fail to explain how governmental organisations with a responsibility above what would be considered normal on the open market can organise a market through incentives.



## **Decision-making process**

The decision-making process among premium pension savers seems to be quite irrational, which could be explained by bounded rationality. In order to make a good choice of funds, different parameters must be considered. The average customer seems to lack the ability to sort out information and acquire sufficient knowledge, and to have motivation to care about their premium pension. The rational choice would be to care, investing the money to maximise wealth, as the economic man is described doing. The decision of not doing so might again be an example of satisficing rather than maximising. This might be a rational choice in itself as the time it takes to learn and evaluate alternatives in order to reach the best decision is too much compared to what that time could be spent on otherwise. A “good enough” decision, which is made possible through the default fund, might decrease the motivation to make an own decision. Fund agencies seem to be one way of dealing with this situation, as bounded rationality is replaced by experts who make the investment decision for the savers.

The situation that the Swedish Pension Agency struggles with might also be explained by decision-making as rule following. Culture and values among the savers, inherent in their identity, might influence how they think about short versus long-term benefits. The Western culture, including the Swedish culture, is a materialistic culture that in many ways rewards short-term wins over longer term benefits. If the view on life is that it should be lived day by day, there is no idea to plan or save for later. In the light of such views on life the choice not to invest the premium pension is in accordance with a certain identity and values. If the default fund would not exist and people would have to choose between investing the money in funds or to get the money transferred to a bank account, the majority of the savers who today do not care about making a decision, would let the money be transferred to a bank account. This kind of behaviour and lack of commitment might also be a result of the social welfare system part of the national identity. When it is possible to rely on a social security system, as in Sweden, there is less incitement to be rational in the sense of maximising future wealth, as previous experience tells you that people are being taken care of by the system. The national identity might therefore influence the behaviour among the savers, which is difficult for a single organisation as the Swedish Pension Agency to influence.

## **Sony Music Entertainment**

In the case of Sony Music Entertainment three organisational mechanisms can be observed, namely; membership, rules and hierarchy.

In terms of membership, the company is trying to create a community of buyers through its social community Myplay. This effort is emphasised by providing additional services on Myplay, for instance top lists, fan clubs and suggestions on music genres, as well as collaborations with third parties, such as Spotify.

The company is also trying to use rules to organise the market. It tries to change the product specification, i.e. making it possible to purchase individual songs instead of entire albums and influence how the exchange takes place, i.e. provide access to music on a wide range of devices, not only on the traditional stereos, but also on mobile phones, computers, mp3-players and TVs.

The company is using hierarchy by lobbying for legislation. The company has been an active supporter of increased copyright and intellectual property legislation. Once this has been enacted the company has pursued court cases against those who download illegally and those who engage in illegal file sharing. As the company cannot pursue sanctions in terms of penalties themselves, efforts are directed toward lobbying to enable sanctions by third parties.

The use of membership, rules and hierarchy are part of the organisational mechanisms proposed by Ahrne, Aspers and Brunsson (2011). Sony Music Entertainment does not try to use monitoring and sanctions. As is the case for the D.Light, it might be difficult for the company to find suitable third parties that can conduct the monitoring. As there is a close relationship between monitoring and sanctions, the lack of ability to monitor might also explain why the company does not use sanctions extensively, even though attempts are made to attain sanctions through using hierarchies.

Ahrne, Aspers & Brunsson's (2011) framework can only explain parts of Sony Music Entertainment's behaviour. By establishing brand communities the company is trying to create awareness among its customers of the relation between music consumption and music production. Not all customers are consciously aware of the implications of their actions, and see how their illegal downloading hurts artists. The use of brand communities can be seen as a way of bridging a lack of information on behalf of the customers, which makes information an important part of how Sony Music Entertainment tries to organise the market. This can however not be explained by any of the five organisational mechanisms.

## Decision-making process

The possibility to access music for free will be the most rational choice if no punishment follows from illegal downloading. Sanctions could therefore act to prevent illegal downloading as it will influence the expectations of future consequences and thereby preferences for different alternatives and decision rules. The rational choice of accessing music for free will thereby change as the cost and/or risk of doing so increases. When applying rational choice theory on the market for recorded music it becomes clear that the theory does not take ethics or moral values into consideration. The theory strictly describes the decision process as alternatives that are being evaluated on their future consequences from which personal preferences to maximise or satisfy set the decision rule. It is the consequence, the outcome or potential risk or punishment of a certain alternative that refrain people from acting in a certain way, not moral values. It is also possible to view the situation from an “access” perspective. As there is a technological shift away from CDs towards consumption of music files on different kinds of electronic devices, the rational choice is to consume music as a file rather than as a physical product. If it would not be as easy to access music online, the alternative to do so would not be the rational choice. By changing the way music is produced and accessed Sony Music Entertainment can change the alternatives that are being evaluated in the decision-making process. By changing the offer the behaviour will be adjusted.

Values, opinions or beliefs are however taken into consideration in the process of decision making as rule-following. People with an identity that takes distance from immoral or unethical behaviour will follow rules that comply with that specific identity. The question is; what does a person such as I do in a situation like this, rather than what the best alternative is based on the available alternatives and possible consequences. Besides working with sanctions, influencing identities might therefore be an important mean for Sony Music Entertainment in order to influence customer behaviour.

## 8.4 Why do organisations on imperfect markets act as they do?

This section consists of a comparative study between Company X and the three additional case studies. The aim is to understand how the organisations use organisational mechanisms to handle their market and to draw general conclusions on why they behave as they do, with the intention of answering the second of the two sub-questions, namely: *Why do organisations on imperfect markets with a customer-related problem act as they do?* Based on previous

sections the case organisations can now be compared, with regards to; their market approach, what organisational mechanisms that are most prevalent in their interventions, and type of decision-making process in the customer group. For an overview of; the main challenges, interventions, observed organisational mechanisms and decision-making process for each case study see appendix C.

#### **8.4.1 Market approach**

An important difference between Company X's and the secondary case studies is the market approach, which influences and might even explain why the organisations face certain challenges. Differences that can be observed between the markets and the organisations with regards to preconditions, experience, knowledge, management, structure and so forth could be factors explaining why the four organisations' approach to the market differs.

In order to reach the end-user Company X struggles with a dilemma of trading quality for a lower price. If Product Y could be produced in a smaller size, have less features and with a "good enough" quality, it might become affordable to the end-user which would eliminate the need for much of Company X's attempts to influence large institutions, rigid structures and universal standards among its customers. But the company believes that the market is penetrated most efficiently by initially offering the product at a subsidised price through third parties in order to reach a tipping point where the end-user is convinced about the products benefits. This stakeholder approach lays the foundation for all activities initiated by the company. Company X has identified and evaluated its preconditions and found ways to comply with existing structures. A similar company like D.Light uses a different market approach. D.Light engages in a price versus quality trade-off without a subsidising solution, and aims for a balance between lowest possible price and highest possible quality to overcome the challenge on the market. To enable this they have implemented a revenue model where profits from sales in developed countries fund products to communities in the developing world. The company believes that the market is penetrated most efficiently by creating awareness, to get the product to the market – any market, in order to realise all possible market potential. This mind-set differs from how Company X approaches the market as D.Light takes the lead, and shapes a new market by creating new structures. Comparing this to the Swedish Pension Agency, responsibility as a governmental organisation sets the conditions for choice of market approach. Responsibility for the people and the country impedes the Swedish Pension Agency from punishing the savers. Market penetration is a combination of collaboration with stakeholders to reach the end-user, similar to Company X,

and attempts to facilitate for the customer through systems, packages and support to reduce time spent and increase the return of being an active saver. This results in a time-return trade-off, similar to D.Light's price-quality trade-off. This market approach is strictly governed by the organisational purpose. The agency has all possibilities to take the lead and shape the market, which it did when it launched the premium pension system. However, even if it has a legitimate right to change a structure in a fundamental way, it can cause new challenges, such as the side market of advisory firms, and its purpose as a governmental organisation will always stay the same and impose it with certain restrictions. Sony Music Entertainment on the other hand is a multinational organisation with financial strength and their market approach has been reactive rather than proactive. The company comply with the current market structure, it adjust to industry dynamics by trying to influence what already exists instead of taking on industry leadership and shaping a new structure and market. Comparing the four case organisations and their different market approach, one question that arises is whether is it easier to adjust an offer to suit the market than to force an offer onto existing structures? Of the three organisations D.Light seems to have handled the paradox of industry dynamics versus industry leadership, to comply or to lead, most efficiently. The company has kept its focus on the end-user and has built the organisation around them, from product development, price setting and distribution channels. Regardless of the fact that D.Light faces the same customer challenge as the other three organisations their proactive approach of industry leadership seems to be quite successful.

Whilst D.Light, the Swedish Pension Agency and Sony Music Entertainment have targeted the end-user directly, company X is trying to reach the market through third parties and therefore makes a distinction between customer and end-user. This is in many ways related to membership where Company X tries to overcome the market challenge by segmenting the market and customer both into different kind of markets and into different kind of customers. Operating under these conditions requires the product to fulfil the needs and be desired by the end-user as well as fulfil the requirements and preferences among the customers who pays or subsidise the product. The situation could be compared with for example the Disney Channel, where the service must attract children who are consumers but is targeted towards their parents who are the buyers. Marketing initiatives toward the two different groups are therefore very different from one another and each group can be used to influence the other. The end-user can put pressure on the customer to purchase the product or service and the customer can influence the end-user to consume the product or service. It might be more

difficult to force someone to consume something which they do not; desire, like or are aware of than if the opposite situation applies, where an end-user demands the product or service and thereby has an own interest of influencing the buyer to purchase it. If a large group of end-users would demand Product Y, i.e. if there would be a market that literally asked for the product, and not only a potential market that is in need of the product, there would from an economic point of view most probably be parties that would have an interest in purchasing and distributing the product to the market. Creating a market through a third party that influences an end-user to consume something they do not desire, is challenging, as a company will be put in a situation where the outcome is difficult to predict. To increase the chances for success when segmenting the market in this way, might first and foremost call for initiatives directed toward the end-user rather than toward the customer. If a company manages to create a demand, a market will take shape, which most likely will trigger supply in one way or another. According to the empirics this is what Company X aims for through its reference projects. The purpose is to create awareness and acceptability to make the end-user pull the product to the market. As of today, this has not yet been realised, which might be explained by the extensive marketing investments such initiatives requires, resources a small entrepreneurial organisations like Company X does not have.

As every organisation perceives its market based on its own pre-requisites, expectations, limitations and so on, it is not possible to say that there is something right or wrong with aiming for a certain target group. What can be recognised is however that regardless of target group all of the four case organisations depend on their stakeholders to reach the end-user. Stakeholders that can either assist and/or facilitate for the end-user in the consumption process (as the Swedish Pension Agency, and Sony Music Entertainment aims for), or stakeholders that can act as an intermediary between the organisation and the market (as Company X and D.Light tries to achieve).

#### **8.4.2 Organisational mechanisms**

One explanation that could be offered, as to why these organisations act as they do, is the five organisational mechanisms. Company X and the other case organisations all apply some organisational mechanisms in common, and some that are different. All four case organisations use membership and rules as a way of organising the market, and it is interesting to see that these organisational mechanisms are shared by all four case organisations. Monitoring and sanctions are however only used by the Swedish Pension Agency, which has the ability to do so in its role as a governmental organisation. For the other

case organisations it is more difficult to put monitoring and sanctions in place as such mechanisms are reliant on an external organisation or party conducting the monitoring and implementing sanctions. Hierarchy might be difficult for companies to use, as it requires the organisation to be able to make decisions that would be binding for other market actors. Company X is not able to make such decisions. Instead the company tries to take advantage of existing hierarchies. Sony Music Entertainment also lacks the formal ability to make decisions that is binding on other market actors. Therefore the company tries to use its influence and clout to change existing hierarchies, in a manner similar to that of Company X. Contrary to the inability of Company X and Sony Music Entertainment to use hierarchy in its formal aspect, the Swedish Pension Agency, as a governmental organisation, has the ability to do so.

Rules seem to be an important mean for both Company X and the other case organisations that have been studied. What has been observed is that different preconditions, such as corporate form, determine what kind of rules that can be set. The Swedish Pension Agency has the legitimate right to set rules while non-government organisations, such as the remaining case studies, are directed toward influencing rules, norms or to set standards. But a legitimate right to set rules does apparently not guarantee success, consumers must still be convinced to act in a certain way. Since the state is responsible for the national welfare, an organisation like the Swedish Pension Agency cannot implement rules that for example force people in a certain direction with sanctions for those who do not comply, e.g. by making the default fund a risky alternative. This would harm the national welfare as the pension received by most people would be affected negatively. This kind of responsibility for society does not apply to non-governmental organisations. Having the right to set rules as a governmental organisation could therefore not be viewed as an obvious advantage. The ability to influence rules or set standards on the other hand is different between a small entrepreneurial organisation like Company X and D.Light, compared to a large multinational corporation like Sony Music Entertainment. For Sony Music Entertainment the influence and power that the company wields is far superior that of companies such as Company X and D.Light which have not yet reached the same level of development and recognition. Still Sony Music Entertainment cannot force anything onto other market actors and financial strength and reputation might not be an obvious advantage either.

Despite different preconditions, rules seem to be sought after for three reasons:

1. Rules to build barriers to entry that hinders competitors from taking market shares

Influencing rules and setting standards that define; the industry, product categories, procurement routines and so forth. This is done by e.g. Company X and D.Light with the goal of reaching a monopolistic situation that impedes other actors from establishing themselves on the market.

2. Rules to create trustworthiness

By setting rules that determine criteria that must be fulfilled in order to e.g. distribute the product or service. Through this the organisations control the quality of the offering, something that is applied by e.g. the Swedish Pension Agency when approving funds and fund agencies.

3. Rules to control how the exchange should take place

By defining rules for how the product should be distributed organisations shape the market in a certain direction. Sony Music Entertainment and the Swedish Pension Agency apply this through system and processes that determines how the offering will be accessed.

Membership is another element of the five presented in Ahrne, Aspers and Brunson's framework which is applied by all of the case organisations. Membership is used to create both communities of buyers and sellers as a way of generating commitment from customers and to exclude potential competitors. Company X, D.Light and the Swedish Pension Agency are applying membership by carefully selecting partners that get access to the product and the end-user, by pursuing certain criteria that must be fulfilled. For Company X and D.Light the reason seems to be related to branding, trustworthiness and feasible market access. Wrong partners could potentially damage the organisation's reputation or lead to inefficient sales and distribution. For the Swedish Pension Agency, the responsibility to ensure that funds and the fund agencies are reliable requires strictly controlled membership on the distribution side. This kind of membership is in many ways related to rules as discussed previously, for instance rules of what funds that are allowed into the system and rules of what fund agencies that are reliable to facilitate the saver in the process. Sony Music Entertainment on the other hand mainly works with membership among its customers, offering benefits or added value for those who are loyal to the company's product. Sony Music Entertainment is neither in the start-up phase and/or selling a product or service which requires close control over the actors involved. Membership in this case rather seems to be about stimulating and directing the



market than controlling it. By offering added value in terms of different distribution channels, or building relationships to the artists through communities, membership steer the market in new directions, away from illegal downloading, which the company would benefit from revenue-wise.

Membership among the case studies is mainly implemented for three reasons:

1. Membership to reach the market through carefully segmentation
2. Membership to control the market and ensure credibility
3. Membership to direct the market into behaviour that is beneficial for the organisation

Rules and membership seem to be the easiest organisational mechanisms to implement as it is used by all four case organisations. If they are the most effective can however not be said. As all of the four organisations apply the two, there seem to be either benefits or preferences for these when handling a market with a customer-related problem.

#### **8.4.3 Decision-making process**

Company X, as well as two of the other case organisations, namely D.Light and the Swedish Pension Agency are dealing with customers that are clearly limited by bounded rationality in the decision-making process. Lack of information and knowledge are the main concerns, something all of them tries to manage by organising the market in different ways. Sony Music Entertainment on the other hand does rather struggle with a moral issue as discussed previously. Still D.Light, the Swedish Pension Agency and Sony Music Entertainment approach the situation in the same kind of way.

Company X, as well as the Swedish Pension Agency and Sony Music Entertainment, illustrate that efforts to influence identities take time. Company X has tried to influence decision-making processes, policies, routines and structures among institutions, NGOs and other corporations. The aim has been, among other things, to change how these organisations make decisions. As the empirics reveal, large organisations face inflexible structures with decision-making units that are bounded to previous experiences and routines. It seems to be a question of “what does an organisation such as this do in this kind of situation?” rather than “what is the optimal alternative based on the value of the consequences?”. The purpose of pursuing such strategy is to get the product to the market in order to enable the end-user to try it. The goal is to that through this convince them that the product is an alternative to other substitutes, and has benefits that should make it the rational choice. The Swedish Pension

Agency struggles with an even bigger challenge, changing a national culture and convince people about the importance of investing for the future. Even if savers believe that it is important their behaviour is contradictory. Sony Music Entertainment fights with a norm, a socially accepted behaviour, of illegal downloading. As the empirics revealed, habits is identified as the strongest driver behind the behaviour of illegal downloading. Changing habits takes time and requires an active decision and a willingness to change by the person in question.

D.Light clearly focuses on the product in order to make it an attractive alternative and a rational choice for the end-user. The company adds value to the product in terms of a mobile phone charger, it focuses on cost-consciousness to make the product affordable, and makes the product accessible through large distribution networks. As the end-user becomes aware of the product, gets access to it, the product is made affordable as well as compatible with other products the segment consume, issues related to bounded rationality is reduced and D.Light's offering becomes the rational choice compared to other alternatives. Sony Music Entertainment is struggling with consumers' lack of moral and unwillingness to pay, and has put efforts on lobbying to realise sanctions punishing undesirable behaviour. As the challenge faced by the industry is related to moral values, a solution, as described previously, could be to influence identities with the aim of obstructing people from participating in illegal downloading. What can be seen is that this kind of change in consumer values and behaviour takes time, if it has any impact at all. This might explain why efforts by Sony Music Entertainment have been focused on lobbying to implement sanctions. If the consequences of illegal downloading outweigh the benefits, it would no longer be the rational choice. From this perspective the company's focus on penalties could be argued to be more effective than efforts to change identities in terms of moral values. The Swedish Pension Agency does also have the challenge to influence identities in a certain direction in terms of customer commitment and motivation. Once again, this takes time and another way to speed up the process is to handle the bounded rationality, i.e. the knowledge gap among the savers, by making it possible for savers to e.g. receive help from fund agencies. This can be compared with the approach used by both D.Light and Sony Music Entertainment, where practical solutions that facilitates the decision-making process for the customer is prioritised over attempts to change values in the customer group.

When benchmarking Company X to the three additional cases it seems like efforts aimed at influencing alternatives and expectations to distinguish the "best", or a "good enough"

solution are easier to realise compared to attempts to change mind-set and values. If this holds true requires additional studies, but what can be observed is that even organisations such as the Swedish Pension Agency and Sony Music Entertainment, that are in a need of a change in values, ethics and moral, are putting more effort to enhance a rational behaviour among its customers than to influence identities.

Even when looking at the four steps in the rational decision-making process it seems like organisations mainly focus on; step one, i.e. available alternatives, and step two, i.e. expected consequences, to influence step four, i.e. the decision rule. Less efforts seems to be put on step three, i.e. preferences: how valuable the consequences are to the consumer, which, similar to decision-making as rule-following, is related to identities (what does a person or organisation do in a certain type of situation). To influence alternatives and expectations rather than preferences therefore seems to be what most organisations put their efforts on. Perhaps it is a question of a good balance between the two. Being an alternative with valuable future consequences might be the short-term solution, while long-term success calls for a change in values and mind-set, in other words efforts of influencing preferences and identities.

## 9 Conclusion

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*The chapter presents the conclusions drawn from the analysis, taking its starting point in the research question. The section first explains how customer behaviour influences how the organisations use organisational mechanisms to organise their market. This is followed by the effect of market perception, and the way in which the case organisations create market imperfections in order to overcome their customer-related problem.*

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The starting point of this thesis was the research question: *How do organisations handle imperfect markets with a customer-related problem and how can this behaviour be explained?*

The focus on the customer element has led to the analysis of the impact of customer decision-making on the behaviour of the organisation. Reasons behind the organisation's behaviour can be found in decision-making theory. Findings reveal that it is easier for the case organisations to change their own product or service, which they control, than to influence preferences, norms and values among their customers. It is in a sense easier to adapt oneself than to change someone else. The customers' behaviour can thereby be seen as shaping the market. As a response to the customers' behaviour the case organisations are trying to organise the market to make it function in a desirable way.

Despite the different challenges that the organisations face, and the different actions that they take, similarities in their behaviour can be observed. All four case organisations use rules and membership as a way of organising the market to handle the issue at hand. It is interesting to find that the four case organisations have these specific aspects of organisation in common, despite how very different they are. From the organisations that have been part of this study it might be possible to explain their preference for rules and membership by that they are easier for the organisations to influence and within the reach of the organisation. Another important intervention related to decision-making revolves around information and education. This seems to be a critical factor which might determine success, but seems to be both difficult and time-consuming to impact.

In terms of market approach the case organisations' perception of the market seems to influence their actions. The paradox of compliance versus choice, to either view the world from the perspective of industry dynamics (adapt to how things are) or industry leadership (shape what will be) determines how the organisations behave and what actions they take. Do the organisations see problems with the market imperfection, or do they see it as something

that could present them with an opportunity? Are the organisations victims of their environment, or do they see opportunities to use leadership to change their position? If the organisations see themselves as industry leaders they have control and opportunities to make active choices and shape markets in a desirable direction or even create new markets. If not, the case organisations comply with the current situation and deal with challenges based on existing pre-requisites and adapt thereafter.

The study concludes that the case organisations use three principal means of handling an imperfect market with a customer-related problem to become successful.

1. The case organisations' control over their own offering makes them primarily adapt the offering to become the best alternative rather than to influence customers' preferences and/or identities.
2. In the case organisations' attempts to compete and survive in the market they use elements of organisation such as membership, rules, education and information.
3. The way in which the case organisations perceive themselves and their market influence the way in which they deal with the market imperfection.

In the economic field neo-classical theory argues that markets are self-correcting towards equilibrium. The findings in this thesis suggest that organisations on imperfect markets, without self-correction towards equilibrium, intentionally strive for more imperfections in the market as a way to make it function as desired. The creation of communities of sellers and/or buyers through membership and rules is a way of excluding potential competitors from the market or increase switching costs for customers. Both of these actions result in increased barriers to entry for competitors. This implies that the way in which the organisations interfere with markets to organise it has similarities with theories in the field of organisation and management. What can be seen is that the case organisations to a varying extent use barriers to entry, which for them is a positive market imperfection, to overcome a customer-related problem, which for them is a negative market imperfection. One market imperfection is handled through the creation of another market imperfection. The organisations thereby deliberately organise their markets to make them function in a desirable way.

## 10 Discussion

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*The chapter presents a discussion of the conclusion outlined previously as well as some general insights that can be drawn from the study. The chapter will cover generalisability, limitations, future research and managerial implications.*

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### 10.1 Generalisability

The study has been an attempt to apply organisational theory on imperfect markets. The general finding of handling one market imperfection by creating other market imperfections is generalisable to most markets. An industry analysis based on a commonly used framework such as Porter's five forces; threat of new entrants, bargaining power of suppliers, bargaining power of customers, threat of substitutes and rivalry, indicate that barriers many times are a strategic choice and a tool for organisations to apply in order to protect their market (Porter M. E., 1985). As discussed in the introduction of this thesis, organisations usually aim for more imperfections as a way of excluding competitors. On markets that are well-functioning imperfections are created to impede competition. On markets suffering from imperfections more of them seem to be created to counteract their existence in the first place. The findings in this thesis are thereby generalisable to most markets.

### 10.2 Limitations

The thesis is facing several limitations. First and foremost the limited number of cases studied for this thesis makes it difficult to distinguish any clear patterns of how organisations behave. Additional case studies would increase both generalisability and credibility of the study. Secondly, the study does not examine the implications of the differences between the case markets and the case organisations. Differences in conditions and/or pre-requisites might have a larger impact than what this thesis reveals. Thirdly, the study does not explain why rules and membership are implemented over other organisational mechanisms. It is reflected upon, but not investigated further. The theory applied is not proposed as a solution for imperfect markets, as it only provides insights on organisational mechanisms. Therefore, studies of additional organisations and comparison with other theories of market organisation will provide even more insight on the topic. Fourthly, the study does not say if it is easier to change an offering (available alternatives and consequences) than to influence preferences. Internal factors could be argued to be more easily controlled than external factors, but in what way they impact an organisation are not discussed in this thesis. Finally, as the case company

has requested to be anonymous the replicability of the study is severely limited. The anonymisation also hinders transparency and insight into the empirical material gathered.

### 10.3 Future research

As have been observed, three organisational mechanisms (monitoring, sanctions and hierarchy) proposed by Ahrne, Aspers and Brunsson (2011) is not used as frequently as the remaining two (membership and rules). Why this is the case deserves further investigation. Monitoring, sanctions and hierarchy might be more difficult to implement for the single organisation, but is nothing that can be concluded based on this study. The findings do indicate that organisations that face challenges related to the customer struggle with low levels of information and knowledge among the end-user group. How to handle these fairly important, maybe even critical factors, are not possible to classify within the framework suggested by Ahrne, Aspers and Brunsson (2011). It could be argued that to educate and inform are ways of influencing norms which in turn is part of the organisational mechanism rules. Ahrne, Aspers and Brunsson (2011) however do not discuss education in their definition of rules, which is why aspects of information and knowledge are proposed as an addition to their framework of organisational mechanisms.

The importance of information and knowledge is something that is commonly discussed in the marketing literature. The “Four A’s” framework discusses; awareness, availability, affordability and acceptability as factors that are critical for organisations, especially those serving the BoP market (Anderson & Markides, 2006). As findings in this thesis do touch on these factors this framework could be relevant to discuss to gain further understanding. The criteria might actually explain part of the reason to why customer-related challenges appear at all. If the customer is not aware of the organisation’s offering, consumption will not even be considered. If the product or service is neither available nor affordable, the customer is not able to consume it. Even if it would be, the user might not be willing to consume it, which is why acceptability is just as important for success. In almost all of the cases analysed, information and knowledge about the offering seems to be limited or non-existent. This could be a sign of low awareness and acceptability. To fulfil the four criteria; awareness, availability, affordability, and acceptability, might be considered as something fundamental and a pre-requisite for any successful business. This study however reveals that organisations do not build their business case around these four categories, which would be an interesting starting point for future research.

## 10.4 Managerial Implications

All the case organisations do in different degrees collaborate with third parties. According to Freeman (2010), managers in the modern organisation must take into account both changes in the internal environment (input-throughput-output) as well as changes in the external environment (all actors with a stake in the firm) as was briefly discussed in the first chapter of this thesis (Freeman, 2010). How well the organisation manages demands from different interest groups, i.e. stakeholders, upon which the organisation depends for resources and support, determines its effectiveness (Pfeffer & Salancik, 1978). Stakeholders can be defined as: *“individuals or groups which depend on the company for the realisation of their personal goals and on whom the company is dependent”* (Rhenman, 1968). Authors even argue that stakeholder management is a means to survival, necessary in order to achieve the organisation’s objectives (Freeman & McVea, 2001). The findings in this thesis strengthen the statement of stakeholders as a mechanism that set the conditions for a market, which was discussed in the background of this paper as an important factor that shapes markets. The stakeholder theory advocates that the organisations must understand what stakeholder groups that exist, the importance of key issues and the willingness of different stakeholder groups to exploit their resources in order to either facilitate or obstruct for the organisation on these issues (Freeman, 2010). The business case of Company X constitutes a good example of the importance of stakeholders and stakeholder management. Company X sees itself as dependent on support of individuals and/or groups that can influence the company. It puts a lot of effort into understanding how it can affect its surrounding in order to create a market structure that benefits the company. In this sense, stakeholder relationships are a mean of achieving the organisation’s objectives, which is a matter of survival (Freeman & McVea, 2001).

At a first glance it seems easy to argue that it is not fair to compare the four organisations that have been studied, as many parameters are differentiating them from each other. What this thesis reveals is that even organisations with a legitimate right to set rules, i.e. the Swedish Pension Agency, which other organisations such as Company X might only dream of, are not guaranteed success. Furthermore having the financial strength of Sony Music Entertainment, which small players such as D.Light aim for, does not diminish threats and eliminate weaknesses.

The difference and impact of market approaches is one of the most obvious findings in this thesis. Questions such as; how the industry is defined, how the organisation is perceived and how to handle strategic paradoxes in the environment are important factors determining how



to approach the market. Any market can be approached in different ways, which is observed among the four case organisations. All of them struggle with the similar kind of challenge but handle the situation in different ways. Company X sees potential in third parties and applies a stakeholder approach to overcome the challenge that stands between the company and the market. D.Light on the other hand is managing the same kind of challenge by altering factors that stand in the way of reaching the end-user (e.g. quality, price, costs and access). Sony Music Entertainment does, in contrast to D.Light, take a more reactive approach, focusing on what has been instead of what will come, by trying to preserve the status quo. This while the Swedish Pension Agency aims for a win-win situation where both the freedom to choose, as well as attractive alternatives for unwilling customers should be available on the market. What they all have in common is a customer-related problem, and what can be seen is that there are different ways of approaching a market that faces such a challenge depending on how the organisation perceives its industry, capabilities and environment. This might be the most relevant and concrete managerial implication of this thesis. Management sets the direction of the organisation and frames the environment in which the organisation operates. This will in turn determine how the organisation approaches its market and its customer.

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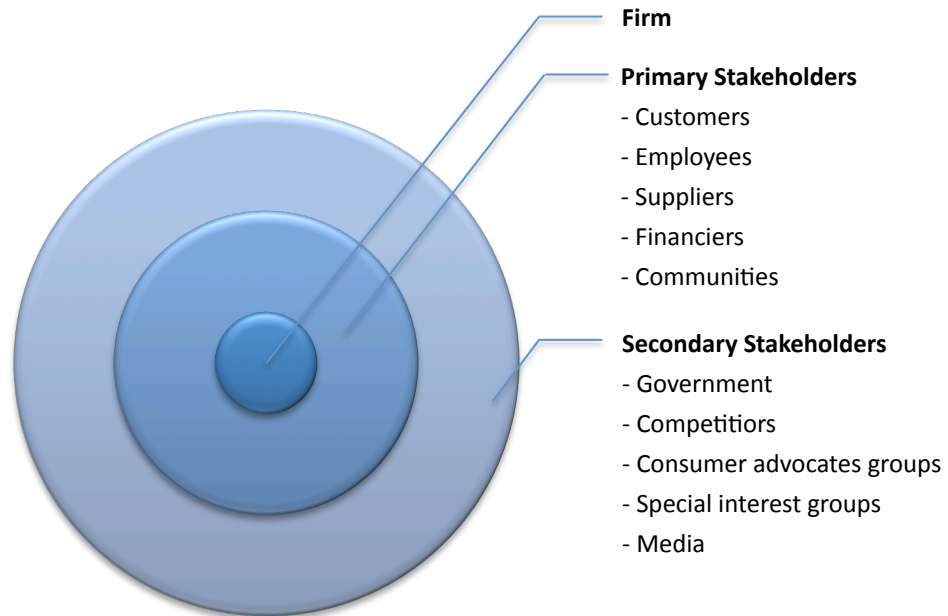
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## 12 Appendices

### 12.1 Appendix A: A basic two-tier stakeholder map



(Freeman, Harrison, & Wicks, Managing for Stakeholders, 2007)

## 12.2 Appendix B: Interview questions Company X

### Interview questions - original

#### *Uppstartsfas*

1. Vill du beskriva historien bakom idén till Company X och hur företaget grundades? (CEO)
2. Kan ni beskriva (utvecklingen av) affärsmodellen och hur den har förändrats över tid? (presentera i tidslinje)
3. Vilka var de största utmaningarna på Company X's marknad?
4. Hur hanterade ni dessa utmaningar? (beskriv varje utmaning för sig)
5. Vilken typ av marknad skulle ni jämföra Company X verksamhet med?
6. Vilka företag skulle ni jämföra Company X med?
7. Vad för typ av finansiärer och vilka finansiärer vände ni er till inledningsvis?
8. Vilka intressenter såg ni som de viktigaste under uppstartsfasen?
9. Hur utvecklades relationer med finansiärer och andra intressenter (utfall)?
10. Har det skett någon förändring i vilka typer av intressenter företaget fokuserade på i början jämfört med idag?

#### *Nuläge*

1. Har marknaden/förutsättningarna förändrats sedan uppstarten? På vilket sätt?
2. Vad tror ni är avgörande för att bli framgångsrik? Key Success Factors?
3. Har Company X benchmarkat koncept från andra marknader? Vad för koncept/marknader?
4. Vad skulle ni beskriva som de största utmaningarna på Company X marknad idag?
5. Hur hanterar ni dessa utmaningar?
6. Om ni hade fått börja om från början, hade ni gjort någonting annorlunda? Vad/hur?
7. Vilka är Company X mest viktiga/inflytelserika intressenter idag? (räkna upp alla)
8. Är Company X beroende av några intressenter? Vilka?
9. Hur samarbetar ni med era intressenter idag?
10. Finns det intressenter som man trodde var viktiga i början men där utfallet inte blivit som förväntat? Vad hände?
11. Vilka intressenter är mest utmanande att samarbeta med?

#### *Framtid*

1. Vilka intressenter tror ni kommer bli mer inflytelserika framöver?
2. Vilka intressenter önskar Company X att man hade en relation till?
3. Vilka intressenter finns närmast slutkonsument?
4. Vad för typ av resurser kommer bli viktigt för Company X att besitta på sikt?
5. Vad har Company X för tidsplan/kritisk punkt ”*då företagets måste bli lönsamt?*”
6. Vilka alternativa lösningar på försäljning/distributionsproblematiken ser man idag?



## **Interview questions - translated**

### *Start-up phase*

1. Can you describe the history behind the idea of Company X, and how the company was founded? (CEO)
2. Can you describe (the development of) the business model, and how it has changed over time? (present in timeline)
3. Which were the biggest challenges in Company X's market?
4. How were these challenges handled? (describe each challenge separately)
5. What kind of market would you compare Company X's business with?
6. Which other companies would you compare Company X with?
7. What kind of financiers and which financiers did you turn to originally?
8. Which stakeholders did you consider to be most important during the start-up phase?
9. How did the relationship with financiers and other stakeholders develop? (outcome)
10. Has there been any change in the types of stakeholders that the company focused on initially compared to today?

### *Current state*

1. Has the market/the preconditions changed since the start-up phase? In what way?
2. What do you think are the decisive factors to become successful? Key Success Factors?
3. Has Company X conducted a benchmarking of concepts from other market? What concepts/markets?
4. What would you describe as the biggest challenges on Company X's market today?
5. How do you handle these challenges?
6. If you could start over from the beginning would you have done anything differently? What/how?
7. Which are Company X's most important/influential stakeholders today? (list all)
8. Is Company X dependent on any stakeholders? Which?
9. How do you cooperate with your stakeholders today?
10. Are there stakeholders that you thought were important in the beginning, but where the outcome has not been as expected? What happened?
11. Which stakeholders are the most challenge to cooperate with?

### *Future state*

1. Which stakeholder do you think will become more influential in the future?
2. Which stakeholders does Company X wish that they had a relationship with?
3. Which stakeholders are closest to the end-user?
4. What kinds of resources are important for Company X to possess in the long term?
5. What time-frame/critical point does Company X have "*when the company must become profitable*"?
6. What alternative solutions to the sales/distribution problems do you see today?

## 12.3 Appendix C: Summary of how the organisations organise their market

<b>Company X</b>	<b>D.Light</b>	<b>Swedish Pension Agency</b>	<b>Sony Music Entertainment</b>
<i>Challenge</i>	<i>Challenge</i>	<i>Challenge</i>	<i>Challenge</i>
Consumer lack ability to pay and information and knowledge	Consumer lack ability to pay and information and knowledge	Consumers lack knowledge and commitment	Consumers lack willingness to pay
<i>Interventions</i>	<i>Interventions</i>	<i>Interventions</i>	<i>Interventions</i>
Market segmentation, reference projects, collaborations, lobbying	Price/quality balance, local distribution, customer feedback, marketing	Education, monitoring, system and processes, bundling	Lobbying, brand community, subscription
<i>Organisational mechanisms</i>	<i>Organisational mechanisms</i>	<i>Organisational mechanisms</i>	<i>Organisational mechanisms</i>
Membership, rules, hierarchy	Membership, rules, sanctions	Membership, rules, sanction, monitoring, hierarchy	Membership, rules, hierarchy
<i>Decision making process</i>	<i>Decision making process</i>	<i>Decision making process</i>	<i>Decision making process</i>
<ul style="list-style-type: none"> <li>- Bounded rationality due to lack of knowledge and information (satisficing over maximising) among end-users</li> <li>- Rule following in terms of habits in end-user group and routines, structures and processes among customers</li> </ul>	<ul style="list-style-type: none"> <li>- Bounded rationality due to lack of knowledge and information (satisficing over maximising)</li> </ul>	<ul style="list-style-type: none"> <li>- Rational in the sense that required time and effort make default fund and fund agencies attractive alternatives</li> <li>- Bounded rationality due to lack of knowledge among savers</li> <li>- Rule following in terms of a cultural identity focused on short term perspectives and a national identity relying on social security system</li> </ul>	<ul style="list-style-type: none"> <li>- Rational in the sense that music is accessed for free without any sanctions</li> <li>- Rule following in terms of moral values</li> </ul>

**Table 3 Summary of how the organisations organise their market**