Business Suppliers' Value Creation Potential: Empirical Analysis

Pekka Törrönen and Kristian Möller[1]

Helsinki School of Economics and Business Administration

Work-in-Progress Paper submitted to the IMP 2003 Conference

June 2003

[1] Corresponding author: Kristian Möller, Helsinki School of Economics and Business Administration, Department of Marketing, POB 1210, FIN-00101 Helsinki, FINLAND, tel. +358-(0)9-4313 8515, fax. +358-(0)9-4313 8660, e-mail: moller@hkkk.fi

Business Suppliers' Value Creation Potential:
Empirical Analysis

Work-in-Progress Paper

The core of this paper can be expressed through the following notions and propositions. We suggested that customers expect relationship level added value when they have outsourced or concentrated their IT or telecom projects to one supplier. In the study we found out that all companies expected some added value from their main IT or telecom supplier but there were differences between added value expectations. All interviewed companies expected from suppliers new innovations that enhance efficiency in the relationship. They want to create more efficient relationship with supplier that saves their time and is easier to handle. Some companies expected also innovations and new solutions from suppliers that support customer's business. They wanted a more proactive supplier that provides them more solutions that enhance their business.

INTRODUCTION

In recent years there has been ongoing interest in the value concept and it is considered one of the most popular constructs among business managers and academia (Ravald and Gröönroos 1996). It is commonly agreed upon that delivering superior value to customers will lead to superior value of the firm. Numerous papers have been published about value concept from different perspectives. There has been research from buyers, sellers and buyer seller perspective. Despite of the growing body of customer value research it has been noted that more knowledge is needed about value construct and its operationalization especially in the field of business-to-business marketing (Ulaga 2001).

We have suggested that the value creation process can be described through a spectrum ranging from core value, through added value, to future value (Möller & Törrönen 2003). It is useful to describe value production through a continuum expressing simultaneously the level of complexity involved and the time horizon of value realisation; Our relational value spectrum is based, besides the discussed work of Ford and his colleagues, on the emerging notions about the relative interactional intensity of business relationships, see Araujo et al., (1999), Day (2000), Möller and Halinen (2000), and Wilson (1995). Only the production of core value can be sufficiently estimated in terms of costs and benefits. The more we move from the left to right the more problematic the evaluation of suppliers' value production potential becomes. An apriori evaluation of the costs and benefits of added value, and especially future value projects is wrought with problems, as the realisation of the value is dependent on the development of multiple partners, technologies, and industries. In these cases we suggest that a customer can use supplier's capability profile as an indicator of how well a particular supplier is suitable for specific value creation projects.

PURPOSE OF THE PAPER

A qualitative empirical survey was conducted to understand how companies actually evaluate the added value and future value they receive from their suppliers in business-to-business setting. Target is to understand what added and future value companies expect from their suppliers and in selecting a supplier what are the specific capabilities they evaluate. The interviewed companies were IT and telecom companies biggest customers in Finland. They were financial or manufacturing companies and most of them were multinational. The primary data collection method was in-depth interviews. Totally 32 persons were interviewed between June 2001 and August 2002.

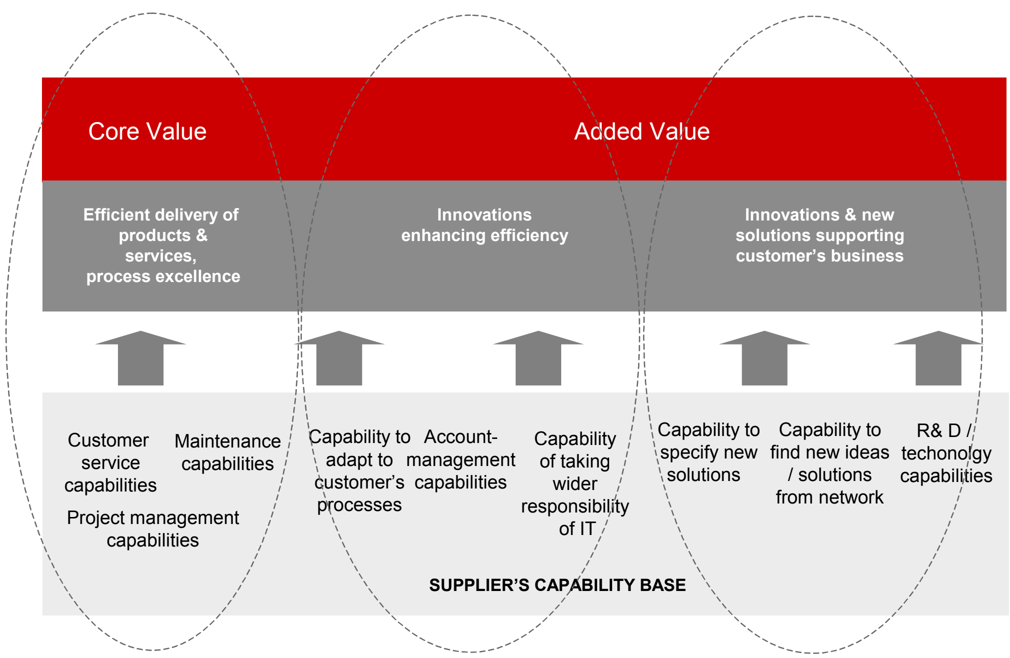
VALUE EXPECTATIONS

Against our initial suppositions companies didn't have major future value expectations from their main IT or telecom suppliers. They didn't expect radical innovations or new business concepts from these suppliers. Probably the most important reason for lack of future value expectations was the factor was that companies used their major IT and telecom suppliers to support and improve their current core business activities. The most important and biggest IT and telecom systems are like billing, payment handling and logistics systems. Building these systems require a lot of recourses but not radical innovations

Many interviewed companies had changed their supplier relationships and supply policy from multiple sourcing to mainly single sourcing. What has happened in recent years was that companies had concentrated most of the IT and telecom projects to their major supplier or even outsourced them. The reasons for this development in supply policy is very well known and documented by many researchers (Christopher 1998, Cooper et al., 1997, Ford et al., 1998, Möller and Halinen 1999, Sheth and Sharma 1997). Business firms are increasingly concentrating on their core competencies and outsourcing many activities. Companies reported that their value expectations changed when they concentrated or outsourced their projects to their main supplier. When they used suppliers on project basis their main expectations were regarding project and technology capabilities and costs. These are typical core value expectations that are related to efficiency in delivering products & services and process excellence. They evaluated suppliers on project basis. When they changed their supply policy they started to expect more from their main supplier. They didn't have anymore only project level value expectations but also relationship level expectations from supplier.

In the study we found out that all companies expected some added value from their main IT or telecom supplier but there were differences between added value expectations. We suggest (Figure 1) main added value expectations are enhancing efficiency and solutions supporting customers business. Next we are describing the capabilities that customers are expecting and evaluating when they are selecting a main supplier that is supposed to create added value thought relationship.

Figure 1. Capability Base and Value Production in IT industry



INNOVATIONS ENHANCING EFFICIENCY

All interviewed companies expected from suppliers new innovations that enhance efficiency in the relationship. Saving costs and resources was important to all companies when they had made decision to concentrate or outsource ITC projects and systems to main supplier and for many companies it was their main expectation.

When customers evaluate their main suppliers ability to develop efficiency in their relationship they mention many capabilities they expect from supplier. We found out few key capabilities that effect how supplier can enhance efficiency in their customer supplier relationship. These key capabilities are supplier's account management capability, capability to adapt to customers processes and capability of taking wider responsibility of IT systems.

Account management capability

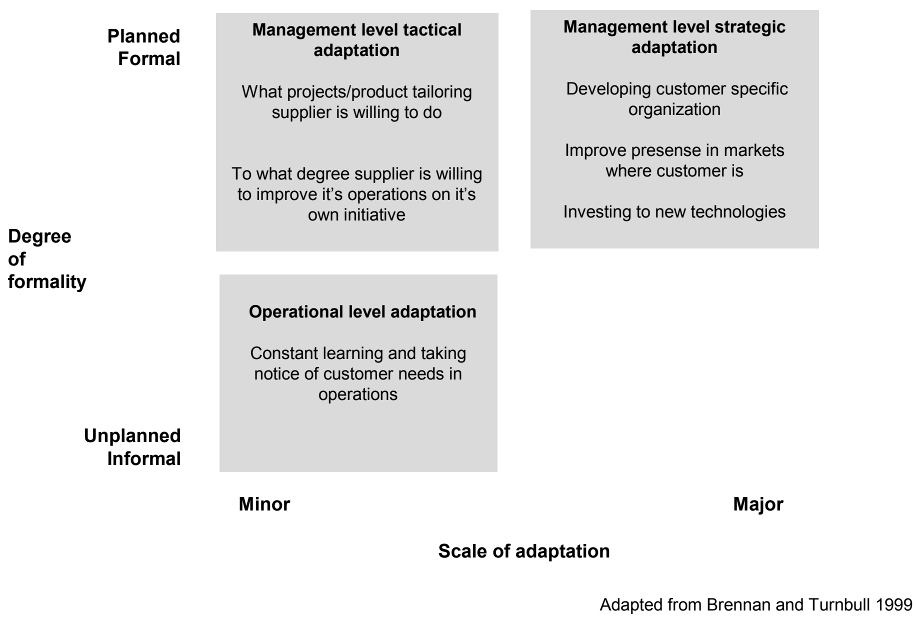
Account management capability is one of the key capabilities in enhancing efficiency in large supplier customer relationship. In close and wide relationship there is large amount of people involved from different positions from both supplier and customer side. Without proper supplier's coordination activities this type of relationship is very difficult and time consuming to customer. It can be difficult to customer even to know whom to contact in supplier organization in different questions. Supplier needs to organize the relationship in effective way. There are different possibilities to organize these complicated relationships in effective way. Cunningham and Homse (1986) have classified contact patterns between supplier and customer to seven possible patterns. In interviewed companies we noticed several contact patterns based on the power balance and nature of the relationship. There isn't a one contact pattern that would be suitable for all customer relationships. For a supplier it's important to recognize the power balance and nature of the relationship to be able to adapt to customer relationship and create an effective contact pattern. Companies expect supplier's management to be committed to cooperation. An important managerial task is to create mechanism to suppress opportunism in relationship (Håkansson & Sharma, 1996). Otherwise supplier's divisions or other business units who are involved in the relationship can try to find an optimal solution for their unit but sub optimal for whole relationship.

Capabilities to adapt to customers processes

In long term business relationship adaptation is one of key elements. Supplier's willingness to adaptation has important impact to relationship atmosphere. Customers expect when they are committed to one supplier the supplier is also committed to the cooperation. Supplier's adaptations are often an important indication of commitment (Ford et al 1998). Adaptation has been widely studied (Brennan & Turnbull 1999, Håkansson 1982, Hallen et al. 1991). Brennan and Turnbull divide formal and informal and major and minor adaptation. Many adaptations are informal adaptations in nature. These adaptations are not planned and they don't need management decisions. In long term constant cooperation between IT or telecom supplier and customer there is a lot of constant adaptation in cooperation. Supplier's project personnel learn to work better with customers when they know customer company and their working methods better. Interviewed customers said that they are using the supplier "because they know our people and how we are working" or "they know our systems and our field". It saves a lot of customers time and effort and project can be done faster when customer don't have to tell all background information to supplier.

Formal adaptations can be divided to tactical and strategic adaptation. In IT and telecom industry all formal adaptations even tactical typically are difficult and many times expensive to suppliers. Companies that have decided to use only one supplier and have concentrated most of the important systems to one supplier are expecting adaptations.

Figure 2. Adaptation levels



They expect that when one supplier handles all systems it integrate different systems to each other and can build adapted solutions to their company. In IT industry if customer has decided to use only one IT supplier they expect that they get all major services from that supplier. It means that the supplier should be willing to do new type of projects and bring new technologies to their projects. Customers who have outsourced or concentrated their project to one supplier expect also many times strategic adaptation. IT or telecom supplier relationship is so important to them that they need major adaptations to their operations from supplier.

Capability to taking wider responsibility of IT

Concentration of IT systems or outsourcing them to one supplier means giving more responsibility to one supplier. Customer gives more responsibility to supplier and expects to get benefits out of that. In taking wider responsibility one can separate between two capabilities customers expect from their suppliers. First of them is taking wider responsibility in current IT systems and second is expanding the supplier's role to new IT systems. Customers who have made decision to concentrate or outsourced their projects or systems to one supplier expect the supplier to take larger role and responsibility in their current IT systems. Customer expects that all the systems will show up to him as one system and there is only one responsible party for all the systems. Customer is expecting that they don't need to do all the coordination and integration between systems.

Some customers expect their main IT or telecom suppliers to expand their role to new IT system areas they don't offer yet. Generally customers expect supplier to expand their role to other IT area if they see an important link between the supplier's current activities and new activities. There should be added value if supplier takes care of both the current and new activities. Companies had two basic expectations in expanding supplier's capabilities. First main expectation is supplier taking even larger responsibility of their IT infrastructure. Second main expectation for suppliers was to expand current role in to offer IT solutions to customer's core business.

INNOVATIONS AND NEW SOLUTIONS SUPPORTING CUSTOMERS BUSINESS

All interviewed companies expected from suppliers new innovations that enhance efficiency in the relationship. Some companies expected also innovations and new solutions from suppliers that support customer's business. These interviewed companies expressed that they expect more from supplier than just improved efficiency. Getting new solutions, expertise and ideas from supplier was other major reason to use single supplier. Companies justified their decisions to outsource or concentrate projects to one supplier with getting more solutions and ideas from supplier.

The interviewed companies said that suppliers can provide added value with new solutions in three ways: First if supplier has better than average R&D capabilities and can produce new outstanding products and solutions or it has better technological skills compared to competitors. Second possibility is that supplier can offer more and better ideas thought its contact network than competitors. Third possibility is that supplier knows customer's business better than competitors and can therefore specify better solutions than competitors.

Supplier's R&D and technology capabilities

Providing added value thought R&D or technological capabilities is not relational value production. Supplier doesn't need close cooperation with customer in using its technological or R&D capabilities. Some suppliers have better technological or R&D capabilities than other suppliers. Interviewed companies said however that this type of advance in technology or R&D supplier has doesn't last long. Other suppliers copy and develop similar products and technological capabilities very soon. When selecting a supplier for outsourcing or taking care of most of the projects technological or R&D added value was not an issue for interviewed companies. Selecting main IT or telecom partner is a long-term decision and one cannot then look for short term advances in technology that one supplier might have.

Supplier capability to offer new ideas through network

Companies expect that their suppliers offer them new ideas thought supplier contact network. Suppliers contact network consist of its customers, supplier company other units or divisions and their partners. In this case supplier creates value in being is a link between its networks and customer and channeling network's ideas to customer. In generating this type value supplier needs a good network and effort in creating possibilities for changing ideas. Using supplier's network to share ideas is not relational added value production. Supplier doesn't need customer's deep involvement in being a link between its network and customer. Customers expect this type of value especially from their main suppliers to whom they have outsourced or concentrated most of their projects. They feel that their main suppliers should use resources for providing this type of value to them.

Supplier's capability to specify new solutions

When customer outsourcers or concentrates most of the projects to one supplier customer expects that it enhances the supplier's knowledge of customer's business and therefore improves suppliers capability to specify new solutions to customer. This was important expectation for many customers who have made the concentration or outsourcing decision. Customers expect that supplier would bring more and better solutions to them when they get more understanding of customers business.

References

Araujo, Luis & Dubois, Anna & Gadde, Lars-Erik, (1999), "Managing Interfaces with Suppliers", *Industrial Marketing Management*, 28, 497-506

Brennan Ross., & Turnbull, Peter. W., (1999) Adaptive behaviour in Buyer-Supplier Relationship, *Industrial Marketing Management*, 28 (5), 481-495

Christopher, M., (1998), *Logistics and Supply Chain Management: Strategies for Reducing Cost and Improving Services*, Pitman Publishing, London

Cooper, M. C. & Lambert, D. M. & Pagh, J. D., (1997), "Supply Chain Management: More than a New Name for Logistics", *International Journal of Logistics Management*, 8, 1-14

Cunningham Malcolm T. & Homse Elling, (1986), "Controlling the Marketing – Purchasing Interface: Resource Development and Organizational Implications", *Industrial Marketing and Purchasing*, 1 (2), 3-27

Day, George S., (2000), "Managing Market Relationships", *Journal of the Academy of Marketing Science*, Vol. 28, No. 1, 24-30

de Chernatory, Leslie & Harris, Fiona & Dall'Olmo Riley, Francesca, (2000), "Added value: its nature, roles and sustainability", *European Journal of Marketing*, Vol. 34, No. ½, 39-56

Ford, D. & Gadde, L-E. & Håkansson, H. & Lundgren A. & Snehota, I. & Turnbull, P. & Wilson, D., (1998), *Managing Business Relationships*, John Wiley & Sons, Chichester, UK

Hallen, L., Johansson, J., Seyed-Mohammed, N., (1991), Interfirm Adaptation in Business Relationships, Journal of Marketing, 55, 29-37

Håkansson Håkan & Sharma Deo, D, (1996), *Strategic Alliances in Network Perspective, Networks in Marketing,* Dawn Iacobucci, Sage Publications, Thousand Oaks, California

Håkansson Håkan (1982) (ed), *International Marketing and Purchasing of Industrial Goods*, John Wiley & Sons, Chichester, UK

Möller, Kristian & Halinen, Aino, (2000), "Relationship Marketing Theory: Its Roots and Direction", *Journal of Marketing Management*, 16, 29-54

Möller, Kristian & Halinen, Aino, (1999), "Business Relationships and Networks: Managerial Challenge of Network Era", *Industrial Marketing Management*, 28, 413-427

Möller, Kristian & Törrönen, Pekka, (2003), "Business suppliers' value creation potential: A capability-based analysis", *Industrial Marketing Management*, 32, 109-118.

Page Albert L & Siemplenski Michael (1983), Product Systems Marketing, *Industrial Marketing Management*, 12, 89-99

Ravald Annika & Grönroos Cristian, (1996), The Value Concept and relationship Marketing*, European Journal of Marketing,* 30, 19-30

Sheth, J. N. & Sharma, A. (1997), "Supplier Relationships: Emerging Issues and Challenges", *Industrial Marketing Management*, 26 (2), 91-100

Ulaga, Wolfgang, (2001), "Customer Value in Business Markets An Agenda fpr Inquiry", *Industrial Marketing Management*, 30, 315-319

Wilson, D. T., (1995), "An integrated model of buyer-seller relationships", *Journal of the Academy of Marketing Science*, 23 (4), 335-345