



# KONGSBERG

## Canadian Market Analysis

**Developed By:**

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“This report has been completed as a part of the bachelor program in International Marketing, at Simon Fraser University / Norwegian School of Management BI. This does not imply that the methods which have been used, the generated results, or the conclusion drawn, have been verified by any of these institutions.”

## Memorandum

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To: Kongsberg Maritime

From: Merethe Flatla, Gilbert Lunde, Thomas Remes, Henrik  
Lysdahl & Lasse Alfsvåg

Date: May 14, 2009

**Subject: KONGSBERG MARITIME – CANADIAN MARKET ANALYSIS**

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As a response to your request of developing a way to position Kongsberg Maritime's products better, in order to reach "The Full Picture" goal, we have developed this report. The report includes analyses of the Canadian Industry, the company and any other relevant factors that will be of interest for expanding market shares. The report will also give recommendations for further development based on strategies designed to fit KM's current position in the market.

KM has a good position in the maritime industry, and has been able to maintain a strong market position in certain areas. However, there have been indications that they need to improve the service to some of their customers. Based on interviews and secondary research, this report will provide you with insight as well as required information for potential solutions.

If you feel some information is lacking or something needed to be clarified, please feel free to contact us at any time.

## Executive Summary

The following report has been developed on behalf of Kongsberg Maritime. KM is a leading provider of marine electronics in the shipping industry, and the report analyses how KM can improve their current position in the Canadian market. The report is as a whole based on KM being able to provide their customers “the Full Picture.”

In the introduction of the report KM’s background, the research problem and the report’s research objectives are discussed. The objective is to determine which factors will be important to complete the report, within the set limits. The literature review section of the report is a combination of academic marketing theories to determine KM’s opportunities and how far KM is in the internationalization process. The report focuses further on other industry related issues such as competitors and potential customers for KM. Further; the report provides a strategic problem definition in addition to short term and long term goals for KM.

## Research Methodology

In order to obtain information about the research topic, exploratory research was conducted based on primary and secondary resources. As a part of the exploratory research, qualitative research, in the form of interviews and questionnaires, was carried out with key personnel regarding supply chain and engineering of marine electronics. These included shipping companies located in both Eastern and Western Canada and the Ship Construction Development department of the public works and government services of Canada.

Secondary sources have been used as a main source of information to provide both an overall and in-depth perspective of the shipping industry and any related issues, as well as the Canadian market as a whole. The secondary research primarily included information obtained through electronic resources, such as websites, as well as print media and academic reports. Secondary resources have also been used to obtain descriptive research information related to the topic at hand.

## Summary of findings

Findings from the primary and secondary data show that though KM is presently covering major parts of the market, they have lost and are on the verge of losing more market share. The market is currently experiencing a downfall in production after a 5 years boom. It can therefore be assumed, that maintaining the existing customer base is vital to long term company survival.

The reason for reduction in market share traces back to one key component - the actual relationship between KM and their customers. Research has shown that KM could improve customer relationships, and that internal communication at KM has room for improvement.

Despite these issues, KM covers most of the commercial market in British Columbia and Canada, yet, it can gain more overall market share by attracting non-commercial players. KM's customers in the commercial market perceive KM as a leading brand of high quality marine electronics.

When looking at KM's competitors, it should be noted that their target markets are split between the commercial and the non-commercial market such as the military.

The strategy section in the report focuses on various ways KM can improve their current position with existing customers and how to win market share in the military sector.

## Recommendations

For KM to succeed with the proposed strategy, there are several points that KM will have to direct their attention to. These are the recommended issues for KM:

- Identify and further develop opportunities for improvement inside their service and communication branch.
- Be pro-active in getting former and potential customers back.
- Create a stronger presence in Vancouver by representation from an agent.
- Develop a guideline and a strategy for employees to follow when they contact existing and potential customers.
- Look for a potential alliance partner to provide a broader range of products, packages and solutions.
- Develop a “Full Picture” solution with an alliance partner.

## Acknowledgements

This report has been prepared as a conclusion of the authors Bachelor Degree in International Marketing. The report has been written and submitted at Simon Fraser University, as a part of the authors exchange program through the Norwegian School of Management BI. This project is written for and in cooperation with Kongsberg Maritime, as a market analysis for the company's current position and the opportunities to expand in British Columbia and Canada overall.

The authors would like to acknowledge key individuals for their help and contribution throughout the process of creating this report. The authors would like to recognize and thank Mr. Bob Crockett, for his involvement, knowledge and overall guidance throughout the project. With his feedback, ideas and his overall insight he has contributed to help improve the project in numerous ways. The authors would also like to acknowledge the many resourceful people involved in this industry, using their personal time to share their knowledge with the authors through various interviews, either in person, email or telephone.

The team would like to acknowledge Julia Nossova for her contributions regarding the editing of this report.

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Vancouver, May 14, 2009

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## Introduction

### Background for research

Our client, Kongsberg Maritime (KM) is a subsidiary of the Kongsberg group. KM delivers products and systems for dynamic positioning, navigation and automation to merchant vessels and offshore installations. KM also supplies products and systems for seabed surveillance, training simulators, and for fishing vessels and fisheries research (Kongsberg Maritime, 2009). The Kongsberg Group is an international knowledge based corporation with more than 5200 employees in 25 countries. Kongsberg supplies high technology systems and solutions to customers engaged in the oil and gas industry, the merchant marine and the defense and aerospace industries (Kongsberg Maritime, 2009). KM consists of three divisions: oil & gas, shipping & offshore and subsea. In our diploma project, we will focus on the shipping and offshore division on request from KM. One of KM's largest customers, Teekay Corporation, is located in Vancouver and their interview will serve as a focal point for this project. In addition to Teekay we will also contact other KM customers in Canada such as Seaspan Ltd, BC Ferries, Atlantic Towing, Canship Uglund and Secunda Marine Services.

The company prides itself in offering an extensive portfolio of various technological components used in ships, something they refer to as "The Full Picture," meaning that KM is able to provide their customers with a full line of marine electronics. A problem for KM is

that some of their products are not positioned as well as others, and they are, therefore, not achieving their “Full Picture” goal.

The research is limited to include the products sold from the KM Canada sales office in Halifax, Nova Scotia. These are:

- Altimeters
- Camera Systems
- Dynamic Positioning Systems
- Hydrographic Systems
- Joystick Systems
- Marine Automation
- Marine Information Systems
- Navigation Systems
- Process Automation
- Propulsion Control System
- Reference Systems
- Sonar, Multi beam and scanning
- Tank Gauging Systems
- Thruster Control Systems
- Voyage Data Records

## Research Problem

Our task will be to develop a way to reposition KM's products, in order to reach "The Full Picture" goal. We will perform research on existing KM customers to measure customer satisfaction and identify negative and positive experiences, as well as identify suggestions for improvements. For this project, only Canada based ship-owners will be considered as we are writing a recommendation for the KM Canada sales office. We will also perform a competitor analysis within the marine electronics industry.

## Research Objectives

In order to successfully execute this diploma project, it is necessary to determine specific research objectives and goals. By doing so, the grounds for action can be correctly identified. The research objectives include obtaining information on the following:

- Shipping industry key facts and figures, worldwide and Canada.
- Existing customers of Kongsberg Maritime in Canada.
- Potential new Kongsberg Maritime customers in Canada.
- Competitors within in the marine electronics market.
- Background information on Kongsberg Maritime.

- Information on KM products and services.

## Research Limitations

This is an evaluation of methodology used in the survey completion and the acquiring of information surrounding the case. The section aims to highlight the sound points of the process, as well as look at the possible limitations that could affect the outcome.

- All responses were retrieved through interviews conducted by members of the group, therefore, limiting possibility of sampling errors.
- The respondents in the survey all had sufficient competence to provide the research team with relevant answers.

### Points that can be subject to criticism:

- Prior to designing the question template and survey, the members of the group did not have a thorough understanding of the industry.
- The data sample, although of good quality, can be considered to be relatively small even for a qualitative survey.

- An inherent problem with having a voluntary answering process is that it could lead to a homogenous sample where possibility of outliers would decline.

## **Kongsberg Maritime**

### **History**

KM's history dates back to the founding of Autronica in 1957 with the first alarm system ready in 1959. KM has over the years absorbed a number of well-known maritime and offshore-related companies, through years of systematic work towards a network. Key events in the history of KM are: the world's first computerized radar/ARPA system (1969), the first engine room simulator (1978) and developing Intelligent Electronic Application in terms of software, sensors and instruments (2008). KM has through the years developed relationships with similar or competing businesses to cover and achieve a better understanding of the market. They are operating through a number of domestic and international subsidiaries (Kongsberg Maritime, 2009).

### **Current Situation**

KM operates in markets that are affected by the turbulence in the global economy. The market may be affected by cancelations and the risk of downsizing in future operations. However, the prospects for 2009 still look fine, according to the board at KM (Kongsberg Maritime, 2009).

KM operates in markets that are independent of each other and driven by competition. To maintain a strong market position, KM focuses on long-term perspectives concerning adapting to changes in the market.

## **Placement**

In Canada, the Halifax office currently handles sales and services for all KM products except simulators, which is handled at the office in St. John's. Kongsberg Mesotech in Vancouver designs and manufactures sonar systems for the global market. The products are sold to countries all over the world via KM "sister companies" or agents (John Gillis, 2009).

Halifax and St. John's are "sister companies" for Canada. The Halifax office interacts with all KM manufacturing sites like the offices in Vancouver, Trondheim, Horten, Kongsberg and Aberdeen to acquire products and receive technical support. KM considers the organization a matrix with technical/manufacturing companies on one axis and sales/services sister companies/agents in each country on the other axis. (John Gillis, 2009)

## **Potential Markets**

This report will evaluate new potential markets, in addition to focusing on building stronger relationships with current costumers.

KM currently holds a good position in the maritime industry as a whole, and has been able to maintain a strong market position in specific areas. However, there have been indications that they need to improve the service to some of their customers.

## Products

KM specializes in marine electronics. Their equipment is suitable for various vessels that include: cargo, bulk, RO-RO, container ships, cruise, ferries, mega yachts, drilling units, fishing vessels, FPSO and FPU, liquid gas carriers, naval ships, offshore support vessels, research and survey vessels, shuttle tankers and tankers (Kongsberg Maritime, 2009).

Some of the products KM offers are described below.

### Navigations sensors

KM offers a wide range of quality navigation sensors from reputable suppliers that can be used within the K-Bridge system also provided by KM.

### K-Bridge

K-Bridge is a radar system that provides superior target tracking and has advanced navigation integration with a multi sensor input. K-Bridge can include electronic chart functions, automatic navigation and track steering when in an integrated K-Bridge bridge system. The color display presents a square radar picture, which gives an increased active display area for better traffic surveillance.

## Logbooks

K-log electronic logbooks are electronic alternatives to record key navigation, engine watch, port calls and other operational activities onboard vessels of all sizes. All of KM's logbooks meet the specific reporting requirements of IMO, SOLAS and flag states. The ship's officers are given an easy way to log all activities onboard. Manually inserted information is automatically combined with data recorded from vessel's instruments.

## Navigator safety systems

KM's navigator safety system, or "dead man alarm," is designed to monitor bridge activity and alert the master or other qualified crew if the bridge becomes unattended. The system first alerts the officer at watch through local alarm indication at the bridge unit, and if no response, then alerts the master or other qualified officer. The navigator safety system confirms to the requirements of IMO resolution MCS.128 (75) performance standards for bridge navigational watch alarm system and the bridge class notations for one-man bridge operation. (Kongsberg Maritime, 2009).

## Voyage Data Recorder

Voyage data recorders have the same purpose as "black boxes" on aircrafts, and can help investigators review procedures and instructions a moment ahead of an incident to identify the cause. (Kongsberg Maritime, 2009)

## Dynamic Positioning – DP systems

DP systems serve the purpose keeping the vessels within specified positions. The systems are designed to minimize fuel consumption and wear-and-tear on propulsion equipment. Currently more than 1200 dynamic positioning systems have been supplied to oil and gas related vessels (Kongsberg Maritime, 2009).

## Thruster controls

The thruster control system, K-Thrust, is an independent remote control system made for electrically driven thrusters, propulsion units and rudders. The application includes side thrusters, azimuth thrusters, azimuth steering propulsion, electric main propulsion and rudders (Kongsberg Maritime, 2009).

## Promotion

KM has four people in Halifax, all responsible for sales. They have direct contact with customers and perform demonstrations of equipment upon request. KM representatives attend tradeshows like The Interservice/Industry Training, Simulation and Education Conference (I/ITSEC), Sea – Air space, CANSEC, Offshore Europe and ATEC. They also attend technical conferences like: offshore technology conference, WITSML public seminar and vendor exhibition and the Society of Exploration Geophysicists meetings (John Gillis, Kongsberg Maritime, Halifax). KM has advertised in magazines for the maritime industry such as Marine Log.

## Market Needs and Trends

KM enjoys a good position within the shipping industry. However, it is reasonable to assume that in a long-term situation the downturn in the world economy will catch up with KM and can create risk of cancelations and cutbacks.

According to a report from Stratford Global Intelligence, the shipping industry has been hit hard by the declining global economy. Numbers show that the world trade values for the last quarter of 2008 have dropped 45 percent compared to the last quarter of 2007. “The world Trade Organization is now predicting a 9 percent decrease in the world export by volume in 2009, the largest contraction since World War 2” (Stratford Global Intelligence, 2009).

## Market Background

### Worldwide Shipping Industry

Every product ever made, bought or sold has been affected by shipping. There are many ways to ship products, but there are three basic types of shipment: by land, air or sea. This report focuses on shipping by sea, as KM specializes in manufacturing marine electronics for ships.

Merchant shipping is essential to the world economy, carrying the bulk of international trade. The vessels are expensive, being one of the largest man made vehicles ever. There are approximately 50.000 merchant ships that are involved with international trade of every kind of cargo. The world fleet is registered in over 150 nations and manned by millions of people from all over the globe. (Equitymaster, 2009)

There are different types of vessels in the merchant fleet including;

- Container ships, carrying most of the worlds manufactured goods and products.
- Bulk carriers, the “workhorses” of the fleet, transporting raw materials such as iron ore and coal.
- Tankers, including transport crude oil, chemicals and petroleum products.
- Ferries and Cruise ships, performing mainly as transportation for passengers.

- Specialist ships such as anchor handling and supply vessels for the offshore oil industry salvage tugs, icebreakers and research vessels.

Some of the largest container operators in the world are; APM-Maersk, Mediterranean Shg Co, CMA CGM Group, Evergreen Line, COSCO container L and Hanjin / Senator (Equitymaster, 2009).

The industry is highly capital-intensive and adequate cash flows are required for day-to-day functioning. Moreover, expertise and technical know-how also serve as critical factors. Sine the number of shipping agencies are growing, there is a high level of competition. This can give customers a higher bargaining power (Equitymaster, 2009).

## Canadian Shipping Industry

Shipping in Canada has played a significant role in the development of modern society for centuries, a form of economic lifeline for Canadians, especially for the first settlers. The industry provided The Old World with things such as fur, agricultural, forestry and mining products to meet the increasing levels of demand.

In eastern Canada, particularly in the Maritimes, a tradition based on shipbuilding, fishing and trade flourished with the shipping industry growing in the 1840's. Samuel Cunard from Halifax established a transoceanic service that developed into the Cunard Company, once ranked as fourth among the ship owning nations of the world. The Canadian shipping industry also had its ups and downs. A lack of steel and engineering skills served to

downsize the Canadian shipbuilding activity. The 2nd World War, however, gave Canadian shipping a temporary boom (The Canadian encyclopedia, 2009).

The shipping industry is important to Canada due to the importance of trade to the economy. In 1996, exports were 33.5% and imports 29.2% of Gross Domestic Product. Approximately one third of exports and over a quarter of imports are transported by water. Although most of Canadian trade with the US is by land transport, shipping is vital to the competitiveness of resource-based products in the global markets. Some of the overseas nations Canada trades with are Japan, UK and other western European nations such as Norway, making the North Atlantic and North Pacific route the busiest.

The ships and port facilities are efficiently serving Canadian trade. Some of the modern container terminals are essential, specifically those in Halifax, Montreal, Vancouver and Prince Rupert. The ports of Montreal and Vancouver are the largest and most profitable.

In 1895, the Canadian government implemented the recommendation on the task force on deep-sea shipping by amending tax regulations, which means that the management of international shipping could be conducted in Canada without exposing the earnings of the shipping services to corporate tax until distributed. This legislation made Canada competitive with other countries, as most ship owners did not pay tax, which has resulted in an increase in employment opportunities. With the Canadian shipping industry growing, a number of companies have moved into Canada, the largest being Teekay Corporation, founded in 1973. Teekay's corporate head office is located in Bermuda and their operational head office is in Vancouver (Teekay, 2009).

## Existing Customers

### Teekay Corporation

With their large fleet, they are one of the most important suppliers of shipping services for leading oil and gas companies worldwide. Currently, Teekay has 158 vessels in addition to 17 others currently on order. The vessels have an average life expectancy of 10 years (Teekay, 2009).

The industries in which Teekay operates are: oil, liquefied petroleum gas, and liquefied natural gas. Vessels are located all over the world, with offices in Europe, Australia, Asia, North America and South America. Their four business units are: Teekay Tanker, Teekay Navion Shuttle tanker and offshore, Teekay Gas services and Teekay Marine services. (Teekay, 2009).

Teekay is the largest operator of medium size tankers in the world. They are a world-leading operator of offshore loading shuttle tankers and offer comprehensive shuttle tanker services. They also deliver innovative methods for storing and transferring offshore oil, from floating storage systems to complex export and transportation services. Teekay transports more than 10 % of the world's seaborne oil (Teekay, 2009).

## **Seaspan International Ltd.**

Starting out in 1898 by servicing the B.C coastal communities, Seaspan has grown into a multimillion-dollar operation serving the whole West Coast of North America. As well as providing ship-docking services at Port of Vancouver, Victoria and other B.C ports, they also operate a fleet of 64 ships ranging from flat deck barges to chemical tankers (Seaspan, 2009). The company is owned and operated under the Washington Marine Group, which also owns local ferry and tugboat services and three major shipyards: Vancouver Shipyards, Victoria Shipyards and Vancouver Dry dock. (Washington Marine Group, 2009)

## **BC Ferries**

BC Ferries serves up to 47 ports along the coast of British Columbia. They have since 2007 added 7 new state-of-the-art ships to their fleet. BC Ferries Authority is a no share capital corporation created under the Coastal Ferry Act. BC Ferries routes and services levels are defined in the costal ferry services contract between the province of British Columbia and BC Ferries. BC Ferries is an independent regulator who is appointed by the province of British Columbia. BC Ferries' sole shareholder is the provincial government of BC (BC Ferries, 2009).

## **Canship Ugland Ltd.**

As a joint venture between the Norwegian companies, J.J. Ugland Companies and Knutsen OAS Shipping, Canship Ugland Ltd. started its operations in 1997. With headquarters in St. John's, Newfoundland, the company employs a total of 380 people on and off shore and has 9 ships under management, servicing the oil industry around Newfoundland. The main bulk of their fleet consists of crude oil tankers in the 120,000 – 150,000 tons deadweight class and the rest being specialized tug boats fitted for operations demanding heavy lifting and firefighting (Canship Ugland, 2009).

## **Secunda Marine Services**

Created in 1983 as a Nova Scotia company, Secunda Marine Services has today grown their fleet to 14 full time vessels and one training vessel. Performing operations in Eastern Canada, North Sea, and the Gulf of Mexico, they service the oil and gas industry by offering anchor handling, platform supply, cable lay, subsea construction, dive support vessels and conversions. J. Ray McDermott acquired Secunda Marine in 2007 (Secunda Marine, 2009).

## Potential Customers

### The Canadian Coastguard

The federal government's civilian fleet operates the Canadian Coastguard and provides key maritime services to Canadians at sea. The Coastguard is responsible for ensuring safe and accessible waterways, it aids to navigation, icebreaking, environmental response as well as search and rescue. They provide service 24 hours a day, 365 days a year throughout 22 centers across Canada. Canadian Coastguard operates 114 vessels in addition to 22 helicopters. The annual operating budget is \$285 Million. (Canadian Coast Guard, 2009)

### The Canadian navy

The Canadian navy has 3 destroyers, 12 frigates, 2 supply ships, 4 submarines, and 12 costal defense vessels. The 33 vessels are divided between the Atlantic and Pacific coasts. The homeport of the Atlantic fleet lies in Halifax, and the Pacific fleet is based in Esquimalt, BC (Canadian Navy, 2009).

### Nautisol

Nautisol is a new company based in Victoria, British Colombia. Their goal is to launch two high-speed ferries with a 90-minute travel time from Victoria to downtown Vancouver. Depending on sufficient support and resources, a third ferry may stretch between Nanaimo and downtown Vancouver. (Nautisol, 2009) Nautisol intends to build three new

catamarans in Vancouver; two of them are expected finished by 2010. The third vessel should be done by 2011 (Andrew Petrozzi, 2009).

## Competitors

KM has several competitors in the marine electronics market; the following is a brief overview of the most prominent ones.

### Sperry Marine/ Northrop Grumman

Sperry Marine was formed in 1997 from three well-known brand names in the marine industry: Sperry marine, Decca and C. Plath. Sperry Marine is a direct competitor to KM and has a very similar portfolio that includes: autopilot and steering control systems, communication equipment, ECDIS, intergraded navigation and bridge systems and gyrocompasses. Sperry marine employs around 1300 people (Sperry Marine, 2009). All of Sperry marine's equipment is geared towards larger vessels, the most important being gyrocompasses and radars.

Northrop Grumman revenues in 2007 reached \$32 billion USD (Northrop Grumman, 2009).

Their market is split between the commercial and the military sector. The economic downturn has made its impact on Sperry Marine and the commercial sector has been downscaled, especially construction of new vessels. (Alan Aitken, Canadian regional manager, Sperry Marine).

Customers are currently requesting multi function displays capable of performing multiple tasks. A new product Sperry offers is the Visionmaster FT Totalwatch, functioning as a radar, chart radar and ECDIS among others. Most of the equipment Sperry manufactures is standardized, however, they also offer custom steering stands and bridge configurations.

Some of the Sperry's largest customers in North-America are: the US Navy, the US Coastguard, Chevron, Maersk, Canadian Coastguard, Canadian Navy and different cruise lines (Alan Aitken, Sperry Marine, 2009).

Sperry's strongest selling points are considered to be product quality, company ethics and a global service network. (Alan Aitken, Sperry Marine, 2009)

Sperry's customers receive both routine maintenance and emergency repairs. Some of the routine maintenance is mandated by regulatory agencies, such as inspections of VDR's (Voyage Data Recorders) (Sperry Marine, 2009).

(See Appendix 2 for the transcript of the interview with Alan Aitken)

## **Radio-Holland**

The Netherlands based company Radio-Holland, is one of KM's direct competitors. Radio-Holland describe themselves as "a leading system house specializing in innovative, efficient, and functional solutions in the field of satellite and radio communication, automation, observation and navigation systems". Radio-Holland has offices in 42 different cities worldwide. The Canadian branch of Radio-Holland was founded in 1919 only 3 years after

the company was established, and has its headquarters in Ontario with a local office in Vancouver. The company employs 750 people inside their Canadian structure. In 2006 Radio-Holland became a subsidiary of Imtech NV. (Radio Holland, 2009)

More in depth information was considered too sensitive by Radio Holland.

## **Rutter Technology**

Rutter Technology provides products and support of world-class electronics to marine aviation, aerospace, military and security sector. The products they offer are a mix of electronic hardware and software engineered to integrate well with other systems.

Rutter Technology has over 100 customers located worldwide. They manufacture products for cargo vessels, passenger vessels, military and enforcement vessels. Their product line includes: voyage data recorders, radar systems, high resolution radar processing and recording technology, high-fidelity audio and high-resolution video recordings. Their most important product is the voyage data recorder. Rutter Technology's head office is located in St. Johns, Canada. (Rutter Technologies, 2009)

## **Shipyards**

Shipyards often have a central position in purchasing of products for vessels. The shipyards provide the ship-owners with alternatives and often make a recommendation.

Vancouver and Victoria shipyards are a part of The Washington Marine Group that provides services along the coast of the Pacific Northwest. Washington Marine also has a ferry business, as well as a tug and barge transportation company. Seaspan is also owned by Washington Marine Group. (Washington Marine Group, 2009). There are three shipyards under the Washington Marine Group, these are:

#### **Vancouver Dry-dock Company Ltd**

Vancouver dry-dock is located at the Vancouver harbor. They have two Lloyds floating dry-docks and machinery that can handle shafts up to 18 meters. (Vancouver dry-dock, 2009)

#### **Vancouver shipyards Co. Ltd**

Vancouver shipyard has been in downtown Vancouver since 1968. They do repairs, maintenance, construction and design of various types of vessels. Facilities found at Vancouver shipyard include major steel forming, a large fabrication, an assembly hall and a 20.000 feet paint facility. They can dry-dock multiple vessels at the same time and can perform repairs on the vessels. (Vancouver shipyards, 2009)

#### **Victoria shipyards Co. Ltd**

Victoria shipyard is operated and owned by Public Works and Government services of Canada. The shipyards perform repairs and complete vessel conversions. They perform repairs on cruise ships, deep sea vessels and containerships in addition to the Canadian

navy, ferries, tugs, fishing vessels, barges, yachts, and research vessels (Victoria shipyards, 2009).

## Literature Review

### Degree of globalization

KM is a global company and is well known in the industry. Their technology is shipped around the world to the shipyards where the vessels are built. KM has a strong position in the market with offices in 25 countries around the world. Three of these are in Canada: Halifax, St. John's and Vancouver. KM has, in the recent years, strengthened its position internationally by opening offices in India, Brazil and China, all being important emerging markets. (Kongsberg Maritime, 2009).

KM provided its products to the world biggest cruise ship "Oasis of the Seas" and two of the biggest drilling rigs "Aker Spitsbergen" and "Aker Barent". KM's manufacturing locations include Horten, Trondheim and Kongsberg in Norway, Aberdeen and Vancouver (Kongsberg Maritime, 2009).

## **The Nine Strategic Windows**

### **Born global**

A born global company is a company that goes abroad eminently after start up (Rasmussen E.S, Madsen. T.K, 2002). Kongsberg was established in 1814 as a manufacturer of weapons under the name Kongsberg Vaabenfabrikk. Kongsberg has through the last decades established itself as an international corporation. Kongsberg received one of the first large export contracts in Norway when they sold Krag Jørgensen rifles to the US Navy. The first naval yard was established in Horten in 1849. (Kongsberg Maritime, 2009)

### **Nine windows**

KM can be placed in window number 8 in Solberg's nine strategic windows (See appendix 3), to seek new alliances. From a strategic point of view, KM is in the position to grow and enhance their position in the market. This will be discussed further in the strategy section.

## **Trend Analysis**

### **Political**

Canada is a federal state with 13 provinces and territories. The parliament consists of the House of Commons with 310 elected members and the Senate with 105 chosen by the

Governor General. (Passport, 2009). The head of state is Queen Elizabeth and the prime minister since 2006 is Steven Harper (Conservative Party) (Passport. 2009).

The constitution of Canada is the supreme law in Canada and consists of a combination of acts, traditions and conventions. The Constitution Act of 1867 has in the later years regulated distribution of power between provinces and the federal government. The Canadian Charter of Rights and Freedoms outlines the civil rights and liberties of every Canadian citizen, such as freedom of speech, freedom of religion and mobility. (Department of Justice, Canada, 2009)

### **Political risk**

Canada's largest export partners are the USA and Europe and the largest import partners are the USA and Asia Pacific. However, with the recession exports are in decline. There is some tension between the different provinces and the federal government, but this will however not have a big impact in the shipping industry. (Passport, 2009)

### **Economy**

Canada resembles the US market oriented economic system, production patterns and living standards. Almost 80% of Canadian exports every year go to the US, with Canada being one of US's largest suppliers of energy, including oil, gas, uranium and electricity. (CIA, World fact book, 2009)

The downturn in the US economy has affected Canadian exports, with a lower demand for products and fewer ships leaving from Canadian ports (Passport, 2009). The shipping industry will mostly experience the effect of the recession at the shipyards, where the demand for new vessels will decrease (Alan Aitken, Sperry Marine).

### **Trade agreements**

Canada signed the NAFTA agreement in 1994, an agreement between the North American countries and EFTA in 2008, which includes countries such as Norway, Iceland, Lichtenstein and Switzerland (Canadian Government, 2009).

### **Socio cultural**

Canada is the second largest country in the world, covering almost half of the North-American continent. Canada has two official languages, English and French. The ethnic groups in Canada are divided with 28 % British Isles origin, 23 % French origin, 15 % other European and mixed background, and 26 % Asian. The population is approximately 33.5 Million (CIA World Fact Book, 2009).

## Technological

There are a few companies that provide competitive products to KM. Since this is a very international market, most of the technology is manufactured in different parts of the world. There are a few international companies that manufacture products in Canada. A subsidiary of KM, Kongsberg Mesotech manufactures sonar's for the world market in Vancouver.

## Porter's Five Forces

### Industry competitors

KM has a few direct competitors, and Sperry Marine and Radio Holland are among the largest. The demand for marine electronics in Canada is moderate, since few ship-owners are present with headquarters in the country and relatively few ships are built here on a global scale. Sperry Marine has a few big customers like the Canadian navy and coastguard, but KM also has a relatively large market share. Since customers are often loyal to their vendors, it can be difficult to attract the well-established ones, with better focus being companies starting up, with fewer business relations.

## Potential entrants

It can be difficult for KM to enter new markets in Canada, since most shipping companies headquarters are often located in other parts of the world, represented through agencies here. Most of KM's customers are international, though a few are Canadian such as BC Ferries. When the customer is government owned they have different rules and regulations regarding purchasing.

## Substitutes

The research team did not discover substitute products, since the products are more or less standardized and meet specific requirements for navigation and safety.

## Buyers

The buyers in the industry are sometimes the shipyards on behalf of their customers. Shipyards usually make recommendations of vendors, and the ship-owner makes a decision.

In a typical buying process the customer asks three vendors for a request on proposal. According to our interviews, usually price is less important than reputation and previous experience when selecting a vendor.

## Suppliers

Although almost all software is engineered internally, KM is provided with hardware such as PCB's, cables, computers, printers and displays from local suppliers in Vancouver, Horten, Kongsberg, Aberdeen, Trondheim and Seattle to the production facilities in those areas. Here are some examples:

- The consoles used for operator stations, are supplied from a company close to Horten.
- Many of the sensors used in KM products are supplied from companies in Kongsberg.
- Satellite based position reference technology is provided by Seatex in Trondheim.
- Pressure/temperature/liquid level sensors are provided by KM Automation in Trondheim.
- HiPAP position reference technology is provided by KM Subsea in Horten.
- Other companies provide products such as gyrocompasses, echo sounders and radios (John Gillis, Kongsberg Maritime).

## Summary of the five forces

KM has a strong position in the market. Although some of their customers have complained about some service issues, they acknowledge KM's products as "the best in the industry". It can be hard to expand in the market, in which KM is already established in serving three ship-owners on each coast of Canada.

## GAP Model

### Buying process in the shipping industry

The decision of which vendor to choose, is not based entirely on cost. What the research team discovered was that the most important aspects in selecting a vendor were past experience as well as reputation within the industry. Larger, well-established vendors were preferred, since an eventual bankruptcy can cause problems at a later stage, since purchases usually require an expected partnership of 10+ years depending on the product.

## Gap Service Model

The gap model can be used to see if there are any gaps in expected and received service between customer and supplier (Appendix 5). The research team spoke to some of KM's customers here in Canada: Teekay, BC Ferries and Seaspan from the Pacific coast and Secunda Marine and Canship Uglund from the Atlantic coast.

Research showed that there is a gap between the service experienced and KM's promise. One customer explained that they wished to have a more personal contact with KM before a sale, as well as a better after sales service (Raj Dewan, Seaspan). Another individual felt that some processes could be too time-consuming, especially when it comes to having to communicate with different offices of KM in Norway. The two that were the hardest to get in touch with are Horten and Trondheim (Terje Rusdal, Teekay Corp).

According to BC Ferries, problem solving took longer outside the Nordic sea basin. They also experienced a "no can do" attitude from KM when they needed support; when they had a problem with one of their vessels, and had to take it out of service, both passengers and BC Ferries suffered. According to BC Ferries, service was provided by KM later than 3 weeks, which is considered unacceptable (Mark Collins, BC Ferries). BC Ferries has a service team and has a policy of repairing and performing maintenance on their own fleet. BC Ferries inquired if KM could train their service personnel, but unfortunately the request was denied. Secunda Marine explained that logistics from KM could take from 8-10 weeks, and having ships out of service for such an amount of time could lead to large expenses (Dwayne E. Murphy, Secunda Marine). KM could be more adaptable to customer needs and deliver service as soon as possible to ensure good reputation and business relations.

## Why Relationships are Important

By relationship building KM should recognize the long-term value of keeping customers. In marketing, it is a known fact that it costs more to attract new customers than to maintain existing ones. There are various ways to execute such a strategy, with both advantages and disadvantages. Today, creating a meaningful and long-term relationship that both parties can benefit from can be a key factor to success. Creating relationships between you and your business partners is a terrific way to add value and enhance your brand position against your competition.

KM's view of relationship marketing is that "networking ties it all together," ensuring that knowledge and competence is spread throughout the organization, adding value to customers. These values are demanding, but necessary to meet the challenges of the market. KM's values supply the drive and direction to improve constantly, providing reliable products and responsive service for their customers (Kongsberg Maritime, 2009).

Research shows that KM's actual relationship marketing is not aligned with their vision, giving KM room for improvement, especially towards smaller businesses.

## Advantages of Close Relationships

There are many reasons for choosing to spend more of the company's resources on relationship marketing, which include both economical and non-economical outcomes:

## Economical

- Cost reductions
  - Cost reduction regarding maintenance and adaption costs. By developing cooperation based on coordinated routines regarding services and use of technology. You will in the future achieve more time efficient programs.
  - Reduction of upkeep is also a factor that will be influencing the cost reduction. Based on the coordinated service routines the personnel will have better understanding of products and routines. Thereby the time at the repairing dock will drop, which is an important factor for the shipping industry.
  
- Cross sales:
  - Close relationship will result in sharing customers list as well as access to other markets.
  
- New and improved products/services.
  - Close relationship often result in better access to information from the opposite business partner. Making it easier to create optimal solutions for both parts.

## Non-economical

- Access to specific resources.
  - Development of specific resources such as better understanding of customers needs.
- Reduction of uncertainty:
  - The relationship will automatically create more willingness to succeed with the business partners, due to the reason that they are economically dependent on each other.
- Strengthen the reputation:
  - Often strong relationship results in positive achievements that will create a stronger reputation, especially in a small market like the Canadian market (Biong & Nes, 2003).

## Individual Customer Relationships

The focus on a relationship between two business partners should be adapted to the different customer needs. They have different views, and therefore expect different outcomes of each relationship. According to research, KM should be located in the “Long-term relationship” box (Appendix 6). One of KM’s customers expressed concern that KM

focuses more on short-term revenue rather than long-term relationships. The project research found that most of their customers and potential customers request close relationships when conducting purchases with a vendor. It is therefore logical and beneficial that KM should focus on long-term relationships instead (Appendix 6).

## **Business Culture in Canada**

There is a range of aspects to a country or region's business culture, it is, therefore, beyond the scope of this report to do an in-depth investigation of the Canadian business culture as a whole. However, certain parts of the Canadian culture that are imperative for KM and their future Canadian venture will be highlighted.

Geert Hofstede's dimensions on business culture show that Canada can be found ranked high on the individualism scale, and that success is often measured by personal achievements (Hofstede, 2008). This is important information for KM as they will be planning to convince key decision makers in the industry that their products and services are beneficial for their company.

The majority of Canadians has a high degree of individualism and has a tendency to be self-confident and open to discussion on general topics. However, they keep their personal life limited to their closest family and friends with relatively loose bonds with others (Hofstede, 2008).

## SWOT Analysis

The SWOT analysis is a tool to provide us with the general overview of strengths and weaknesses in a company. This analysis will provide us with information that will be helpful in decisions concerning improvements in KM.

### Strengths

KM has a strong dedication to providing innovative and reliable marine electronics that ensure optimal operation at sea. By utilizing and integrating their technology, experience and competence in positioning, hydro acoustics, communication, control, navigation, simulation, and automation, KM aims to give their customers “The Full Picture”.

KM’s vision of sharing knowledge and information with customers, gives them the opportunity to provide their clients with the most efficient solutions. This vision is built on their philosophy of networking and creating alliances.

KM is a market leader in dynamic positioning systems, automation and surveillance systems, process automation, satellite navigation and hydro acoustics. The most important markets are countries with large coastlines and busy harbors, which means Canada is a suitable market, with the opportunity for further expansion (Kongsberg Maritime, 2009).

### Weaknesses

One company mentioned through the interviews that KM's storage depots outside of Europe and North America could have better storage capacity for spare parts. There was a voiced concern especially about the Brazil and Singapore locations, as the KM employees were perceived as "moody", this having a possible effect on logistics and delivery time.

The combination of high demand and high quality of products that KM offers has resulted in premium price points. Although premium pricing can have a negative effect in the evaluation process of product purchasing, offering outstanding services can compensate for it.

Research shows that KM's largest customer, Teekay considers KM's service as sufficient, however the satisfaction level was lower in smaller companies. Specific complaints were regarding follow-up procedures and KM's willingness to cooperate. Pacific coast customers explained that they were more likely to expect less service from KM, compared to customers on the Atlantic coast.

For various services, customer contact is a crucial issue; the provider must be in face-to-face contact with the customer. Close contact suggests a local presence in the foreign market and customization (Bradley, 2004).

## Opportunities

By utilizing and integrating all their products, KM aims to provide their customers "The Full Picture". This idea yields professional solutions and global services that make a difference

enabling you to stay ahead of the competition. This concept may in the future provide their customers with technology and services that are unique to each situation. It will make it easier for both KM and customers to plan future business.

KM's global reputation concerning marine electronics is a direct result of years of consistent engineering, developing "state of the art" technology. Their devoted work towards development of technology has paid off and given them a chance to become the market leader in certain areas. With a good reputation it is easier to acquire new customers and build long lasting relationships.

## Threats

KM's technology is "state of the art", however it is possible for competitors to copy it or further develop it, therefore, KM has to provide their customers with services and packages the competition lacks.

Another threat for KM as a company is the changes in global economy. KM is dependent on long perspective planning and strategy development to prevent negative outcomes (Bradley, 2004).

## Strategic Problem Definition

*"How can Kongsberg Maritime improve their current position in the industry, in addition to conquering new markets, resulting in KM offering "the Full Picture."*

## Goals

Short-term goals are needed to reach long-term goals. Short-term goals are reachable within 12 months. Suggestions for KM are:

- Identify opportunities to improve communications both inside the company and with clients.
- Rethink and improve the current after-sales service.

- Improve customer relations in the Pacific coast of Canada by establishing an office, possibly through an agent.

Long-term goals are reachable after a period of 12 months. Suggestions for KM are:

- Develop a reputation as a company with superior communication and service.
- Deliver an ideal solution to what the clients regard as “The Full Picture”.
  - Vertical as well as horizontal packages.
- Capture new customers in the Pacific coast.

### **Key Success Factors**

- Improve relationships with existing customers.
- Perform quicker after-sales service and adapt more to customer’s way of doing business.
- Achieve better reputation in the Pacific coast market.

### **Company Specific Advantages**

- Advanced high-quality products.
- Worldwide reputation.
- In-depth industry knowledge.

- Human capital.

## **Strategic GAP Analysis**

When comparing key success factors and company specific qualities, one strategic gap emerges: KM needs to develop a deeper understanding of their customer's needs on the Pacific coast.

## **Kongsberg Maritime in Canada**

KM needs to identify their target markets in order to reach their desired customers. This section will identify these markets.

### **Primary market**

The primary markets for KM are existing customers, since they are currently familiar with KM's product line. KM's existing customers will experience changes in service quicker than new ones. Repeat purchases by existing customers are important to maintaining the market share, in addition to upgrading their product line.

## Secondary market

KM's secondary markets are new customers currently using competitive products, or customers in the process of purchasing equipment for new vessels. To achieve a stronger position in the market and gain a higher market KM needs to reach new ship-owners.

## Estimating the Demand

In order to estimate the demand for KM's products and services in Canada, primary and secondary sources have been used. By summing up the fleet size of existing customers and potential customers, it is possible to estimate the number vessels that are in use and show if there is a demand for new equipment and repairs. The products have different life expectancy, so it is impossible to do a realistic calculation, however, these figures tell us allow us to loosely estimate the size of the market.

BC Ferries: 40 vessels

Seaspan: 64 vessels

Atlantic Towing: 4 vessels and 16 tugs

Secunda Marine: 15 vessels

Canship Uglund: 9 vessels

Nautisol: 3 vessels

Canadian Navy: 29 vessels

Canadian Coastguard: 114 vessels

Teekay operates 158 vessels, but purchases are not made in Canada, and therefore, are not included in this estimate. Looking at these numbers, it is possible to claim that KM has the opportunity of doubling the number of vessels with their products within the Canadian market.

## Marketing Mix

A successful marketing entry depends on a well-developed marketing mix. The marketing mix is based on the classic 4 P's with some changes to better adapt to the B2B market. In the consumer market, the 4 P's are: promotion, price, placement and product. We will focus on the "The True 4 P's of B2B marketing" (Evancar, 2009).

- **Prospect:** The customer's need that creates an opportunity.
- **Promise:** The faculty/intimacy argument for why you are superior.
- **Product:** Delivering the promised product/service.
- **Position:** The sum of advantages that is created over your competition by doing the three other P's with excellence (The Cornucopia Group, 2009).

## Prospect

The shipping industry creates a need for the customers to have top-notch equipment when they are at sea. The industry is global, and all downtime on vessel is expensive for the ship-

owner. The need for reliable services and high quality products are therefore crucial aspects of selecting a vendor. Understanding the customer's needs is an important factor to succeed in any business. The market KM operates in has various competitors offering similar products and services. A way to differentiate and become the clear choice in the market is through adapting individual services to each customer. Offering custom-made services creates a unique buying reason, which will suit KM's vision of committing to the customer's needs, as well as adjusting to the Canadian market.

## Promise

To succeed, KM must keep the promises they promote. By doing this, the company will build a reputation as reliable and dependable, an important factor in the shipping business.

On KM's website they state:

*"We believe in quality in all aspects of our behaviors, and will strive to consistently produce reliable solutions."*

*"We commit ourselves - to the customer's needs and the organization's aims."*

*"We take personal responsibility for customer issues and ensure follow up."*

*"We are there for our customers." (Kongsberg Maritime, 2009).*

These are all good values for a company; however, some of them are not fulfilled as promised. By performing continuous promotion through tradeshows, events, conferences and direct sales, KM can enhance their reputation.

## **Product**

KM provides technology equipment for vessels in cargo and passengers boats, with a wide range of marine electronic components and parts. According to KM, this makes it possible to offer “The Full Picture” to their customers. Combining KM’s products with their expertise will save customers time and money, since they then are connected to fewer vendors. The vessels will be fully equipped with products that function well together and are familiar in case of repairs or upgrade.

## **Position**

By positioning the company as a provider of quality products from “The Full Picture” program with long-term service goals, KM will be able to create a lingering relationship that will have positive effect on the cooperation between the business partners and the development of new technology. The option of strategic partners and more agencies to manage local issues will help the company’s’ visibility in the market, especially when considering smaller customers seeking face-to-face meetings.

## Porter's Generic Strategies

A company positions itself by leveraging its strengths. Porter has argued that a company's strength falls into one of the two categories: cost advantage or differentiation. By applying these strengths in a broad or narrow scope, you will get three generic strategies as a result: cost leadership, differentiation or focus (QuickMBA, 2009).

With cost leadership strategy, the company can sell their products at premium price gaining a higher profit than its competitors; they can also sell their products with a lower margin to conquer a larger market share. (QuickMBA, 2009)

With differentiation strategy the company offers a product with unique attributes valuable to the customer. A unique and valued product the company can be sold at price premium. (QuickMBA, 2009)

KM follows, and should continue following differentiation strategy, since the company has the strengths required. Some of the strengths needed for this strategy are: strong research skills, highly creative and skilled product development department, a strong sales team and a good reputation for technical quality. KM is more fitted to be in this category than in a cost leadership strategy.

To maintain current market position, KM needs to focus on its current reputation in the industry. By enriching the service experience, KM can achieve better loyalty among their customers and receive the benefits of maintaining their market share. To achieve this, KM

can benefit from having a deeper understanding of technology, exceptional sales representation and international experience in a competitive market.

## **Strategy**

### **Introduction**

Research shows that KM's greatest opportunity for improvement lies in their approach to service. A recommended strategy for KM is a plan of action consisting of 3 main points aimed to provide the degree of service and product offering that KM's customers prefer. KM's customers commented on the lack of face-to-face dealing, and how, when present, it helped to establish some of the interpersonal trust that is a vital part of business dealing. This report will therefore first of look at increasing visibility in Vancouver, covering the regions. It will be followed by in depth look at implementing certain service guidelines to help establish better connections. The last point for KM will be searching for an alliance. These points are all tied up to KM's wish to provide the "Full Picture".

### **Strategy #1 - Presence in Vancouver**

KM has a broad range of customers. Long-term customers, such as Teekay, can be categorized as most loyal. They are most cost effective to keep as they provide a steady

source of income. Since Teekay is deeply involved with KM, it would be cost prohibitive for a competitor to steal the client. However, KM also has smaller or less involved customers known as commodity buyers. These clients will often change supplier with less hesitation if the supplier can offer them a better or more convenient deal. KM needs a stable strategy to attract both kinds of customers to maintain their current position in the market. (Das Narayandas, 2005)

When marketing to a customer in a B2B environment, it is often harder to segment the market, as businesses often have more unique needs and preferences. (Das Narayandas, 2005).

As research shows, customers in the Pacific region stated that communication with KM could at times be difficult, and some former customers actually felt ignored.

Our solution to these claims would be to establish our own agent in the Vancouver area. This will help to enforce the accessibility for support and provide an opportunity to start reestablishing KM's image as a superior service provider in B.C with a presence that potential customers would notice.

Some of the agent's duties would be to provide KM with a face in the cities like Vancouver, Victoria and Seattle. It would also establish a more direct communications channel to the major offices in Canada as well as Norway. Lastly, the agent would provide more comprehensive after-sales product information and personal follow up service as this was stated as a deal breaker in former KM dealings.

## **Strategy #2 - Service Implementation**

### **Increase frequency of communication and choice of medium**

By hiring agents, it is possible for KM to achieve better communication with smaller companies as well as the more established ones. Some of the dissatisfaction concerning the relationship between KM and their business partners is a lack of face-to-face meetings. By increasing the level of communication and adopting a more personal approach, KM will lower the risk of misunderstandings and create a setting where the customers feel more appreciated. This was often mentioned as KM's "achilles heel".

### **Create a feedback channel for customers**

Communication and feedback from customers are important, and should be highly prioritized when developing strategies. The agents may use their advantage as the link between the two parties to handle the feedback from customers. This way the feedback will be more representative, as the customers will not be in direct contact with KM, and therefore have a chance to speak more openly. A representative for both companies will also have a deeper understanding of both sides and will, therefore, have a chance to present problem properly.

Another way of improving the feedback channels may be to create better website layout where customers can share or take part in problem solutions. Each customer has different needs, and these should be handled respectfully. By launching a website layout where

customers can share their experiences, you also create an easy way for the customers to reach appropriate company personnel and express their needs, perceptions and complaints (Kotler & Keller, 12.ED, p.160). A positive outcome from this tool is that it enables a feeling of inclusion and care towards the company, which can create more loyal customers, as well as developing more suitable solutions for both parties.

### **Internal marketing**

Internal Marketing focuses on organizational culture and values, an important part of the strategy in order to create more dedicated and passionate personnel. This is also a part of organizational strategy that helps to strengthen competitive advantages. By training the staff to achieve better communication skills and understanding of customer's values, KM can improve their position as a service provider. In this industry, the focus on service and personal relationships is most important, since the products are can be interchangeable.

### **Strategy 3 – Strategic alliances**

#### **Selling “The Full Picture”**

A problem this report addresses is to investigate how KM could better offer the “The Full Picture” to their existing customers. KM explained that their products are logically combined, however some of them have a better marketing position than others. In other

words, some of the products do not sell as well as they should, leaving KM short of achieving this goal.

Research has shown that KM's clients did not perceive TFP in the way that KM envisioned. A reoccurring statement was that KM's full package was a horizontal line of products that was relatively autonomous from each other compared to what the clients referred to as a preferred package deal. The trend in our research was that the clients were looking for vertical systems, top to bottom, that had been fully integrated interfaces. As mentioned by multiple interviewees, this especially concerned the differential positioning and reference systems, power, generators and propulsion. If KM could deliver such a vertical package through an alliance with a third party, it would open up the opportunity to tie engine monitoring, engine condition monitoring and other systems more flawlessly into TFP.

### **Introduction for Cooperation**

An alternative for KM is to improve their position in the Canadian market through a strategic alliance with a company serving ships with other components. Through such a measure, the gap between KM's vision of "The Full Picture", and what the clients actually envisioned as a "Full Picture" could vanish.

A system that particularly was mentioned in several interviews, concentrated on the claimed interfacing problems between Dynamic Positioning/Reference systems and Propulsion/Generators. The research team has looked into companies suitable for the role

of alliance partners with KM to provide a starting point in such a process. Out of the existing companies that are getting positive reviews of their packages Siemens appears to be one of the better examples (Siemens, 2009).

## Potential partners

The ideal cooperation for KM is with another company that has similar values and goals, no directly competing products, and an ideal geographic distance. Leading companies in the field of engines and propulsion that could be suitable for KM to cooperate with are:

### MAN Diesel

MAN Diesel is among the top suppliers in the world for medium/large diesel engines, generators, superchargers and CP propellers with 7,000 employees worldwide (MAN Diesel, 2009). According to an estimate by Wärtsilä AS, MAN Diesel has a market share of 24% of the medium and 81% of the low speed engine market in 2008 (Wärtsilä, 2009).

### Wärtsilä AS

Wärtsilä is a direct competitor to MAN Diesel with 18,800 employees' worldwide, net revenue of \$7,26 billion in 2008, and currently aims for a green profile. According to their own estimate they have a market share of 37% of the medium and 15% of the low speed engine markets respectively (Wärtsilä, 2009).

## MAK

Situated in Hamburg, Germany, MAK was acquired by Caterpillar Inc. in 1997 (MAK, 2009) and is considered the third largest supplier of medium speed diesel engines for ships worldwide, with an estimated 23% of the total market share (Wärtsilä, 2009).

All the companies considered could, to varying degrees, fulfill what is recommended for KM. However, Wärtsilä probably is the best potential partner, since they cover both low and medium speed engines in a wide variety of sizes, as well as focusing on environmental sustainability. They have also actively voiced interest in a partnership that can allow them to offer more complete packages to customers.

## “Full Picture” Competitors

A potential partnership towards a vertical full package will put KM in a position where they could compete directly with full solution companies. Three companies that are prominent based on our research are:

### Converteam

Converteam provide customized solutions to convert electrical energy through optimum application of technology. They offer drive and automation packages that interface with and integrate with mechanical systems and naval architecture (Converteam, 2009).

### **Mitsubishi Heavy Industries**

Considered a major competitor by Wärtsilä AS, Mitsubishi Heavy Industries delivers a large range of products from electronic systems to propulsion engines as well as underwater/camera systems that compete directly with KM's products (Mitsubishi, 2009).

### **Siemens Marine Solutions**

Siemens Marine Solutions delivers full electronic system and engine packages for both electronic and diesel engines (Siemens, 2009).

### **Approaching an Alliance**

KM should first set up some short-term goals when approaching an alliance. In this report it is recommended that KM decide on who would be their ideal co-operational partner. Moreover initiate dialog to establish the ground rules in the partnership and also run a trial period are necessary. As a long-term strategy they should look into an alliance where they share technology, service experience and industry knowledge to reach the goal as the best integrated full system in the market.

With regards to Wärtsilä it would lead to an expanded market access as they have a strong presence on all continents. The cooperation can potentially involve optimizing interfacing, simplified service deals or developing new and improved products/services. Ultimately

providing KM with the ability to deliver what their customers in the Canadian market perceive as the “Full Picture”. Cooperation could be limited to the Canadian market first as a trial market, but if successful, can then be applied to other markets, as it is a global market sphere.

Since both companies in the partnership do not have any competitive products, it makes the risk of spillover rather low and allows a movement to the contractual agreements.

The role of trust plays a large part in contractual dealing, where added detailing can increase suspicion and lessen the value of human interaction. There is a correlation between personal trust and corporate trust inside an alliance, which suggests that KM must improve their current after sales service for such an alliance to work successfully.

## Wärtsilä

The industry convention Maritech was held during the time of the teams’ final research. A lower level representative from Wärtsilä Montreal informed the team that even though he could not provide conclusive answers, Wärtsilä considered itself “a broad minded company open for suggestions” and is certain someone will further discuss a proposal for cooperation with KM if requested.

As a long-term strategy, KM could consider to combine respective service offers to their package, creating a presence in most of the relevant areas of the world. A quote from one of

the research interviewees was that the company Lips Waterjets, owned by Wärtsilä could be considered a “*match made in heaven*” if ever allied with KM.

## Conclusion

The conclusion is that the short-term goal for KM should be to establish a presence in Vancouver, Victoria and Seattle through an agent in BC, preferably in Vancouver. A proactive approach should be taken towards building personal relationships that would strengthen established connections while wearing down resistance of potential clients. KM should also look for a partner to provide the actual “Full Picture.”

In a long-term perspective, KM should aim at building their reputation as the number one service provider in the area and the industry. In addition they should also aim at becoming a major provider of integrated systems that can power ships from top to bottom seamlessly. Finally, if successful, be able to work together with their partners to have a presence all over the world.

## Financial Estimates

To establish a successful analysis of the Canadian market, the financial risk of the expansion has to be as clear and as specific as possible. Since KM already has an established position in Canada, this results in a positive impact on our financial model. Some of the major costs of entering an entirely new market can be avoided since a majority of the competence from the office in Halifax can be applied in setting up an office in BC with an agent-representing KM.

### Fixed costs

Establishing agencies and offices in new cities will add fixed costs to the budget. It is recommended to open an office in Vancouver, with an agent handling sales and service in the region. Here are price estimates for setting up an office in downtown Vancouver:

Startup costs:

- Furniture                   \$ 6000
- Office supplies           \$6000
- Decorations               \$1000
- Deposit                     \$1500

## Running costs

Numbers are based on averages in the respective categories:

- Average salary for a sales representative is approximately \$ 50,000 annually (CanadaVisa, 2009.)
- An average office location costs \$ 2500 – 3000 per month (Craigslist, 2009)
- Assumed office supply costs of \$ 100 per month.
- Utilities such as hydro, phone, internet, insurance \$ 150 each month (Novus.ca, 2009 and BC Hydro, 2009)

## Variable costs

For variable costs, trips between Vancouver – Victoria is a major cost posting. A round trip is estimated at \$268 (harbor-air.ca) plus driving expenses and would likely be made between 2 – 5 times per year depending on the progress in getting B.C ferries back as a customer. Apart from that, most of the customers in B.C are located at walking or driving distance from a downtown office.

## Income

Our projection does not include a revenue model for BC as we will mainly focus on rebuilding KM's service image first. But we believe that our suggested strategy will re-open the B.C market, which will in turn provide KM with a more long-term source of income.

## Annual estimated income

### Time-range between upgrades

- Software upgrades are done every year
- Navigation systems are upgraded every 4<sup>th</sup> year
- DP systems are upgraded every 8<sup>th</sup> year.
- Radars are upgraded every 10<sup>th</sup> year

### Estimated upgrades cost for each product

We have estimated a 5 % upgrade coast on KM's products. The 5 % is estimated based on minimum price of KM's products (\$300.000).

### Short-term category

- Less than 12 months.
- New products sold to customers (The full picture, as well as single products).
- Small service projects same year.

### Long-term category

- More than 12 months.
- Full services.

- Future sales.

### Total cost for an agent

Salary	50000
Furniture	6000
Office supplies	6000
Decorations	1000
Deposit	1500
Rent	36000
Utilities	1800
Office supplies	1200
<b>Total</b>	<b>\$103500</b>

<b>Company:</b>	<b>Number Of Vessels</b>	
BC Ferries		40
Seaspan		64
Pacific coast total:		104
Nautisol		3
BC Ferries		
Short-term	\$150,000	Long-term \$450,000
Seaspan		
Short-term	\$90,000	Long-term \$870,000
Nautisol		
Short-term	\$1,200,000	Long-term \$600,000
	<b>Total: \$1,440,000</b>	<b>\$1,923,000</b>
Without Nautisol as a customer		
Short-term	\$240,000	Long-term \$1,320,000
Without BC Ferries and Nautisol as customers:		
Short-term	\$90,000	Long-term \$870,000
Without BC Ferries as a customer:		
Short-term	\$1,290,000	Long-term \$1,470,000

These figures are based on a minimum income of placing an agent in Vancouver. The cost of this is estimated to be \$103,000 annually.

- If KM achieves both Nautisol and BC Ferries as customers, the estimated income of the first year will be \$1,440,000.
- If KM achieves BC Ferries back, but does not sign Nautisol as a customer. The income is estimated to be \$240,000.
- If KM fails with both Nautisol and BC Ferries as a customer they will earn \$90,000.

- If KM gets Nautisol, but loose BC Ferries. They will have an estimated income of \$1.290000.

## Conclusion & Recommendations

This report has completely been developed from the defined research problem:

*“How can Kongsberg Maritime position their products better to be able to provide their customers with the Full Picture.”*

For the report to provide a correct answer of the research problem, information was collected from various sources, including, interviews, and electronic, printed and academic sources. Combined with relevant theories from international marketing, KM was analyzed for the topic at hand.

After analyzing the collected data, a SWOT analysis was conducted to determine KM's goals and to specify and determine the strategic problem definition:

*“How can Kongsberg Maritime improve their current position in the industry, in addition to conquer new markets, resulting in KM offering “the Full Picture.”*

The SPD was further defined through a combination of key success factor, firm specific advantages and a GAP analysis.

The report then focuses on the various courses of action that are proposed to KM. The recommended strategy for KM is establishing a strategic alliance with a company who will supplement KM's product line with mechanical products, which can result in KM offering their customers their vision of the "Full Picture." The company that is found to suit KM best is Wärtsilä. The company is of substantial size, with international experience and top of the line mechanical products. This cooperation could be limited to the Canadian market at first, and if successful, be implemented as a part of KM's worldwide solution.

For KM to succeed with the proposed strategy, there are several key aspects that will require KM's attention. The following is recommended:

The research was performed with the goal of finding a solution to offer what KM calls "The Full Picture". During the analysis of the material, it became evident that the underlying concerns among customers were KM's customer support and follow up routines. Several strategies were considered, however we recommend this three-step strategy to bring KM to their desired position in a effective manner. The strategy entitles first establishing a presence in Vancouver and the bordering cities through an agent, combined with a pro-active approach to the customers, with frequent visits and follow-ups. This addresses the most common client concerns.

Secondly it will be recommended to make a service statement inside the company aimed at improving the service vision and communication both outwards and between KM branches. Thirdly KM should start looking for a potential partner in the market of generators, propulsion and propellers in order to address the "The Full Picture" goal. As a

part of step 3 in the strategy includes the company profile of Wärtsilä, a company with a suitable profile for a potential partnership. Wärtsilä's product line is a perfect fit, and they have also mentioned interest in partnering up with other companies.

## Discussion

This report has been developed by using resources available the determined timeframe. The following section is the criticism as well as suggestions for further research for KM.

## Criticism

This report had limitations regarding the process of gathering data. Several barriers have occurred during the making of this report, however, these have been overcome.

Information needed was not available through traditional resources, the research team had to meet various employees in the industry. Data from KM's customers was time consuming, but apprehended while KM's competitors informed that the inquiries were too sensitive.

Various shipyards in the Vancouver and Victoria area were contacted, however, none of these provided any response.

Due to the geographical dimension of Canada, the ability to reach all of KM's customers was challenging. This made parts of the report rely on phone and email interviews. This caused

problems in the sense of short answers and difficulties reaching the appropriate employees.

However, KM's customers located in BC, were more than willing to meet and provided useful and in depth information to this report.

### **Suggestions for further studies**

This report has conducted research essential for the task at hand, and for the completeness of the report. The alternatives for further studies are subjects that KM can look into and learn more about.

### **Pacific coast market**

- Look into the pacific coast market and see if there is potential for further expansion to the US. There are a few important ports like Seattle and San Francisco on the west coast with traffic to and from Asia.

### **Strategic alliance**

- Look into the option of an alliance with a manufacturer in the pacific coast to improve the service to the customers based on the Pacific coast. Look into options regarding who the perfect alliance would be and the costs of going into an alliance.

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## Appendix

### Appendix 1

#### Secunda Marine - Interview with Dwayne Murphy

Mr. Murphy started off by explaining purchasing routines and his view regarding KM's products. Usually KM is familiar with their equipment on their fleet, and has an understanding of Secunda's needs. KM usually provides recommendations on orders when performing repairs or maintenance. Regarding a few specific products, Secunda searches for needed products at least 3 to 4 times a week. During this process they usually consider previous orders from their current vendor.

When searching for new vendors, the final decision is based on company reputation, price and delivery time. If the products are not from the original manufacturer, Secunda normally requires three offers. Secunda does this by sending out RFQ's to three separate distributors, and one of these is finally chosen.

Mr. Murphy's views on KM's products, is that they have state of the art technology, and compete well in the industry. Most of Secunda's purchases from KM are based mainly on dynamic positioning and joystick systems. He stated that there are no missing links in KM's product line.

Mr. Murphy informs that Secunda's previous experiences with KM have been satisfactory; especially their service repairs people who were well trained.

### **Canship Ugland- Correspondance with Lloyd Button & Hans Ivar Vigen**

Correspondence with both Mr. Button and Mr. Vigen was conducted by email. The group felt that Mr. Button's response was vague and rather weak, and therefore contacted Mr. Vigen to provide deeper insight. They informed that Canship Ugland has known KM for more than 25 years and are generally satisfied with their experience with KM. We are informed that they feel that KM delivers good and reliable products and buy spare parts continuously. Mr. Vigen explained that Canship Ugland is currently using numerous products from KM. However, their control systems are currently provided from Rolls Royce, which could be provided from KM in the future. Canship Ugland started their business with KM in 1980 when they started using dynamic positioning systems.

Hans Ivar Vigen & Lloyd Button agree that they are satisfied with the current service provided from KM, however, they do feel KM are expensive.

### **Teekay - Interview with Terje Rusdal, Director of Tendering & Projects and Per Abrahamsen, Site Manager**

When interviewing Mr. Rusdal and Mr. Abrahamsen, two representatives from Teekay's office in Stavanger, Norway were present on conference call. This section is therefore based

on comments from four representatives from Teekay.

Our team was told that Teekay chose vendors based on “habit” and previous experience. To be considered as a vendor, your company has to be on “makers list”. This is a list of vendors that can supply products for new builds and rebuilds. Usually the shipyard will consider the options and make a recommendation to the ship-owner. The purchases are usually made a year in advance.

Teekay found follow-up from the vendor especially important. Fewer vendors were also preferred, since fewer points of contact leads to better efficiency, product package deals and product compatibility.

When asking how purchases at Teekay were done, they said that the shipyard gathers offers from vendors autonomously, offering a minimum of three approved vendors. Extra vendors can be provided if requested, but this costs more. The shipyard arranges transportation of the products, usually by train, ship or trailers. If a ship needs an emergency repair, products are transported by plane to the requested location. The team was told that Teekay has had positive experiences with KM regarding transportation of products, and deliveries were always on time. Teekay orders products through their offices in Stavanger, Houston, Glasgow and Singapore.

Teekay uses most of KM’s product line except camera systems and altimeters. The product line covers most of Teekay’s needs, however they suggested that KM could improve the dynamic positioning interface between thruster controls and the engine. Converttime was

mentioned as a competitor that provided this solution.

When enquiring a response on personal experience with KM products and service, Teekay mentioned that KM's dynamic positioning and reference systems were "world class", and that they offer 10 years of support after discontinuing a product line. Teekay generally expressed that KM does everything in their power to satisfy their needs, and are good at following up their customers.

However they mentioned some radar problems. KM has their logo on sub-firms radar and it malfunctions. These radars are currently being phased out from Teekay's vessels. Another suggested area of improvement was that the service experience was poorer outside the North Sea basin than within. Teekay mentioned that KM could improve internal communication within regional offices in Norway. A final request from Teekay was that KM could improve their logistics of spare parts throughout the world, especially in Brazil, possibly by increasing their storage capacity at these locations.

### **Seaspan -Interview with Raj Dewan, Technical Manager**

Seaspan is one of KM's largest customers in Canada who are located in Vancouver. The team had a meeting with Raj Dewan, who is the Manager of Seaspan, with focus on the technical aspects of the company.

Raj informed that Seaspan has numerous ways of finding products. However, a key aspect was experience. Raj explained that Seaspan would often decide vendors from personal experience with equipment. But in addition, Seaspan also subscribes to technical magazines, surfs the Internet and attends trade shows. Another way they found products was through fellow peers, so called word of mouth and of course traditional marketing.

When Seaspan buys new equipment, it is often because they are replacing damaged goods or buying parts for new ships. Their policy when buying products is to find good, reliable products, hopefully with a good volume discount. Seaspan keeps their fleets uniform; they feel this makes it easier and cheaper to transfer crew from ship to ship.

When Seaspan chooses a vendor, the decision is often based on a combination of experience, vendor's history, price, quality, after sales service and maybe the most important relationship. Raj stresses the fact that a good fundamental relationship between vendor and customer is highly appreciated in Seaspan. Seaspan often contacted what they perceived as the best vendor in the market and the vendor that they feel they have the best relationship and narrowed it down to which vendor they feel provides the best product and service.

The products Seaspan currently see as essential from KM are marine automation, navigation, cluster control and voyage data recorders. Main engine, remote controls and alarm monitoring are products that Seaspan could in the future see provided to them from KM. Seaspan acknowledges that they feel Kongsberg should look into delivering mechanical products in addition to their electronics.

Seaspan currently use marine electronics provided from KM because they have worked with KM before, had good experience and experienced good after sales service.

Seaspan are currently satisfied with KM's service, the only concerns Raj informs about is that KM have problems when dealing in the Far East, especially regarding the logistics. He also feels that KM is slightly expensive and that KM keeps an impersonal relationship with Seaspan. Raj feels that KM has room to improve on operating vessels. He recommends that KM deal more with their customers on a frequent basis, at least once a year.

### **BC Ferries - Interview with Mark Collins, Vice President Engineering**

Mark Collins explained that the most important thing when selecting among the vendors was their own previous experience, however price and delivery time were also important criteria. BC ferries has \$ 3,5 billion dollars of assets, and fewer vendors are easier to deal with. Further he said that potential vendors should be on the "equipment vendor list", and usually the top two of these are selected. The contracts with vendors are signed two years in advance. The longevity of the provider is very important, since there will be an after sales service period of the vessels for 20+ years.

BC Ferries currently have has 40 ships, which are taken out for service 3 weeks every 4<sup>th</sup> year. Mr. Collins emphasized the importance on a decent relationship with the vendor to get you through bad times, not if, but when something breaks down a ferry.

In a purchase process, engineers determine the need for products, while supply handles ordering of these products. Regarding expensive purchases, BC Ferries issues a competitive request for proposals. The products are usually delivered from Europe, but also from the US, and arrive in containers in Richmond. BC Ferries uses marine electronics from SAM electronics, only one vessel is equipped with products from KM, this being “Northern Adventure”. The vessel came with automation systems, VDR and fire detection systems pre-installed.

When asking Mr. Collins about KM, he stated that they manufacture first class equipment. However BC Ferries has experienced some service issues. When equipment needed repairs, BC Ferries had to put pressure on KM in order for a technician to show up. The technician showed up after three weeks, not urgent enough. Mr. Collins stated that he experienced KM as a company with “no can do” attitude, and mentioned Sperry as a partner with excellent service.

Further on, he went into more detail. When the VDR needed annual service, KM would not train BC ferries’ service team to do this, since they have a habit of maintaining their own fleet, without depending on third parties. Last time, VDR was purchased from Nova Scotia based Rutters who had a “can do” attitude. Rutter provided the software CD for the VDR upon request; it took KM a year to do this. Mr. Collins suggested that KM should become

more adaptable to BC Ferries way of doing things, and not “the Kongsberg way” if they wished to do business with them in the future.

When discussing vendors in general with Mr. Collins, he explained that some vendors tend to make mistakes with orders, while other vendors always get it right. Regarding service he explained that there was a discussion of responsibility when equipment breaks, and a further question of money and payment. Since so many people are affected when BC Ferries are taken out of service, including the passengers and the provincial government of BC, BC Ferries primary concern is that the ferry is repaired ASAP, and the discussion on payment and responsibility will be taken afterwards.

When asking about financing on purchases, Mr. Collins explained that down payments are usually 15-20% in advance, 75% within shipping, and 5% after equipment is installed and approved. BC Ferries has bond-issues, and needs to raise \$150'-200' a year to upgrade the fleet.

### **Nautisol - Interview with Don Stein, CEO**

Don Stein is founder of the new Victoria based company Nautisol. Mr. Stein informed the team that he will be soon finished with establishing the financial contracts needed to further develop his goal of developing and launching high speed passenger ferry service between Victoria and Vancouver.

When asked if he had decided which vendor would provide his ferries with marine electronics, Don Stein explained that there he would only consider KM's products. Mr. Stein explained further that he had worked with KM before and was highly satisfied with his previous experiences. Lastly he added that cooperation between KM and Lips Waterjets would be considered a "match made in heaven," for Don Stein and Nautisol.

## **Appendix 2**

### **Sperry Marine – Email Q & A with Alan Aitken, Regional Manager**

Q: What kind of products does Sperry Marine offer?

A: We are a manufacturer of marine navigation equipment for the commercial shipping industry and various navies of the world. Our products are geared towards larger vessels and we specialize in a number of areas, most notably gyrocompasses and radars. Take a look at our website for more information on our products and history.

Q: Which is the most important market? Are there any new developments with in marine electronics?

A: Our business is pretty much evenly split between the commercial sector and the military, although current economic conditions have hurt some areas of the commercial sector, specifically new vessel construction. The most notable new development in the industry is a move

towards "multi function displays" whereby one piece of equipment is now able to do many things. In our case we have introduced Visionmaster FT Totalwatch which functions as Radar, Chart Radar, ECDIS, as well as many other things. Lots of good information on our website.

Q: Are your products standardized or customized?

A: Our full product line is on the website. Ninety nine percent of our product is standardized however we do offer custom steering stands and bridge configurations.

Q: Which are the most important shipping ports in North America?

A: In Canada, Halifax, Montreal, and Vancouver. In the US, Los Angeles, San Diego, Seattle, Miami, New York, Boston and there may be a few on the Great Lakes.

Q: Who are your most important customers in North America?

A: US Navy, US Coast Guard, Chevron, Maersk, a number of cruise Lines, Canadian and US Coast Guard, Canadian Navy,

Q: How does customers finance purchases from Sperry?

A: Pretty much everything is paid within 30-90 days from invoice

date although very large projects such as new ship construction have what are called "milestone payments" whereby money is released after various stages of the total project have been completed, essentially a part payment.

Q: What are Sperry's strongest selling points in this business?

A: Product quality, company ethics, and a worldwide service network.

Q: Why should customers choose Sperry as vendor?

A: Probably because of the three items above. Sperry is well known and has an excellent reputation within the industry.

Q: Have you experienced a lower demand for your products after the downturn in the economy?

A: So far the downturn only seems to be hurting new construction, retrofit work continues to be strong.

Q: How often does shipping companies perform maintenance done on their electronic equipment?

A: There is routine maintenance and emergency repairs. Some routine maintenance is mandated by regulatory agencies, such as inspections of

VDR's, Voyage Data Recorders. As with cars, some vessels are in better states of repair than others. Some are using junk equipment and some are using the best available.

## Canadian Coast Guard – Telephone Interview with Sam Ryan, Manager Electronics and Informatics

The interview with Sam Ryan was conducted by phone. Mr. Ryan explained from the beginning that his answers would be limited since some information is considered too sensitive for the Canadian Coastguard to expose. When speaking with Mr. Ryan, he explained that the Canadian Coast Guard has similar procedures as KM's current customers when they are searching for vendors of marine electronics.

He informed that The CC buys new equipment if their current equipment is damaged or needs to be changed due to meet regulatory demands. A combination of technical and financial attributes would be two criteria's that the CC weigh when choosing a vendor.

Mr. Ryan stated that he know about KM and knew of their reputation. They keep their fleet uniformed to make it easier for crew to work on the various ships. Which also means that if KM's market share would increase greatly if chosen as a new vendor of marine electronics by the CC.

A criterion that differentiates the CC from KM's current customers is that the CC prefer product with "civilian application," which basically means that products applicable for the civilian public would be highly considered.

He also stated that for new vendors to establish themselves in the CC, traditional marketing would be considered normal. Face to face meetings with detailed information would make it easier for the CC to switch vendors.

## Appendix 3

# The Nine Strategic Windows

(Solberg, 1997)

Internationalization Preparedness	High	Enter new business	Prepare for globalization	Strengthen your global position
	Middle	Consolidate your export markets	Consider expansion in international markets	Seek global alliances
	Low	Stay at home	Seek niches in international markets	Prepare for a buy-out
		Low	Middle	High
		Industry Globality		

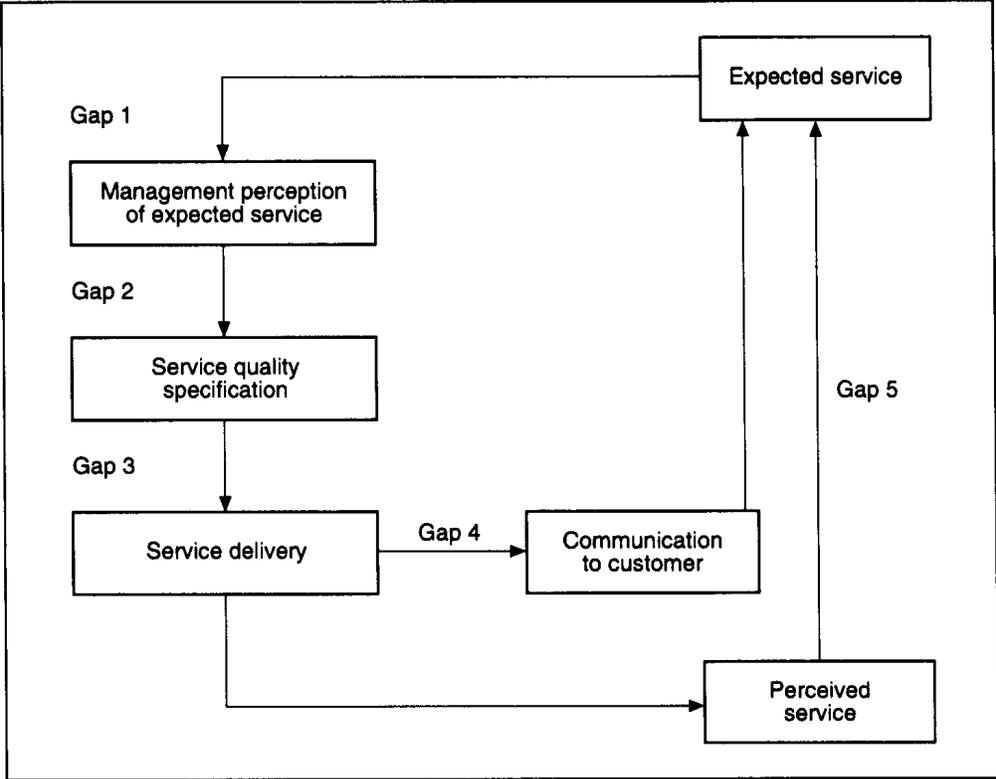
## Appendix 4

### Porter`s five forces



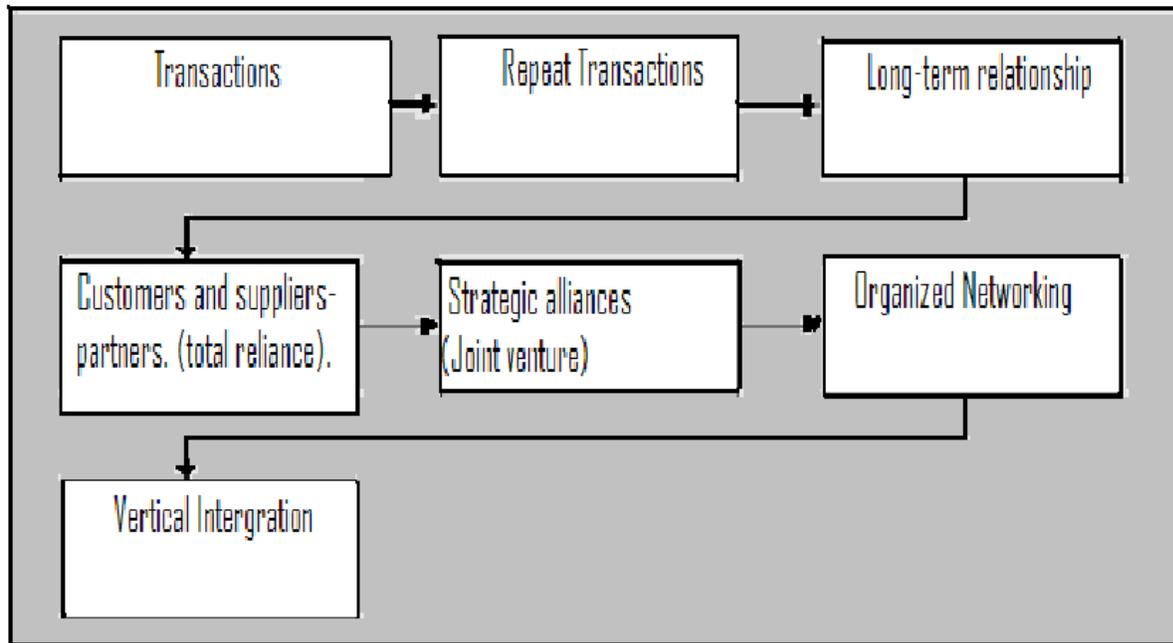
Appendix 5

GAP Service Model



## Appendix 6

### The Business Transaction Model



## Contacts

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