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**A Conceptual Exploration into “Value Co-Creation”  
in the Context of Industrial Buyer-Seller Relationships**

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## 1. Introduction

The “value” concept is widely used in marketing literature. Most often it is understood to imply economic gain as through Porter’s classical definition: “*The amount buyers are willing to pay for what a firm provides them*” (Porter, 1985). However, there are competing interpretations to this narrow view, which dates back to the industrial era. Monetary benefit is obviously the “raison d’être” for actors in business, but when exploring the value concept in the context of industrial buyer-seller relations there is more to it than the direct monetary aspects. In 1985 when Porter gave his definition the “dominant buyer-seller paradigm” was a bit different than today. There were buying centres with the task of buying as efficiently as possible. The relationship with the supplier was adversarial. Today companies are acting in networks of relationships where the interaction between buyer and seller is increasingly characterized by partnership and cooperation. (Kothandaraman & Wilson, 2001, p 380)

The underlying logic of Industrial Network Theory is that networks are an efficient form of organising business activities, that there is something to gain in operating in a network of relationships instead of being a “lonely rider” on the market. Within this tradition a relationship is defined as: “*mutually oriented interaction between two reciprocally committed parties*” (Håkansson & Snehota, 1995). Relationships are characterized by a process over time and interdependence between companies. Activities and resources of the two involved companies are interlocked and together they produce something that one company could not achieve alone. This is why interaction between companies in industrial markets is seen as relationships (Ibid).

This paper discusses the idea of value and value co-creation in a dyad-network context (Halinen & Törnroos, 2002). The interest of the research of which this paper is a part is to explore how the parties in a buyer-seller relationship perceive value co-creation. In other words how they perceive the value that has been created together with the other party through business interaction during a certain period of time.

When talking about value in a business context the emphasis traditionally has been on value for the customer - how the supplier can create “superior value” for its customers. However, recently there has been a growing interest in how and what kind of value is created for the supplier (Walter, et.al, 2001, Ramirez, 1999). Ramirez (1999) has provided an alternative view on value to the pure industrial one. He has introduced the concept; “value co-production”. In this alternative view the parties in a business relation are engaged in mutual value creation and re-creation. (p. 50) In industrial network theory developed by the IMP Group during the last 20 years one of the underlying assumptions are that **relationships exist** and that there are **more than one active party** in a relationship. From this logic follows that when we are applying Industrial Network Theory on a buyer-seller (dyadic) relationship there exists a relationship where two parties are active. When discussing value in such a context it is then reasonable to assume that there are two parties actively involved in creating value through and in that relationship. There is not just one party creating value and the other consuming it, but two active parties **co-creating value**. This paper is an attempt to explore and understand the concept of value and further elaborate into the concept; “value co-creation”.

## **2. The Aim and Structure in the Paper**

The aim of this paper is to sort out the concepts: value and value co-creation for a doctoral dissertation on value co-creation in a networked world, where partnerships, alliances and close co-operation between buyer and seller companies is the dominant trend in business.

More specifically the aim of this paper is to explore the roots of the value concept and look at how the concept has been used in industrial marketing literature with a focus on the IMP tradition. There will be a further discussion of the idea of value co-creation in industrial buyer-seller relationships. Then there will be a presentation of the suggested empirical study aiming at exploring value co-creation in a specific buyer-seller dyad through in-depth interviews with representatives both from the buyer and the seller sides. Finally some remarks and conclusions will be made and

some suggestions for topics on which the author would wish some constructive criticism for.

As a limitation of this paper should be mentioned that in this paper the understanding of “value” as “values” in the meaning of ethical and moral constructs are not considered. These highly interesting topics are left out simply because of another focus of this study. At this stage the moral and ethical sides of value are left out, but will be considered, if they are brought up and discussed by the respondents during the interviews when conducting the empirical part of the study.

### **3. The “Value” Concept – its Different Meanings and Roots**

The traditional view on value has its roots in the industrial assembly lines. Here the concept is understood as value that can be calculated with a single metric, which is the monetary one. Value got its measurable connotation in the 13<sup>th</sup> century where it was used to mean what something was worth when traded or exchanged with something. In the mid 16<sup>th</sup> century value was directly associated with a measurable unit which by the 17<sup>th</sup> century came to be known as the price for something. In the 18<sup>th</sup> century the idea of value as something subjective was introduced and in the 19<sup>th</sup> century value was seen as being based on personal judgement (Ramirez, 1999, p 50).

In business studies several different schools of thought have used the value construct. Porter is using the value chain framework, where the economic implications of different activities are studied at the firm level (Porter, 1985). Schumpeter discussed value creation through technological change and innovation. This view sees value as being created through the introduction of new goods or production methods, creation of new markets, discovering of new supply sources and reorganisation (Schumpeter, 1934). The Resource Based View of the Firm (RBV) looks at the resources possessed by the firm and argues that a firm’s resources only are valuable if they can reduce costs or increase revenues compared to the situation where the firm wouldn’t possess these resources (Barney, 1997). In studies on Strategic Networks the value aspect has been studied in several different ways. Granovetter (1973), Freeman (1979) and Gulati, Nohria and Zaher (2000) have focused on the implications of a network

structure for value creation. They have used terms such as network density and centrality. Lorenzoni and Lipparini (1999) have been looking at governance mechanisms for value creation. Gulati (1999, 2000) has been studying the importance of resources and capabilities for value creation. He has also been looking at value creation through access to valuable information, markets and technologies and enhanced transaction efficiency and improved coordination between firms. Katz and Shapiro (1985) and Shapiro and Varian (1999) argue that networks offer value in the form of shared risk and economies of scale and scope. Dyer and Singh (1998), Dyer & Nobeoka (2000) and Anand & Kanna (2000) have been looking at aspects related to networks and the possibility for knowledge sharing and learning (Amit & Zott, 2001). Although value has been studied quite extensively within the Strategic Networks School, there have not been many empirical studies where perceptions of value would have been studied from both the supplier and the customer sides. This study will contribute to this shortcoming and hopefully give some new ideas and insights on how the parties perceive value and how it is co-created in the relationship through business interaction.

#### **4. Definitions on Value**

A commonly used definition of the “value” construct is: *“A ratio of benefits received versus burdens endured by the customer”* (Ulaga, 2001 p. 318). Another definition provided by Anderson et al (1993) goes; *“the perceived worth in monetary units of the set of economic, technical, service and social benefits received by the customer firm in exchange for the price paid for a product offering, taking into consideration the available suppliers’ offerings and prices.* (in Kothandaraman and Wilson, 2001, p 380). As from the above definitions can be seen “value” in a buyer-seller context is often thought of and understood as a) direct monetary value and b) something that the customer is expecting to get. However, there is a growing interest in discussing other kinds of value, besides the monetary one, and also a growing awareness of the fact that value is not produced by one party and consumed by the other, but that both parties are expecting to get value out of the relationship.

One definition that doesn't regard purely monetary value is provided by Flint et.al (1997) and Biong et.al (1997). According to them: "*Value can be regarded as a trade-off between benefits and sacrifices*" (Walter et.al 2001, p 366). This definition does not include the idea of value being a measurable unit such as money, but it includes the idea of value being a subjective perception of what has been gained when weighted towards what has been given away or sacrificed.

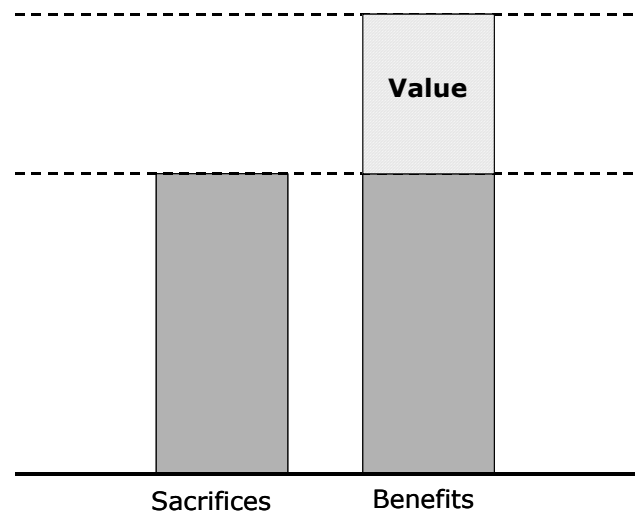


Figure: An illustration of value as the difference between benefits and sacrifices

In a paper on value creation in buyer-seller relationships Walter et.al (2001) are looking at the value concept from the supplier's perspective. They are using "functions of a customer relationship" as a way to categorize how the supplier perceives value. They are talking about direct and indirect functions and mention that a third type of functions, namely social functions, could be added to make the picture more complete. By direct functions of a customer relationship they mean: the profit function, the volume function and the safeguard function. Indirect functions are: the innovation function, the market function, scout function and the access function. They argue that the "supplier- perceived value" consists of the above-mentioned functions of a customer relationship (p. 369). Wilson et.al (1994, 1995) are suggesting that value can be understood as competence, market position and social rewards (Wilson et.al, 1994, 1995, Biong et al. 1997).

Stemming from the above-mentioned different categorisations and types of understanding value there seems to emerge three distinct categories of value. One category could be labelled **communicational value**. Things such as reputation, reference value, market position, access and brand value fit into this category. The perhaps most obvious category is the category of **monetary value**, where profit, volume and safeguard would fit in. A third category could be labelled **competence related value**, where technical competence, market intelligence, innovation and other kinds of learning fit in.

## 5. From Value to Value-Co Creation

The European based Industrial Network Theory developed by the IMP-Group during the last 20 years lays on the basic assumptions that **relationships exist** and that there are **at least two active parties in a relationship** (Håkansson, 2002). This view differs from the relationship marketing “school” where relationships are perceived to be *created*.

There is a great amount of literature on networks and how companies should create partnerships with partners (other suppliers) that complement their offering. By joining forces they can offer the customer something of superior value when compared with competitors on the market. This increases their chances to keep the business. These kinds of networks of partnerships have been referred to by several different names by different scholars. They have been called supply chains, market networks, value chains, value nets or value creating networks. (Kothandaraman and Wilson, 2001, p. 384). What these have in common is that they focus on suppliers joining forces to offer the customer something. The view that is taken in this paper where relationships with customers are the ones where value is co-created is somewhat different and hasn't received as much attention yet. Ramirez (1999) and Ulaga (2001) have acknowledged the thought of value being produced jointly (co-created) by the parties in a business relationship.

Ulaga (2001) is using the term “customer value” and has three different perspectives on the concept; the “*buyer perspective*”, “*the supplier perspective*” and “*the buyer-seller perspective*”. The buyer perspective is dealing with issues like how the

supplier can create offerings that are of superior value to the customer and thus keep the business in increasingly competitive markets. The supplier perspective looks at customers as key assets of the firm. The buyer-seller perspective is about how buyers and sellers can create value jointly through relationships, partnering and alliances (p 316).

Ramirez (1999) has introduced the idea of “*value co-production*” as opposed to the traditional industrial idea of *value creation*. He sees the role of the customer to be one of the main differences between the two schools. In industrial value creation, customers were seen as “*destroying the value which producers had created for them*” while in the alternative view customers are actively co-creating and re-creating value both with their suppliers and their own customers. (p. 51). Normann and Ramirez (1993a 1994) have termed the link between the customer and the supplier as “**offerings**”. The offering is of value if it provides “**relieving value**” or “**enabling value**”. By “relieving value” is understood the labour saving value that the offering provides while “enabling value” is everything that helps the other party to work more efficiently, effectively, easily, safely and elegantly. Offerings consist of five elements: goods, services, risk sharing and risk taking, access to or use of systems or infrastructure and information. Normann and Ramirez (1993a, 1994) use the term “value constellations” where the unit of analysis is the interaction or offering, not the organization or network (Ramirez 1999, p 58).

Applying the IMP logic of *two active parties* it is reasonable to assume that when we study dyadic business relations with a buyer and a seller, both parties are actively creating value through interaction in the relationship. This makes it justifiable to use the concept of value-co-creation and by this understand the aspects that are perceived to be valuable by the parties interacting in a relationships in a business context.

## 6. The Research Model

After reviewing the literature on value and value co-creation and working both in studying and developing business relationships between buyer and seller for some time. The idea that value can and should be understood in many more ways than just

direct monetary has emerged. Value can be directly related to money, in other words monetary value. Value can also be related to communication in the form of reputation, reference value, access, market position and so on. Therefore the category of communicational value is suggested. Learning in a business relationship is also valuable. Learning can be related to technical competence, market intelligence or other kinds of innovation and learning. Therefore the third category of competence related value is suggested.

Layers of substance "Value"	Resource Layer	Actor Layer		Activity Layer
		Individual	Bus. unit	
<b>Competence related</b>				
<b>Communicational</b>				
<b>Monetary</b>				

Figure 2: The suggested matrix for analysing “perceived value”

The layers of substance of a business relationship are serving as a tool for analysing and organizing the different types of value into different levels within a relationship. Håkansson and Snehota (1995) are using these layers of substance in the standard industrial networks model for analysing business relationships. The layers are: the resource layer, the actor layer and the activity layer.

### **The Resource Layer**

A company is built up of its resources. Resources are buildings, locations, infrastructure, manpower, equipment, know-how and image just to mention some of the most important and obvious. Within a relationship some of these resources can be tied together. Usually the needed resources of the two parties are of different types and therefore there are expectations of getting access to different kinds of resources through the relationship. Some of the resources can be combined and through the

combination of resources new types of resources are likely to emerge (Håkansson & Snehota, 1995, p 167).

### **The Actor Layer**

*“Actor bonds are the third layer of substance of business relationships... Bonds arise in a relationship between two companies as they direct a certain amount of attention and interest towards each other – they become mutually committed”* (Håkansson & Snehota, 1995, p 169). A relationship between two companies is affecting the parties in the same way as a relationship between two persons (Ibid.). When studying business relationships the company is seen as a collective actor. This is now without problems since there are different business units that can be seen as “the actor”, even single individuals can be seen as actors. Thus the relationship is affected by who is defined as the “actor”. In the research model presented above the actor layer has been divided into business unit and individual in order to get down to a (micro) level where single respondents from the buyer and seller sides will be able to contribute through the interviews.

### **The Activity Layer**

The activity layer examines issues that are going on between different activities (functions or processes) of the interacting organizations. When two parties build up a relationship some of their internal activities can be linked to each other (Ibid.). Examples of such activities are sales/purchasing, project execution/implementation and after sales/operations just to mention the three main activities of a project organisation. *“Linking activities can be regarded as a way to create unique performance... activity links are a factor in the productivity of the companies involved”*. (Håkansson & Snehota, 1995, p 165)

The intension, in the empirical part of the study that this conceptual discussion is aimed for, is to go through this matrix through in-depth interviews with key informants from both the buyer and the seller sides. This is done in order to identify the different types of value perceived by the buyer and the seller. After that there will be a comparison of the two different matrixes, the supplier matrix and the buyer matrix, to see whether there is overlap or if the parties perceive value in different

ways. Conclusions will be made from this and then there will be further analysis of the co-creation aspect. Whether the parties perceive that they have created value together with the other party in the relationship.

At this point it should be noted that the above matrix only serve as the point of departure for the interviews. As the interviews are going to be in-depth and only semi-structured there will be room for “free” discussion. The author will give the respondents the opportunity to guide the discussion so that any kinds of new ideas on value will have the opportunity to emerge. The matrix is serving as way to sort out the value concept and have some starting point when conducting the interviews.

## **7. Conclusion**

This paper contains a conceptual discussion of the concepts of value and goes further into discussing the concept of value co-creation. The paper starts out by discussing the relevance of studying value and value co-creation in a buyer-seller dyad in a networked world of relationships. The concept of value is analysed through looking at how it has been used within the industrial marketing literature. The idea of value being more than just monetary value is argued for and a research model for analysing perceptions of value is suggested. The matrix crosses different types of value with different layers of substance of a business relationship. This paper contains the core conceptual framework for a doctoral dissertation and should be regarded as such. The author welcomes all kinds of constructive criticism and comments that can bring the project further.

Different kinds and ways of using the concept of value have been presented in this paper. Although the overriding message of the paper has been that value can and should be understood as other things than monetary value, all of the different manifestations and interpretations of value can be seen indirectly as monetary value. Indirectly these are naturally tied to the performance of the firms. A challenge and a suggestion for further research could be to find ways to measure these different types of value and translate them into monetary terms.

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