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Public-Private Partnership Adaptation into Private Sector: Case Boot Business Model in Solution Business

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Introduction

- Although Public-private partnerships (including BOOT) are quite an old way to construct public-sector infrastructure projects (Grimsey and Lewis, 2002), especially in the context of developing countries (Kumaraswamy and Zhang, 2001), it seems that it has not been elaborated in B2B context.
- Increased emphasis on the role of service in B2B motivated by steadier revenue flows but also customers' requests
- Solution provider – a new trend or a true supplier type?
 - Fulfilling the gaps between individual projects
 - Providing capacity instead of installations – customers concentrate increasingly on their core competencies and thus demand more complete offerings
 - Closer customer relationships - collaboration in solving customers' problems
- But managing solution business is challenging (Tuli, Kohli and Bharadwaj, 2007)
 - How to construct a solution?
 - How to convince the customers of the value of the solution?

Research questions & methodology

- Research purpose
 - To provide universal knowledge about BOOT business model
 - To create a settlement of the advantages, disadvantages and risks related to BOOT business model
 - To create a description of the network needed in BOOT business model
- Accordingly, the research questions are
 1. What is BOOT in the B2B context
 2. What are the advantages, disadvantages and risks related to BOOT
 3. What kind of temporary network is needed in the implementation of a BOOT contract
- Explorative case study
 - A single case study with abductive research logic
 - 7 theme interviews & secondary data
 - Based on a Master's thesis study

Case company characteristics

- Equipment manufacturer
- Develops, designs, manufactures and supplies industrial installations and service
- The typical lifespan for the case company's equipment is between 15 and 25 years
- Aftermarket service has a major role in the company's operations
- The company has actively developed its offering towards more service-oriented approach
- Key facts
 - Global player with presence all over the world
 - Major customer groups are mining & metallurgical industry and chemical process industry
 - Net sales 160 million euros in 2007
 - Personnel in 2007 was around 500

Theoretical background

■ Project business

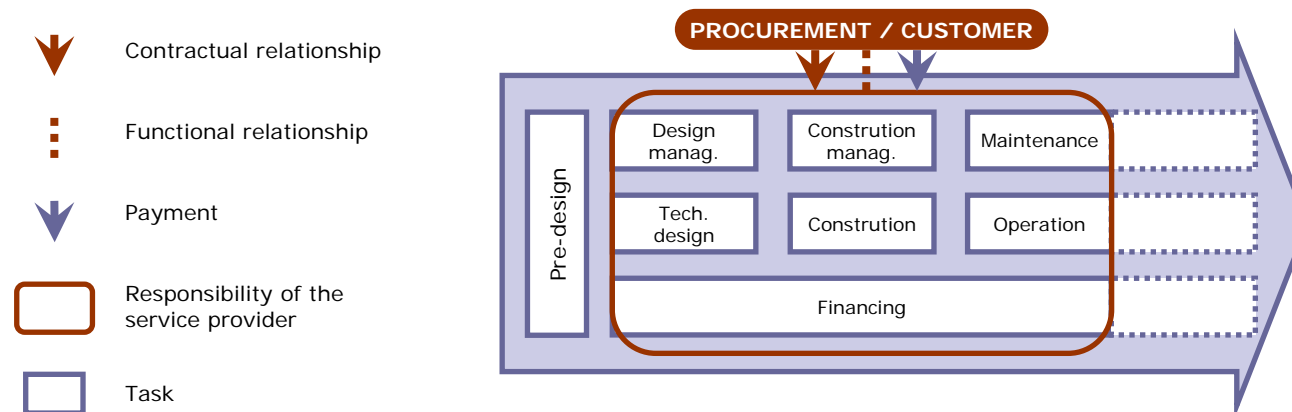
- Project management: "Project is a temporary organization" (Turner and Müller, 2003). "
- Project marketing: "A complex transaction concerning a package of products, services and works, designed specifically to create capital assets that produce benefits for the buyer over an extended period of time" (Cova & Holstius 1993)
- Project business is largely influenced by discontinuity, uniqueness and complexity

■ Solution marketing

- "Unique combination of numerous elements which will contribute to producing value for the customer" (Stremersch, Wuyts & Frambach 2001)
- There is an ongoing change from a product orientation to a solution orientation
- In a solution the scope, scale and degree of integration between elements in an offer are at high level and reach over traditional project outlines
- Anticipation and construction of customer needs & mobilization of pertinent actors
- Emergence of solution marketing
 - Outsourcing trend → focus on core competencies
 - Globalization → more competition → new ways to increase profits

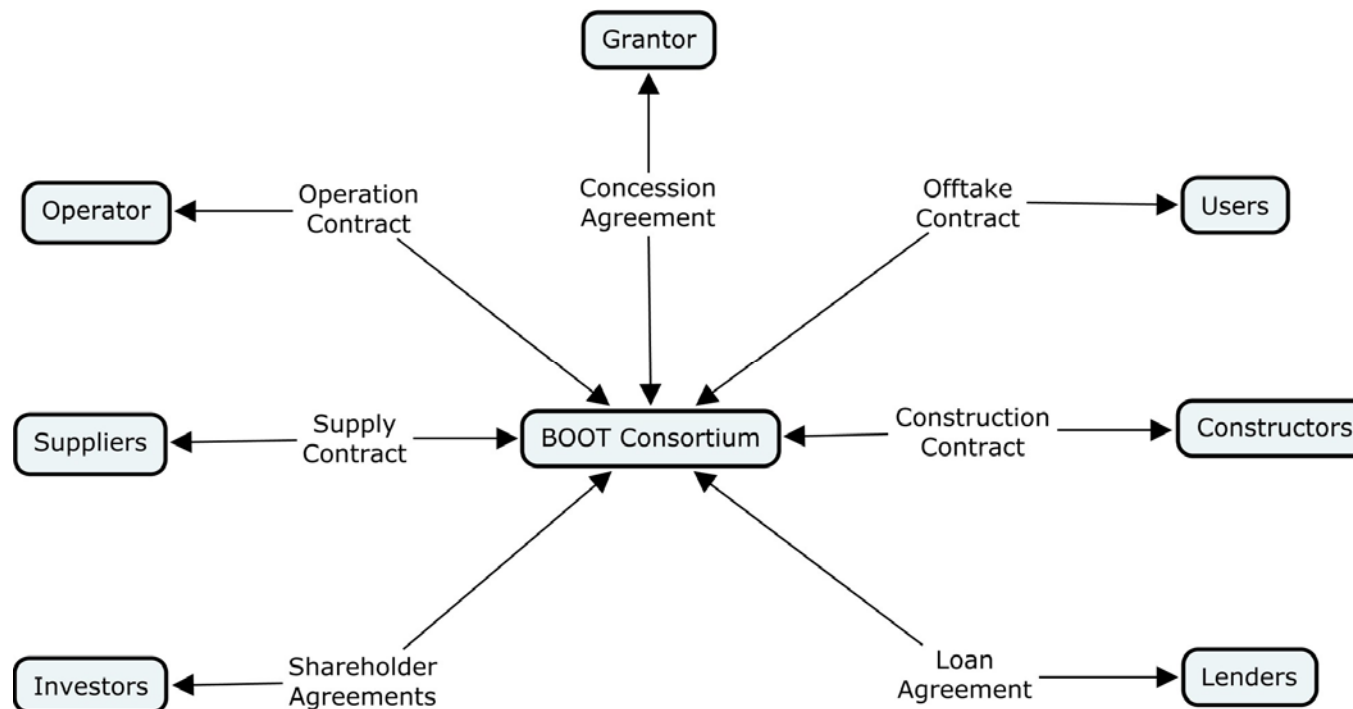
BOOT business model 1/2

- Build-Own-Operate-Transfer
- A concession agreement between a grantor and an operator which includes responsibility to design, finance, build, own, operate, maintain, and transfer → a complete solution (Koppinen & Lahdenperä 2004)



BOOT business model 2/2

- Typically the provider of BOOT solution is a consortium made out of contractors and operators (Woodward 1995)

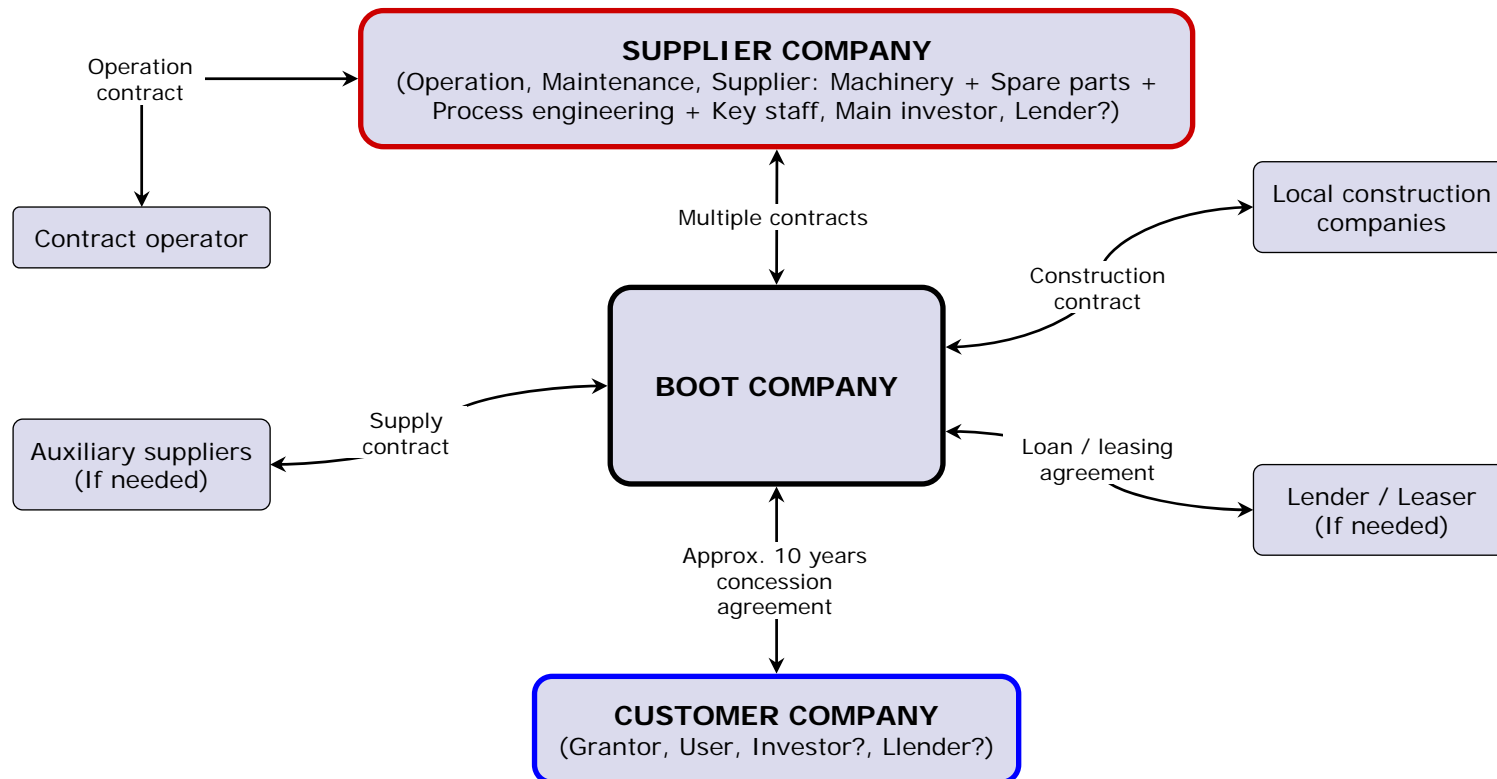


Findings – BOOT advantages, disadvantages and risks

- BOOT compared to traditional project business
 - Advantages can be classified under the following categorization: responding to client demand, profitability, better relationship to the client, and financing
 - Disadvantages can be classified under the following categorization: need of resources and lack of expertise
 - Risks can be classified under the following categorization: political, constructional, operational, financial, and legal
- In certain details the empirical research adds to the existing theories, in some it supports the theory but remains less complete.
- BOOT helps
 - To avoid discontinuity of project business (D-U-C model)
 - To differentiate
 - To search for new competitive advantages
 - To increase profit margins
 - To increase revenue
 - To answer to customer demand

Findings – BOOT network

- What kind of network of actors does the case company need for implementing BOOT business model?



Conclusions

- The supplier seems to benefit from the BOOT model by creating a closer link to the customer and stronger customer relationship
- The benefits include also increased predictability of needed resources, increased profitability in the form of solution offering, new customer prospects through financing options, and off-balance-sheet financing by 3rd party financier involvement.
- There are many risks relating to financial aspect, supplier capabilities and customer actions as well as other BOOT network members.
- Managerial implications
 - The BOOT business model could generate better profit for the supplier
 - However, the risks might be too extensive to be covered by the profits
 - Intensive internal cooperation is needed within the supplier company when selling BOOT solutions
 - Collaboration with the customer and other network members must also be intensive
 - The selection of the BOOT network members is crucial for the project to success
- Further research
 - Thorough comparison of leasing and loan methods for different applications
 - More suitable business models than BOOT to deliver solutions, especially from the financing side