

Instruments of Value Constellation between Buyer and Supplier

The Case of Installation Products' Distributors in Poland

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ABSTRACT

The value- driven management of relationships between the buyer and the supplier can be treated as a basis for company success and the condition sine qua non for achieving competitive advantage. The concept of value constitutes a starting point to develop strategies and instruments of building relationships. From the managerial point of view, it is purposeful to determine what kind of instruments create values that contribute to building ties between buyers and suppliers in industrial markets. Search for the solution of this problem included two stages. The first one, theoretical, was a review of already existing knowledge about the value in buyer's and supplier's relationships. The second one was empirical research based on the case of installation products' distributors and their industrial customers in Poland.

Different approaches to value which can be found in marketing literature were examined, paying special attention to those which are the most adequate for industrial markets. Two of them are very significant. The first one can be seen as a transmission of value in marketing channel only from the supplier to the buyer. The second one is characteristic of interaction marketing, and is based on value constellation between actors. The research outcome allowed to state that value constellation instruments exert influence on three kinds of interaction strategies: strategy of information, strategy of mutual investments and strategy of delivering common services to final customers. The commitment of both partners to deploy those strategies influences the duration of relationship and, in the meantime, the ability to achieve competitive advantage of the whole system.

INTRODUCTION

The development of functional programs of a company, as well as individual instruments, involves the concept of value which emerges in relationships between organizations. It is important to determine the role of different kinds of value in companies' activity, and, in the aftermath, the way of selecting and developing competitive instruments.

Different meanings of marketing value concept in literature evoke a need to systematize its definitions. Various descriptions underline, as a rule, the relationship between the total value of achieved advantages and the price paid for them (Kotler 1994; Hartley, Kerin, Rudelius 1997). It is assumed that the advantages stem from different sources: product, service, personnel and image (Kotler 1994). This approach was developed by Flint, Woodruff, Gardial (1997). They held view that value can have three different forms: values, customer value and value judgment. Values are defined as *the centrally held, enduring core beliefs, desired end-states, or higher order goals of the individual customer or customer organization that guide behavior*. In case of companies, this description has similar meaning to the mission (*statement of purpose that distinguishes the organization from other firms and which outlines the scope of company's values and beliefs ...*, Christopher, Payne, Ballantyne 1991). The meaning of customer value is different, and can be defined as *the customers' perception of what they want to happen (i.e., the consequences) in a specific kind of use situation, with the help of a product or a service offering, in order to accomplish a desired purpose or goal*. Finally, value judgment is *the customer's assessment of the value that has been created for them by a supplier given the trade-offs between all relevant benefits and sacrifices in a specific use situation*. Other authors (Simpson, Siwuaw, Baker, 2001) perceive value in a wider context: it results not only from the offer of a supplier but also from its consequences. The value judgment alters the customer's satisfaction through disconfirmation.

Development of value in relationships between the supplier and the buyer, as well the value itself are the object of different theories. Two of them are very significant and require special attention:

- The first one underlines the development of value in one direction; value is then transmitted in a sequence way among different actors in marketing channel.
- The second one perceives delivering value in a closed cycle, underlying the co-production of value by both participating actors.

A well-known example of the first approach is the value system that consists of Porter's value chain. The value system takes advantage of developing value for the final user not only within an organization, but also beyond it. Each value chain is connected back to suppliers and forward to customers, and creates a system of value chains (Porter 1985). In this particular system, an actor A (supplier) delivers the result of its activity to an actor B (manufacturer) who adds value to an actor C (distributor), and so on. The above mentioned participants stay in mutual dependence which can be characterized by one-way, sequence mechanism. Value chain of each actor is one of the elements of the whole system. Achievement of competitiveness can be perceived not only as the delivery of the highest possible value by each actor, but as more efficient coordination of activity with partners in marketing channel.

Nevertheless, the model of value system evokes some controversies. Its sequence and one way character can be seen as shortcoming. This model assumes that the development of value among actors in marketing channel takes place as its simple addition between all participants, and this process takes place in one direction: from the supplier to the buyer.

This reasoning doesn't take into consideration the fact that value is transmitted also in another direction: from the buyer to the customer. The mutuality in transmitting value, described as value constellation (Normann, Ramirez 1994; Juttner, Webrli 1997), contributes to the creation of stronger relationships, and in the end to the achievement of competitive advantage of the whole system. Contacts between actors in marketing channel are seen not as simple addition of value, but as relationships based on coproduction, which is characterized by interactions. In this model the main objective which guides the behavior of supplier, became helping buyers to create value for its own customers. Activities in the whole system of value are the object of reconfiguration. Some part of buyer functions are taken over by its supplier and *vice versa*.

Among different activities mentioned as an object of reconfiguration reinforcing the system there are for instance: transmission of information (Weber 2001) and transport (Norman, Ramirez 1994). Alvarado and Kotzab (2001) indicate that that the value constellation concept was applied to the so called *Supply Chain Management*, which integrates logistics and marketing research in distribution channels. As a result of its application, improvement of the whole system efficiency can be clearly seen. . We can also refer to Ford who distinguished four different fields being subject to mutual exchange: product, finances, information and social relations.

The theories described above are the object of continuous research. One of them, for instance, is the model of transmitting value among different marketing channels proposed by Evans and Berman (2001). It can be seen, in a certain simplification, as a summary of reflections described above. Presented observations constitute a basis for empirical research.

HYPOTHESES AND OBJECTIVES

An attempt to establish what kind of relationship instruments are applied in practice took place in the aftermath of literature review. As it is often mentioned (Palmer 1996), relationship management differs among cultures. Specific research concerning relationships might sometimes be needed in different cultures and even branches. The Polish economy has been in the process of transformation since 1989. Although in many respects it is today similar to the economies of west European countries, still some specific features can be seen. Hence a hypothesis was suggested:

H: The instruments of value constellation between the buyer and the supplier in different countries permit to deploy similar strategies which lead to interactions.

Following this hypothesis, a general purpose of research was set in order to determine a list of potential value development instruments and their importance in building relationships among organizations.

RESEARCH METHODOLOGY

Described research was a part of a wider research program related to building competitiveness of installation products' distributors in Poland and was carried out in the years 2000 - 2001¹. This branch was chosen in the aftermath of the observation of strong relationships in its marketing channels, which are partly a result of the complexity and technical character of products being the subject of the exchange.

¹ The research comprised the following aspects: elements of resources of companies, role of relationships based on loyalty among different company resources and instruments of building loyalty in industrial markets. As a conclusion, a model of relationship strategy was proposed.

The research was made in two phases. The first one encompassed the preparation of elements of the proper questionnaire. It was carried out as an in-depth interview among 29 managers of installation products distribution companies. As a result, a list of value expectations from the part of their suppliers was established.

As a basic research method, a structured interview was chosen in the form of a questionnaire. It included ten closed questions. In the field of value constellation, the questions concerned two basic aspects:

1. Kind of instruments of co-producing value,
2. Importance of these instruments in building competitive advantage by relationships.

As the result of mailing action (by the means of fax or e-mail) 94 properly completed questionnaires were received. They amounted to 12 % of the total population of companies in this branch.

RESULTS

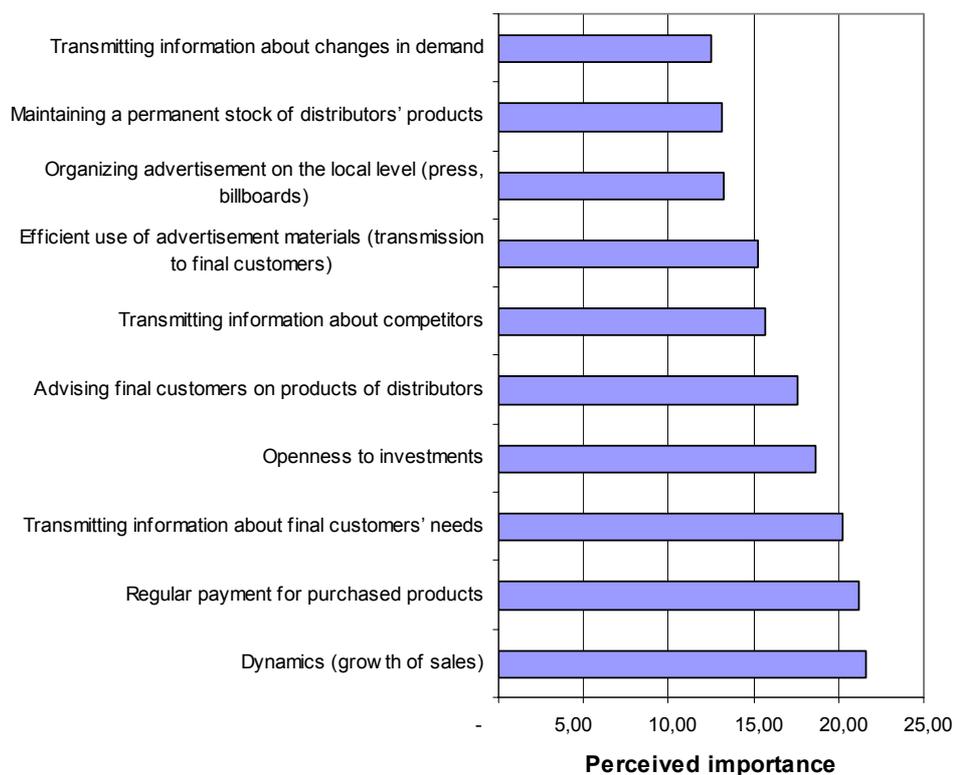
As a result of in-depth interviews, a list of instruments for delivering value from buyers (plumbing companies) to suppliers (distribution companies) was established. The most frequently mentioned instruments were:

- Dynamics (growth) of sales,
- Advising final customers on the products of distributors,
- Effective use of advertisement materials (transmission to final customers),
- Organizing advertisement on the local level (press, billboards),
- Openness to investments (improving qualifications, trainings),
- Transmitting information about final customers' needs,
- Transmitting information about changes in demand,
- Transmitting information about competitors,
- Regular payment for purchased products,
- Maintaining a permanent stock of distributors products.

In the questionnaire, the respondents were asked to determine the importance of these instruments and the scope of their use in the companies in the scale from 1 to 5. The results are presented in Figure 1.

FIGURE 1

INSTRUMENTS OF VALUE CREATION BETWEEN DISTRIBUTORS AND ORGANIZATIONAL BUYERS



The most important and, at the same time, most frequently used instruments of cooperation were (as it could have been expected) a growth of sales and, in the meantime, a regular payment for purchased goods.

However, apart from the above facts, other factors were highly scored. That in turn confirms the diversity of contacts among companies and also a general trend not only to make a single transaction, but also to develop long-lasting relationships. An especially important role is played by the customers who serve as a source of information about the market. High notes were admitted to the transmission of information about final customers' needs (importance = 20,20) and about competitors (importance = 15,70). Engagement in cooperation is also expressed by an openness to invest (importance = 18,68).

It must be underlined that the customers provide several services. They play a role in representing their suppliers. It is reflected in advising final customers (importance = 17,6), effective use of advertisement materials (importance = 15,3), organization of advertisements

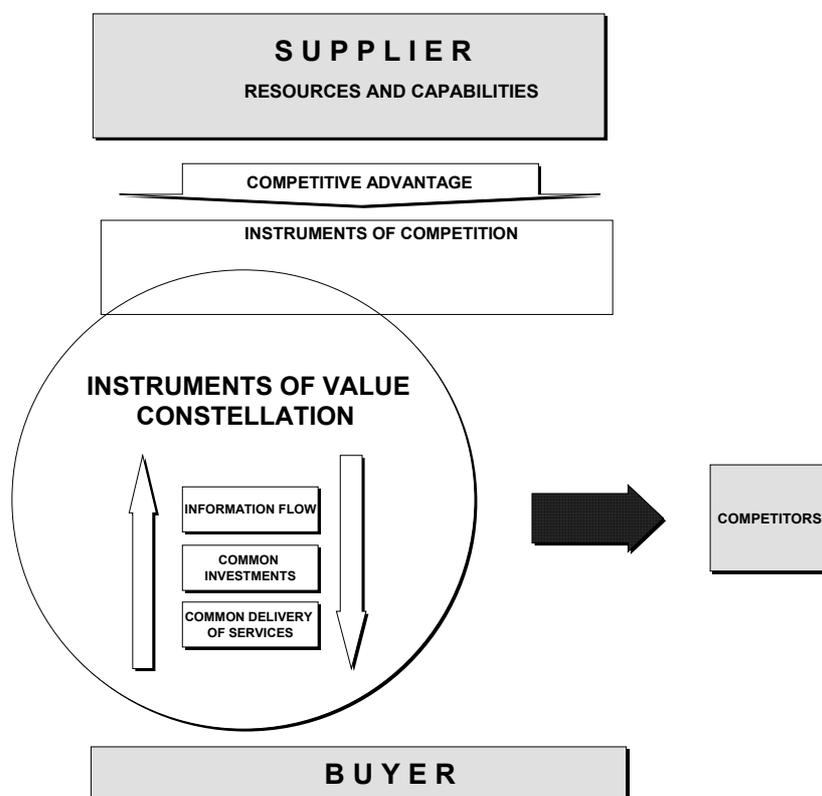
on the local level (importance = 13,2) and maintaining a permanent stock of distributors' products (importance = 13, 2). The diversity of these instruments testifies to deep contacts between the supplier and the buyer.

CONCLUSIONS

The results allowed to make a statement that the value constellation in the chosen group of companies largely exceeds the simple product and financial exchange. This kind of exchange is yet characteristic of transactional marketing and doesn't influence the emergence of interactions. It is, however, a core essence of the process of co-operation. Long lasting relationships in marketing channels are developed on the basis of additional instruments. They can be divided into three major categories and are presented in Figure 2.

FIGURE 2

CREATING COMPETITIVENESS BY THE MEANS OF DIFFERENT INTERACTION STRATEGIES



The supplier competitive advantage is the result of its resources and capabilities which allow to develop different instruments of competition. However some of them are created together with the buyer and encompass the instruments of value constellation. This field refers to the flow of information, mutual investments and to the delivery of common services to final customers. Similar importance attributed by managers to these factors shows that all of them can be used jointly to improve their synergy.

The results of research made in the chosen sector of Polish economy allowed to state that the value constellation instruments influence three kinds of interaction strategies: strategy of information, strategy of mutual investment to the relationship and strategy of delivering common services to final customers.

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