

The impact of a total solutions strategy on channel partnerships: A managerial framework

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Abstract

Purpose – The main purpose of this study is to develop a managerial framework about a company's channel management when it shifts from a standardized product approach to a strategy of total solutions. Two dimensions of channel management have been investigated: channel design and relationship management (comprising relationship quality and relationship control).

Research method – In order to investigate the impact of a total solutions approach on a company's channel management, a case-based research was executed, besides an extensive literature review. Five case studies were developed in the Belgian industrial market.

Research findings – The research identifies key issues managers should address when moving from a product to a total solutions approach. The main findings are that a total solutions strategy most often provokes the use of a shorter, hybrid and/or multiple channel design. Furthermore, the supplier-customer relationship quality is enhanced by this new strategy. It is hypothesized that this relationship should be coordinated by relationship-specific investments. As for the supplier-reseller relationship, two categories can be distinguished depending on the need for integration into the customer's operations. In the first category, the relationship is long-term orientated. This category might be controlled by using relational norms. The second category of supplier-reseller relationships is more short-term orientated. In this case, the recommended control mechanisms are explicit contracts.

Main contribution – This paper endeavors to provide a contribution to marketing theory, as it presents an attempt to investigate distribution channel theory within the new service-centered dominant logic in marketing, which integrates goods with services (as opposed to the traditional goods-based marketing paradigm). Furthermore, it attempts to offer a contribution to marketing and management practice, as it delivers a hands-on managerial action frame which can be used by managers (or marketers) who are planning to shift to a total solutions approach, or who already have performed this transition in the recent past.

Keywords: Total solution; Channel management; Channel relationships; Relationship management

Introduction

Industrial marketers seek to differentiate their offerings by adding value elements. That way, they build integral solutions: "In all sorts of industries, companies that traditionally have made and sold stand-alone products are changing their strategies. They are creating high-value solutions by integrating various products and services (...) to solve a complete customer problem." (Foote et al. 2001, p. 84). This trend can be seen in the light of the emerging tendency in marketing, which focuses on the *integration of goods with services* – Vargo and Lusch (2004) call this the new "service-centered dominant logic for marketing". Also Brady, Davies and Gann (2005), Gebauer and Friedli (2005), and Oliva and Kallenberg (2003) point to a continuum from pure product manufacturers to *solutions providers* (combining services with their traditional products). As a consequence, a reorientation of the conventional goods-based marketing theory and practice is needed, and "[m]arketing educators and scholars should be proactive in leading industry toward a service-centered exchange model." (Vargo and Lusch 2004, p. 14)

This paper tries to take a first step in addressing the aforementioned need within a specific area of marketing by developing a managerial framework about the impact of a total solutions strategy on a company's channel management. In this way, it intends to contribute to the reorientation of the B2B marketing channels theory, as advised by Vargo and Lusch (2004). This paper considers two aspects of channel management: channel design and channel relations. More concretely, this study intends to clarify the following questions:

1. Does a company's distribution channel structure undergo significant changes as a result of the adoption of a total solutions strategy (changes in channel design)?
2. Has a company's intrachannel relationship management altered considerably following the adoption of a total solutions strategy (changes in channel relations)?

The article is outlined as follows. The next two sections present a literature review. First, the approach of product augmentation and the offering of total solutions are being described. After that, the main dimensions of a company's channel management are being discussed. Following this literature review, the research method (a case-based research that has been executed in the Belgian industrial market) and findings are given. Subsequently, a discussion is provided, in which the managerial framework is being developed. The conclusions suggest future research avenues.

Total solutions

The creation of sustainable competitive advantages has been the subject of a significant amount of research in the last 10 to 15 years. Many authors find that former successful strategies become outdated in an increasingly shorter period of time (Christensen 2001; D'Aveni 1994). Two reasons for this evolution can be detected. Firstly, the dynamism in the industrial market has risen enormously in the last decades. Competition has increased significantly because of technological changes and globalization (hypercompetition). As a result, products and services are becoming commodities ever faster (Kumar 2004; Prahalad and Ramaswamy 2003; Rangan and Bowman 1992).

Secondly, the customer's value perception changes over time. When a customer obtains more experience concerning a product or service, he or she considers it to be less valuable (Khalifa 2004). Moreover, customers in industrial markets are increasingly becoming demanding, thereby pushing suppliers for solutions which better fit their specific problems. According to Vandermerwe (1993), customers are more discriminating about what they want. They are also more willing to go to a competitor if their supplier cannot deliver exactly what they expect. The customer's expectations are quickly becoming "more holistic, complex and diverse" (Vandermerwe 1993, p. 47).

These two factors (increasing rivalry and commoditization, and changed customers' value perception) have become threats to the sustainability of competitive advantages in industrial markets. A possible approach to regain the competitive advantage is providing integral, total solutions to the customer's problems instead of single, standardized products or services (Brady, Davies and Gann 2005). This change in strategy is usually a two-step process. In the first step, the supplier 'augments' the core product/service with supplementary services to increase the added value for the customer, the so-called evolution to 'product plus' or 'augmented product' (Colgate and Alexander 2002). In other words, the supplier bundles its core product with "services, advertising, customer advice, financing,

delivery arrangements, warehousing, and other things that people value" (Payne and Holt 2001, p. 163). The main benefits of this bundling strategy are the increase in product differentiation and the enhanced customer value (Paun 1993). Nevertheless, this evolution to 'product plus' is being criticized by some authors. For instance, Normann (2001) claims that this approach cannot help suppliers in realizing *sustainable* competitive advantages, for this strategy can easily be imitated by competitors. Also Mathieu (2001) states that adding traditional services is no longer enough in order to ensure a competitive advantage.

The second step involves the transition to a *real* total solutions strategy. Two main characteristics discern a genuine integrated total solution from a 'product plus'. In the first place, the customer's needs get a central role. To be able to offer total solutions, the supplier has to shift from a product-centric approach, where everything begins and ends with the existing core product, to a customer-centric approach, where the customer's problems are the starting point (Sawhney, Balasubramanian and Krishnan 2004). Secondly, whereas the 'product plus' is usually quite standardized, the total solution has to be fully adapted to the needs and wants of every individual customer (Boyt and Harvey 1997). This way, the solution becomes a tailor-made project (Cova, Ghauri and Salle 2002). As the integration of services is requisite in this kind of total solutions, this trend towards total solutions can be positioned in the new 'service-centered dominant logic for marketing' (Vargo and Lusch 2004).

The offering of this kind of unique total solutions has some important benefits to suppliers as they are able to (1) differentiate themselves from competitors by providing added customer value (Mathieu 2001), (2) enhance the customer's satisfaction and loyalty and (3) reduce the total operating cost, because not all supplementary services are offered to all customers (Boyt and Harvey 1997).

Hence, an integral solutions approach seems to be a solution for overcoming declining competitive advantages. However, most companies find it extremely difficult to manage the transition to this new strategy successfully (Gebauer and Friedli 2005). The supplier has to take into account some important implications. Firstly, if the supplier manufactured products (and no services) beforehand, it will experience *an augmentation in the amount of intangibles*, which often requires a different kind of marketing (Payne and Holt 2001; Vargo and Lusch 2004). Secondly, a *thorough customer focus* is needed to be able to develop customized solutions for every individual customer. Brady, Davies and Gann (2005, p. 362) state: "[b]ecoming solutions-focused means that providers have to understand how value is created through the eyes of the customer." A meticulous analysis of the customer's needs, wants and life cycle is imperative (Vandermerwe 2004; Wikner and Andersson 2004). Thirdly, the supplier's offering becomes more complicated and project-based. This mostly requires a change in the company's *internal structure*. A higher degree of internal coordination and cooperation can help the supplier in offering integrated solutions (Brady, Davies and Gann 2005).

Channel management

As already has been mentioned, adopting a total solutions strategy will provoke several changes in the way a company is managed (e.g. Brady, Davies and Gann 2005). As Vargo and Lusch (2004) suggested, the old dominant (goods-based) logic for marketing needs to be adapted, too. In this paper the impact of a total solutions strategy on one particular aspect of marketing is being investigated, namely the supplier's distribution channel management. Indeed, a major focus on distribution channels is vital for every industrial market player, since it is only through distribution (either by a distribution channel or directly to the customer) that a supplier can make its products available for use or consumption (Stern, El-Ansary and Coughlan 1996).

The literature on channel management is rather rich and elaborate. It is certainly not our intention to give a complete overview of all aspects of channel management. Several articles and textbooks focus on seven decision areas of marketing channel management: (1) formulating channel strategy, (2) designing marketing channels, (3) selecting channel members, (4) motivating channel members, (5) coordinating channel strategy with channel members, (6) assessing channel member performance, and (7) managing channel conflict (e.g., Mehta, Dubinsky and Anderson 2002). In this paper, we chose to apply a twofold approach¹: on the one hand we consider the *design* of distribution channels, following the more structure-oriented work of e.g., Easingwood and Coelho (2003), and on the other hand we focus on the management of the channel *relationships*, as an extension of the customer relationship management literature (Winer 2001). By choosing these two aspects of channel

management, we insinuate that at this point we are more interested in discovering the strategic issues (i.e. effects on the channel design) of an altered offering (total solutions), rather than the implementation issues (such as motivation and selection of channel partners). Moreover, we are also concerned about the impact of this total solutions strategy on the channel relationships, as several authors in the IMP-tradition have indicated that these relationships are being altered when the (complexity of the) supplier's offering changes. E.g. Ford et al. (1998) acknowledge that a company's approach to managing its customer relationships is affected by the extent and the content of the supplier's offering. Hence, of the seven above-mentioned decision areas, we focus on formulating channel strategy (1), designing marketing channels (2), and coordinating channel strategy with channel members (5). We do not go more deeply into concerning selecting (3) and motivating channel members (4), assessing channel member performance (6), and managing channel conflict (7).

Channel design

In industrial markets, suppliers are paying increasingly more attention to the distribution channels they select to gain a competitive advantage. Thereby, channel design is a critical element of marketing strategy (Stern, El-Ansary and Coughlan 1996). Easingwood and Coelho (2003) describe three possible approaches to reach the customer: a traditional direct channel (face-to-face customer contact), direct marketing (by letters, telephone, email) and by intermediate parties (e.g., distributors). Recently, there has been an unparalleled growth in channel partnering and various forms of supply chain collaboration (Tuominen 2004).

Changes in the competitive strategy of the firm might provoke a drastic change in a company's existing channel design. Indeed, Anderson, Day and Rangan (1997, p. 59) claim that "the firm's overall strategic direction must guide changes in [distribution] channels". For instance, when the complexity of the offering increases with the introduction of a new, high tech product, intermediaries might not have the necessary skills to serve customers. As such, a dual channel might result: a direct channel will supplement the existing indirect one.

Rangan, Shapiro and Moriarty (1995) describe how channels go through a transition. They focus on three trends. In a **hybrid channel** (1), the tasks of the different channel participants are redistributed and/or some marketing tasks might be executed by supplier and intermediary jointly. A **multiple channel** strategy (2) entails that a supplier uses several distribution channels at the same time. In this way it offers a range of channel options to customers. The third trend the authors describe is **shorter channels** (3). This occurs when a supplier omits certain intermediaries and that way eliminates one or several levels in a supply chain. From the rich and extensive literature on channel design, in this paper we will focus only on these three concepts: the presence (absence) of a *hybrid* task structure, the existence (or not) of *multiple* channel structures, and the *length* of the channel.

Relationship management

A second aspect of channel management that is considered in this article is a company's relationship management, since the performance of each firm partially depends on the actions of its channel partners (Tuominen 2004). The relationship between a supplier and its customers is extensively researched in the literature on customer relationship management (Winer 2001). However, less attention has been paid to the (collaborative) relationships between suppliers and resellers, although supplier-reseller partnerships may add significant value for both companies (Weber 2001). In accordance with Weber (2001, p. 88), this article distinguishes two dimensions of relationship management: *relationship quality*, i.e. "common characteristics of successful partnerships" (1), and *relationship control*, i.e. "perspectives to more effectively operationalize partnerships" (2). Figure 1 depicts the dimensions of relationship management and their underlying constructs.

< **Figure 1 about here** >

Relationship quality

The expression 'relationship quality' has been used frequently in buyer-seller literature. However, no agreed upon set of defining relationship attributes has yet been identified in a formal definition of this expression (Huntley 2006 forthcoming). Also some authors use the expressions 'relationship value' or 'partnership success' to refer to the same concept (Naudé and Buttle 2000). Walter et al. (2003) state that different dimensions need to be combined to an overall relationship quality measure. In our

understanding, relationship quality is a higher-order construct, comprising three distinct, though related dimensions. Referring to Kumar, Scheer and Steenkamp (1995) and Morgan and Hunt (1994), we believe (1) relational **commitment** and (2) **trust** to be crucial constructs in order to describe relationship quality. Naudé and Buttle (2000) and Walter et al. (2003) add another construct: (3) **satisfaction**. According to Naudé and Buttle's review (2000), commitment, trust and satisfaction are indeed the constructs of relationship quality most analyzed in the literature. Hence, in this paper we consider three aspects taken from the elaborate literature on relationship quality. However, we are aware that, by dimensioning relationship quality this way, we ignore some other potentially important underlying constructs, such as coordination or goal congruence. In the further proceeding of this paper, we consider the quality of both supplier-customer and supplier-reseller relations.

Relational commitment can be explained as "a kind of lasting intention to build and maintain a long-term relationship" (Walter et al. 2003, p. 160). Gilliland and Bello (2002) refer to commitment as encompassing two components: *credible commitment* (the investments and behavioral actions that keep a party attached to an organization) and *attitudinal commitment* (an awareness or recognition of the state of the attachment bond). In this paper, we focus mostly on the second component (attitudinal commitment). In a relationship (both supplier-reseller and supplier-customer), exchange parties identify (attitudinal) commitment as key to achieving valuable outcomes for themselves (Morgan and Hunt 1994). Therefore, commitment is considered to be a positive determinant of the relationship quality, since a higher degree of commitment is associated with a higher degree of value.

Trust is defined as the "willingness to rely on an exchange partner in whom one has confidence" (Ganesan 1994). It requires both *credibility* (the belief that a trading partner is expert and reliable in conducting transactions effectively) and *benevolence* (the beneficial intentions and motives of one partner for the other) (Siguaw, Simpson and Baker 1998). The literature on trust in business relationships is quite broad; in this paper we only briefly glance at some aspects of trust that are relevant to our research. Although trust is not rewarded or even needed in every type of relationship (Ford et al. 1998), it is believed that a higher level of trust will enhance the quality of close relationships, because it shapes the belief, attitude or expectation that the relationship partner's behavior or its outcomes will benefit the trusting party (Walter et al. 2003). Moreover trust also positively influences relationship quality via relational commitment. Indeed, trust is so highly valued in a relationship that trusting parties will want to commit themselves (Morgan and Hunt 1994). Hence, trust is also a determinant of commitment. On the other hand, the opposite relation is also true: when an exchange partner shows it is strongly committed to the relationship (e.g., by making idiosyncratic investments), trust in this partner is enhanced (Ganesan 1994). This illustrates that the underlying constructs of relationship quality should be seen as distinct, though related concepts. In their relationship lifecycle model, Ford et al. (1998) argue that trust is being built up throughout the phases of the relationship's lifecycle. In this way, trust might not be a pure antecedent or consequence of relationship quality, it rather represents a cyclical notion without a clear starting or end point. Trust can be considered as both a consequence of and a precondition to obtain ever closer channel relationships.

Satisfaction is identified as "a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm" (Anderson and Narus 1990, p. 45). Any dissatisfaction in a relationship will tend to trigger the termination of that relationship (Naudé and Buttle 2000). In this way, satisfaction can be regarded as a necessary precondition in the relationship. The more an exchange partner is satisfied within a particular relationship, the more value it will assign to this relationship and the higher its perceived relationship quality will be. Furthermore, Ganesan (1994) claims that satisfaction with the outcomes of a relationship will enhance both the commitment to that relationship and the trust in the relationship partner. In this way, satisfaction also indirectly influences relationship quality.²

Relationship control

The second dimension of relationship management this paper discusses is relationship control or coordination. Yilmaz, Sezen and Ozdemir (2005, p. 235) claim that "a central theme of channels of distribution theory and research is that channel firms need to develop policies and programs to evoke and maintain desired forms of behaviors from independent partners in the distribution network." Suppliers use several governance mechanisms to try to control their independent resellers (Gilliland 2004) and to protect themselves against opportunistic behavior from both resellers and customers (Heide and John 1992). As Transaction Cost Analysis literature states: "given the opportunity, decision

makers may unscrupulously seek to serve their self-interests, and it is difficult to know a priori who is trustworthy and who is not” (Rindfleisch and Heide 1997, p. 31).

In this paper, three coordination mechanisms are considered, taken from the extensive literature on relationship control. Heide and John (1992) suggest that (1) **relational norms** (flexibility, information exchange and solidarity) should be adopted to safeguard against exploitation. Nunlee (2005) highlights another kind of relational norms: the reputation of the relationship partners. Jap and Ganesan (2000) add two more coordinating mechanisms: both parties’ (2) **relationship-specific investments** (RSIs) and (3) **explicit contracts**. These three coordinating mechanisms (relational norms, RSIs and explicit contracts) are applied to control supplier-reseller as well as supplier-customer relationships.

Research method

In the previous two sections, a description based on literature is given for the two central issues of this paper: total solutions and channel management. In the further proceedings of this paper, the impact of a total solutions strategy on channel management is being investigated based on a case study research in the Belgian industrial market. In this section, we firstly outline the research design. Then, the cases are briefly described.

Research design

To analyze the impact of a total solutions strategy on channel management, a qualitative research was carried out. Although both central issues (total solutions and channel management) already have been documented thoroughly in literature, so far we have found no research on the cross-section of both research fields. That is why we have chosen to perform a more exploratory oriented, qualitative analysis. Moreover, the issues discussed in this paper are situated in the field of strategy processes (strategic change). Pettigrew (1992) states that strategy process research should be able to capture the inherent dynamism and path dependency of the processes. Consequently, a research based on case studies seems appropriate, as ‘case-based research’ is described as an empirical and qualitative research methodology, designed to analyze problems in their real context, with consideration for the dynamism of the problem (Eisenhardt 1989). A ‘case study’ is defined by Hartley (1994, p. 208-9) as “a detailed investigation, often with data collected over a period of time, of one or more organizations, or groups within organizations, with a view to providing an analysis of the context and processes involved in the phenomenon under study.” In our approach, case-based research is related to ‘iterative grounded theory’: both methods require a frequent overlap of data analysis with data collection to develop theory (Eisenhardt 1989; Orton 1997). During the research, we adopted a ‘systematic combining’ approach, in which the confrontation between theory and the empirical world is “more or less continuous throughout the research process” (Dubois and Gadde 2002, p. 555).

Selection of the cases occurred on a theoretical basis, for the only argument to switch from single to multiple case study research (at the risk of losing depth) is “to create more theory-driven variance and divergence in the data, not to create more of the same” (Pauwels and Matthyssens 2004, p. 129). To increase theory-driven variance, we sampled cases with divergence in the area of (1) sector (though always B2B) – we expect different degrees of complexity of total solutions and service integration across sectors – (2) size (calculated as the number of employees in Belgium) – we expect marketing resources to be a key enabler for companies to adapt their channel strategy to the new offering – and (3) original orientation (physical products manufacturers vs. service providers) – we expect former service providers to experience less difficulties in implementing total solutions compared to former physical product manufacturers. In the end, five cases were selected (table 1). Eisenhardt (1989, p. 545) states that using 4 to 10 cases is usually appropriate to develop a multiple case study. All of the case companies compete in the Belgian industrial market.

< Table 1 about here >

Data was collected by conducting in-depth interviews with the best-informed persons per case company (at least two persons per case). Functions from respondents ranged from Product Marketing Manager (4) over Sales Support Manager (4), Communication & Training Manager (1), VP Marketing & Technology (1) and VP Operations Service Division (1) to Logistics Manager (1). The multiple

interviews per case helped to enhance the internal validity and reliability of the research. In all, 17 in-depth interviews were held in two rounds. The first round of interviews included 12 interviews. After a period of data analysis and theoretical reflection, 5 additional interviews (1 for each case) were performed in a second round. This approach matches the one Dubois and Gadde (2002, p. 555) suggest: they found that “the researcher, by constantly going ‘back and forth’ from one type of research activity to another and between empirical observations and theory, is able to expand his understanding of both theory and empirical phenomena.”

At each interview round, a topic list drawn from the extensive literature review was used to structure the interviews. A transcript of the interviews was sent back to each of the contact persons to clarify the points that could lead to misinterpretation. Further triangulation was pursued by confrontation of this data with secondary data sources (publications received from the company itself, web sites, sales brochures, press releases, etc).

Data analysis was executed in two phases. The first phase involved a case-by-case analysis. Each case was studied profoundly, using both primary and secondary data sources, and confronted with the insights proceeding from the extensive literature review. In the second phase, a cross-case analysis was pursued. In this way, pattern-matching logic (Yin 1994) was applied to reveal underlying patterns. A managerial framework was being developed. Table 2 summarizes the actions taken to enhance validity and reliability.

< **Table 2 about here** >

The transition to a total solutions approach in five cases

In all, five cases were developed. All of the case companies underwent a transformation into a solutions provider in the last 5-10 years. Below, the case companies and their shift to a total solutions approach are briefly described. The impact of this approach on their channel management is being analyzed in the cross-case comparison. Although the cases are presented in a relatively strict and schematic way, they are evidently based on rich stories which clearly indicate the dynamics and processes which underlie the transition to total solutions.

Case ALPHA

ALPHA is a large compressor company in which we investigated the business unit which specializes in smaller compressors (<90 kW). In 1965, ALPHA started producing naked compressors; the customer had to search for the related equipment with other suppliers. Gradually, it extended its product portfolio. Today, it offers completely integrated and customized installations to every individual customer. The reason for this transformation lies within the changed customer behaviour: the customer has lost its interest in the compressor itself and just wants to receive a certain amount of compressed air containing certain specifications. Moreover, ALPHA also experienced saturation in the compressor market. The market is being consolidated, resulting in an increased level of competition. Five years ago, ca. 10 players of the same size dominated the market. Now, all of these players are merging or being swallowed up.

Case BETA

BETA, a relatively small company (38 employees), is a fuel distributor in both the B2B and the B2C sector. In the nineties, the company realized that the environment would be a highly important issue in the Belgian fuel sector in the future. Further on, BETA experienced an increased level of competition due to concentration in the fuel sector and a change in customers' preferences, who wanted a higher level of comfort. BETA took advantage of these trends by commercializing its tank services (e.g., the installation and maintenance of tanks, tank examinations, advice, etc). This means that BETA transformed its offering from pure fuel commodities into a 'product plus'. The original product (liquid fuel) remained however the main focus. In the future, BETA plans to go further. The company wants to focus on the B2B sector, because it feels that companies are more interested in the added value a total solution offers. At this moment, the company already started the exploitation of diesel tanks and tank cards. In the near future, BETA intends to obtain a license to distribute natural gas. In that way, the company wants to convert itself into a neutral energy distributor who can provide a total energy solution for its customers.

Case GAMMA

Until recently, GAMMA was only known as an equipment vendor for telecom carriers (fixed and mobile). Today, the company has changed profile: it presents itself as a provider of communications solutions to telecom carriers, Internet service providers and enterprises for delivery of voice, data and video applications to their customers or employees. This implies a shift in both offerings (from equipment vendor to solutions provider) and markets (from telecom carriers to all companies with a national network). Two trends led to this shift: on the one hand, GAMMA experienced an increased level of competition, which provoked a significant decrease in profit margins of its equipment parts, and on the other hand, the customers' desires changed gradually from plain equipment parts to integrated problem solutions.

Case DELTA

In the seventies and eighties, DELTA became widely known as a systems integrator. In the last decade however, the level of competition has grown enormously, among other things because of competition from the Central and East European countries. Therefore, the company experienced that its system integrator activities became commodities and it switched to a strategy of added value (total solutions). Whereas DELTA used to limit its task to pure integration of systems, it now develops an integral solution for a customer's problems (e.g. Warehouse and Distribution Solutions). The customer seems to be pleased with this evolution, for now he can be involved in the development process at a much earlier stage.

Case EPSILON

EPSILON was founded in 1988 and has grown into a world market leader in digital colour printing. The company develops and produces print engines, toners and front-end applications. Recently, EPSILON started offering total solutions in the area of labelling and CD-packaging. In order to supply the latter solution, the company has engaged in a joint venture with a world player in the paper industry. In the future, EPSILON intends to extend its solutions offerings. The reason for this shift can be found in the rather difficult market situation; price competition is the norm in the traditional print engine market.

Research findings: cross-case comparison

Total solutions

A cross-case analysis points out that the cases show important similarities in the field of the total solutions strategy. For example, the reasons for shifting to this strategy appear to be similar: all case companies experienced a transition in the customer's preferences and in four cases a higher degree in competition was noticed. The fifth case company (EPSILON) did not so much experience an augmented degree of competition, but it already operated in an environment in which price competition was the norm. Each of the case companies also noted an internal change and an increased emphasis on customer focus as a result of the new strategy. Furthermore, a mentality change of every employee (from product- to solutions-centered) seemed to be indispensable.

Despite these striking similarities, the cases demonstrated a rather high degree of divergence, too, mostly in the internal implications of the total solutions strategy. Most of this divergence could be explained on theoretical grounds. It is obvious that the former physical product manufacturers (ALPHA, GAMMA and EPSILON) experienced a significant increase in the amount of intangible elements (and by consequence an alteration in the marketing function), whereas the former services providers (BETA and DELTA) did not. Another source of variation between the case companies is the organization size. It is remarkable that rather large companies (ALPHA and GAMMA) needed a formal training program for obtaining the indispensable mentality change of all employees. Meanwhile, the smaller companies (BETA, DELTA and EPSILON) applied a more pragmatic approach (top management sets the example and hopes that the employees will follow suit). This divergence can be explained by organization theory: the organization size is determinant of the adequate internal control mechanism; larger companies need more formal mechanisms (e.g. Simons 2000).

Channel management

Tables 3, 4 and 5 illustrate the main similarities and dissimilarities between the cases in the field of channel management. In the area of **channel design**, many parallel characteristics can be found

(table 3). A total solutions strategy apparently goes hand in hand with a rather direct channel approach to reach the customers. Based on the in-depth interviews, it seems that the new offering mostly provokes this more direct channel strategy. For example, in the past, BETA sold its fuel products mostly via telesales. In order to sell the total energy solutions, BETA plans to engage a sales representative who directly contacts and advises (potential) buyers (face-to-face). DELTA engaged in a new kind of partnership: the consortium agreement, in which every subcontractor is responsible for its own part. This evolution also involves a shortening of channels: previously, one of the companies acted as an integrator, while today the interaction with the customer is more directly for every player. EPSILON has omitted its former distributors and has founded its own sales centers to facilitate the total solutions strategy. This is in line with theory, since Rangan, Shapiro and Moriarty (1995) suggest a direct channel approach if the offering has a high purchase value, if the sales process is long and complex and if the (relatively small number of) customers requires a lot of information and training in product use. Thus, channels are shortened as a result of the strategy change to total solutions in all case companies.

< Table 3 about here >

Hybrid channels emerge in four cases. Hereby the most vital tasks of the marketing process, such as customer advice and persuasion (BETA and EPSILON), customer tracking (DELTA) or solution integration (GAMMA), are performed by the company itself, while more peripheral tasks, such as the delivery itself, are executed by resellers. This phenomenon corresponds with outsourcing literature, which claims that a company's essential competences should not be outsourced (e.g. Wu et al. 2005).

Finally, only two case companies (ALPHA and BETA) apply multiple channel structures. In the case of BETA, this can easily be explained: identical to GAMMA, DELTA and EPSILON, BETA has set up a new, more direct distribution channel for its total solution. However, BETA keeps selling its standard products via its traditional channel. Hence, a multiple channel structure emerges. In the case of ALPHA, the supplier already applied a multiple channel structure to reach its customers. The total solutions strategy has not altered this situation.

The changes in the **supplier-customer relationship** (table 4) are very parallel in all cases. Every supplier believes that all aspects of relationship quality have improved by the total solutions strategy. Relationship-specific investments (RSIs) are the coordination mechanism most used to control the supplier-customer relationship. Both parties invest in specific assets when applying a total solutions approach. The customer has to make a considerable investment, because the total solution often represents a higher dollar value than a standardized product. Moreover, the customer cannot compose its components from several competitive suppliers and often has to adapt its production process to the new solution. The supplier makes RSIs, too. Indeed, it mostly has to dedicate a significant investment to a specific product-market combination. Two case companies mention specific RSIs: DELTA applies a risk sharing program and EPSILON engages in exclusive contracts. When suppliers make RSIs, they express their commitment to the relationship, which encourages resellers to trust them and commit themselves, too (Jap and Ganesan 2000).

< Table 4 about here >

The impact of total solutions on the **supplier-reseller relationship** (table 5) is less harmonious amongst the case companies. This seems to be in line with the existing literature. After all, on the one hand, a total solutions approach implies an enhanced market orientation. As a consequence, suppliers might re-evaluate the contribution of resellers, thereby not considering them as 'box movers' but as co-creators of value and as sources of valuable customer information. This entails, according to Simpson, Sigauw and Baker (2001), an increased reseller perceived value of the relationship and consequently improves reseller satisfaction. On the other hand, a total solutions strategy is expected to provoke a raise in direct distribution channels. Therefore, resellers might worry about being passed by. This could have a negative impact on their trust and commitment, and by consequence on the perceived relationship quality. Moreover, resellers mostly are reluctant to commit themselves because of the risks related with being overly dependent on a smaller set of suppliers (Spekman and Carraway 2006).

Table 5 shows that the case companies can be broken down into two types: ALPHA and DELTA on the one hand and BETA and GAMMA on the other. Whereas ALPHA and DELTA recognize a rise in

all aspects of the supplier-reseller relationship quality, BETA and GAMMA do not. Both ALPHA and DELTA use mostly relational norms to coordinate the relationship. DELTA uses a 'preferred partners' strategy, which enhances the solidarity in the relationship. Consequently, distributors are more trusting and willing to commit to the relationship. ALPHA has set up a large information campaign for its distributors, involving them in the strategy change process. Moreover, they have always taken into account the distributors' feedback on this strategy transition. This has augmented the distributors' loyalty and trust.

< Table 5 about here >

BETA and GAMMA do not experience a rise in relationship quality in consequence of a total solutions strategy. BETA tries to convince its distributors of the mutual advantages of cooperation, but until now, it has not succeeded. When analyzing this, it seems that BETA is in the same position as ALPHA some years ago. They also experienced problems in convincing their distributors. A large-scale information exchange and feedback program might help BETA to win their distributors over. In the mean time, BETA applies formal cooperation contracts to lock their distributors' commitment.

GAMMA uses a different approach concerning their distribution partners. This company engages in turnkey projects. Contrary to DELTA, GAMMA does not utilize a 'preferred partners' strategy. This can be explained by the nature of the projects: GAMMA's projects have a determined timeframe. When the project is finished, GAMMA's involvement is over, too. DELTA's projects often need some kind of aftercare, such as maintenance or updating. Thus, GAMMA's solutions are more short-term orientated. In a short-term relationship, the use of relational norms to control the relationship is not recommended, because they "direct the focus of a supplier to bilaterally beneficial strategies and goals and a long-term orientation" (Jap and Ganesan 2000, p. 230). Indeed, GAMMA uses explicit contracts as its main coordination mechanism.

EPSILON is not considered in the analysis of the supplier-reseller relationship, because today the company only applies a direct channel to reach its customers. In the past the supplier experienced that its distributors were not willing to commit themselves to the relationship or to make RSIs. Contrary to ALPHA and BETA, EPSILON did not try to persuade the distributors, but it skipped its distributors and set up its own sales centers after their switch to a total solution strategy. In this way, the supplier avoids coordination problems.

Discussion

The aim of this paper was to investigate whether a company's channel management experiences significant alterations when shifting from a standardized products approach to a strategy of value-adding integral customer solutions. Channel management was subdivided into two dimensions: channel design and relationship management (both supplier-customer and supplier-reseller relationships have been discussed).

< Figure 2 about here >

Fig. 2 summarizes the main findings of the literature review and the case-based research. This figure illustrates that the business environment has changed considerably in the last decade(s). *Hypercompetition* and *changing customer preferences* have made traditional competitive advantages unsustainable. To succeed in realizing competitive advantages in such a situation, companies can switch to a total solutions strategy. ALPHA's Product Marketing Manager says:

"How can we grow and offer added value to the customer? By supplying solutions."

However, the new solutions provider has to bear in mind some internal barriers to the successful implementation of this strategy. Firstly, the *incorporation of intangibles* (services) can be noted. Former physical product manufacturers experience an increasing importance of the service aspect. As a consequence, the intangibles added to their offering make their processes less controllable (e.g. quality control, operational planning, etc.). Specific training programs, such as those used by ALPHA or GAMMA can be applied. Secondly, a *deep customer focus* is needed to be able to offer customized solutions. The early involvement of customers in the development or production process is a

supportive technique, used by DELTA and EPSILON. Thirdly, *integration* within the internal structure, such as ALPHA's integration of compressor and extension production lines, seems to be indispensable when supplying integrated total solutions. Finally, the case studies made clear that it might be recommended to obtain a *mentality change* of all employees, either by formal training, or by using a pragmatic approach. ALPHA's Product Marketing Manager states:

"That's a big marketing action: it's not just the case of making some brochures, it's the case of changing the whole mentality of the organization."

This change of strategy might have a profound impact on one or all of the dimensions of the provider's channel management (channel design and relationship management). In the matter of **channel design**, a total solutions strategy might initiate the use of shorter, hybrid and/or multiple distribution channels. Since a 'deep customer focus' is indispensable when offering total solutions, direct customer contact is recommended. A direct channel approach is also advised because of the higher purchase value and the increased complexity of the offering (Rangan, Shapiro and Moriarty 1995). In this way, channels are *shortened*. ALPHA's Product Marketing Manager admits that the role of the company's distributors as an intermediate party is declining. When the supplier keeps selling its traditional products via its conventional distribution channel, *dual or multiple channel structures* might emerge, as is the case with BETA. In these multiple channel structures, suppliers must find ways to manage conflict between separate channels (Rangan, Shapiro and Moriarty 1995; Stern, El-Ansary and Coughlan 1996). Finally, as several case studies pointed out (BETA, GAMMA, DELTA and EPSILON), the offering of total solutions might give rise to *hybrid channels*, because most suppliers wish to take control over certain marketing tasks. Anderson, Day and Rangan (1997), Rangan, Shapiro and Moriarty (1995) and Stern, El-Ansary and Coughlan (1996) state that the trend towards hybrid channels is driven by the customers' wishes to receive products in the most cost- and time-efficient manner. However, we believe that in the case of a total solutions strategy, efficiency is not the main driver of a hybrid channel structure. On the contrary, this channel structure may be the result of (1) the supplier's desire to have full control over the most crucial distribution tasks (solutions integration, customer advice, persuasion and tracking) as a consequence of the high purchase value of the total solution (as opposed to that of the standardized products) and (2) the supplier's wish to enhance direct customer contact.

When observing the impact of a total solutions strategy on **relationship management**, a distinction should be made between the supplier-customer and the supplier-reseller relationship. As for the **supplier-customer relationship**, the relationship quality is improved by a total solutions approach. Both parties (supplier and customer) experience an enhanced level of satisfaction: the supplier can revitalize its competitive advantage (Stremersch, Wuyts and Frambach 2001) and the customer obtains a fully customized problem solution (Boyt and Harvey 1997). Both trust and commitment are high. EPSILON's Sales Support Manager states:

"Ever since we offer total solutions, our customers are less inclined to go to our competitors."

In this way, 'strategic' (Brady, Davies and Gann 2005) or 'vertical' (Ploetner and Ehret 2006) partnerships arise, i.e. long-term relationships built on trust. In order to protect the customer's trust and commitment, relationship-specific investments (RSIs) are recommended (Ploetner and Ehret 2006), although relational norms are suited, too (Lusch and Brown 1996). When making RSIs themselves, suppliers indicate their commitment to the relationship. This might encourage customers to commit, too. An example of an RSI is given by EPSILON, which offers its customers exclusivity.

The impact of total solutions on the **supplier-reseller relationship** is not as straightforward as that on the supplier-customer relationship. Two categories should be identified. In the first category, the total solutions strategy provokes a long-term orientated supplier-reseller relationship. The integration into the customer's operations is mainly high and the total solution usually needs some form of maintenance from the supplier. The reseller as well as the supplier is committed to the relationship. Both parties show a high level of trust. ALPHA's Product Marketing Manager claims that the level of distributor loyalty has increased. Relational norms are appropriate to coordinate this kind of long-term relationship (Lusch and Brown 1996; Ploetner and Ehret 2006). DELTA applies a 'preferred partners' strategy, whereas ALPHA uses an extensive information exchange and feedback program:

"We have always listened to our distributors' requests and tried to fulfill them, too. (...) In this way, we gently encouraged our distributors to trust us."

These relational norms wipe out worries that resellers might have about being passed by.

In the second category of supplier-reseller relationships, the total solutions approach does not initiate the relationship to become long-term orientated. The total solutions are mostly project-based and distribution partners vary per project. Integration in the customer's operations is rather low. In our study, GAMMA was in this situation. In these relationships, trust and commitment are high, but strictly limited to the project. GAMMA's Sales Support Manager testifies:

"To be successful, trust has to be high. However, this trust only applies within the project boundaries, since in the next projects, we could be in competitive partnerships."

Given that these relationships are short-term based, explicit contracts are appropriate coordination mechanisms (Jap and Ganesan 2000; Ploetner and Ehret 2006).

Towards a managerial framework

Based on the main findings of this study, several concrete lines of action can be formulated for new total solutions providers. In fig. 3, a managerial action framework is being depicted that summarizes the most important outcomes of our research. Using this framework, the manager (or marketer) of a (new) solutions provider can take actions in the field of channel management, tailored to the company's specific needs.

The framework reports several statements, related to potential barriers (that emerged out of the case studies) concerning the implementation of a total solutions strategy and an appropriate channel approach. In this way, the framework has a signaling function, focusing the manager's attention to potential problems or hurdles of the new strategy. A manager who wants to apply this framework can use the statements for example as subjects for debate in management team meetings with the company's sales representatives (and possibly some network partners).

The framework starts from the premise that a total solutions approach implies direct learning relations with selected customers. If the traditional channel acts as a filter or 'blocker', an alternative channel design might be required (1). Another factor impacting on channel design is the need for running simultaneously two businesses: the traditional, low value-added, product (often the cash generator in the short/medium run) and the new, high value-added, total solution offering (often not profitable in the short/medium term). Such a dual marketing approach might necessitate a complex channel design with dual or multiple channels (with a shorter channel for the new business) (2). Conflict management and intensified communication with channel partners becomes a necessity in such a case.

The framework further highlights the (frequently mentioned) necessity to control the quality of the service provision and the need to overcome resistance to change via close partnerships (3) and relation-specific investments (4). The degree of integration in the customer's operations and type of business (maintenance- versus project-based) determine further if one wants a long-term and intense (even risk sharing) support from the channel partner, or if one settles for project-based, short-term oriented relationships (5).

< Figure 3 about here >

Conclusion

The aim of this article was to develop propositions about the impact of providing total customer solutions on a supplier's channel management, based on an extensive literature review and a case-based research in the Belgian industrial market. The study contributes to both marketing practice and theory formation. In the matter of marketing practice, the managerial framework developed in this paper can be used as a tool to direct lines of actions of managers and marketers. As for theory formation, this study provides a first attempt to develop marketing theory in the field of distribution channels within the new service-centered paradigm in marketing (Vargo and Lusch 2004).

Limitations and recommendations for further research

It was not in the authors' ambition to develop a general, all-embracing theory. The research scale and the relative premature state of the new service-centered dominant logic did not allow this. Therefore, we have chosen to develop a managerial framework, which already sheds some light on the impact of this new dominant logic on a company's channel management. In a later stadium however, it is recommended to pursue a research study of a larger scale, including mixed methodology, to build a more universal theory.

This study provides a broad overview of what we considered to be the main dimensions of channel management (channel design and relationship management). Still, several articles and textbooks identify other dimensions of channel management, such as selecting and motivating channel members, assessing channel performance, or managing channel conflict (e.g. Mehta, Dubinsky and Anderson 2002). An investigation of these dimensions of channel management within the new service-centered dominant logic of marketing seems indispensable when developing a more general theory. Especially the investigation of the management of the emerging channel conflict seems appealing, as total solutions apparently often give rise to a dual/multiple channel design.

Also, the scope of this study did not allow us to investigate the dimensions of relationship management in detail. It could be very interesting to analyze meticulously which aspects of relational commitment (credible or attitudinal commitment) or trust (credibility or benevolence) are influenced by which dimensions of the new total solutions strategy. Furthermore, as already has been mentioned, a more thorough analysis of the constructs underlying relationship quality should also take into account the time influences in the cause-effect relations of satisfaction, trust and commitment. Moreover, some other aspects of relationship quality, such as coordination or goal congruence, could be incorporated in a subsequent research study.

Finally, our study incorporated cases derived from various sectors (though all of the case companies act on the Belgian B2B market) and comprising a rather high degree of variance in size and original orientation (pure products manufacturers vs. service providers). This variance was theory-driven. More than sector, the type of business (project- vs. maintenance-based) and the required time oriented on business relationships seems to play a role in the transition to a total solutions approach. However, when executing a more elaborate research, it might be recommended to account for this theory-driven variance which was incorporated in the study. For instance, the study could be replicated within separate sectors. In this way, sector-specific factors can emerge.

Endnotes

¹ We are aware of the fact that we omit several other aspects of channel management by choosing for this two-fold approach. The research setting was too limited to aspire to provide a full picture of channel management. Moreover, trying to capture every aspect of channel management would certainly overload this study. The reported literature review is evidently fragmentary in that respect.

² Of course, a more thorough analysis of these constructs should take into consideration the time influences in these cause-effect relations of satisfaction, trust and commitment, but the analysis of these influences exceeds the scope of this paper.

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Figures and tables

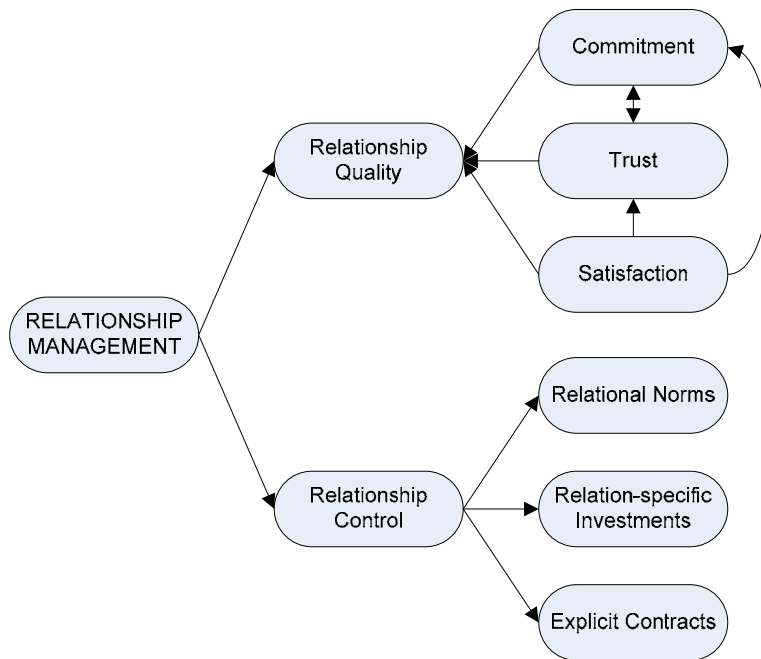


FIGURE 1: Dimensions of relationship management

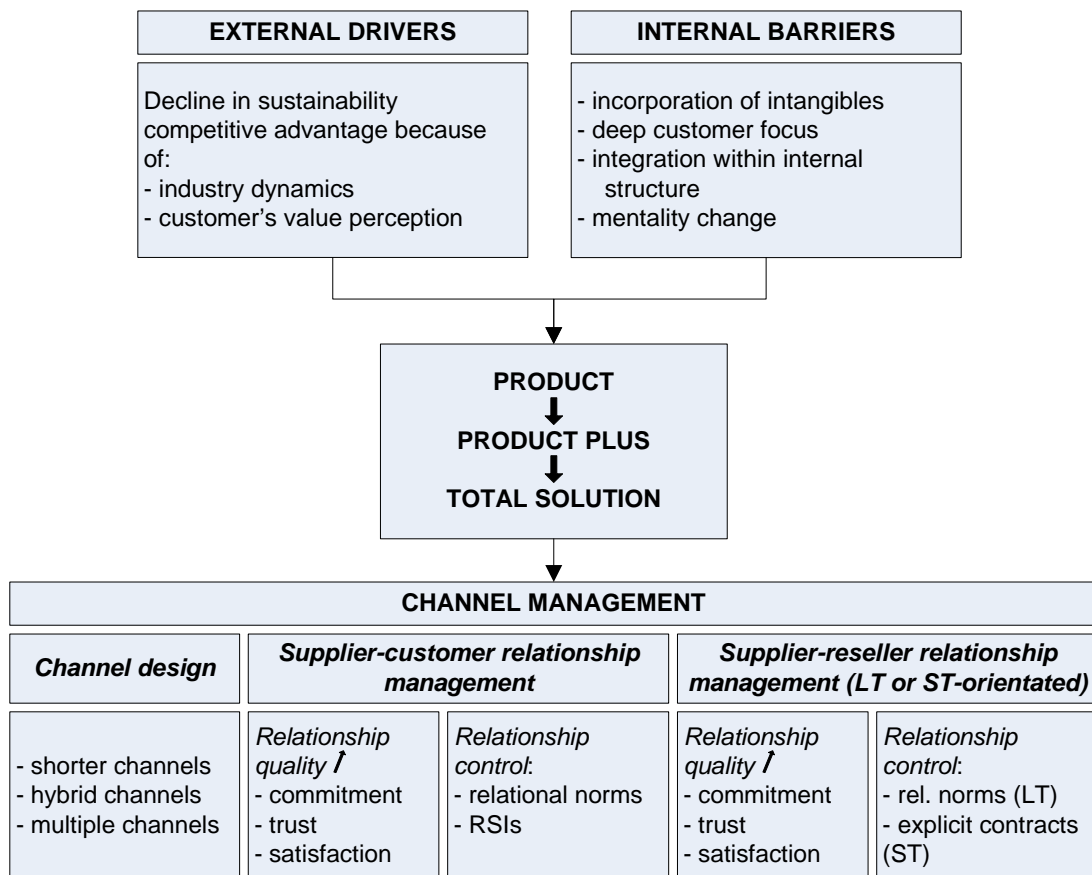


FIGURE 2: Summary of the main findings

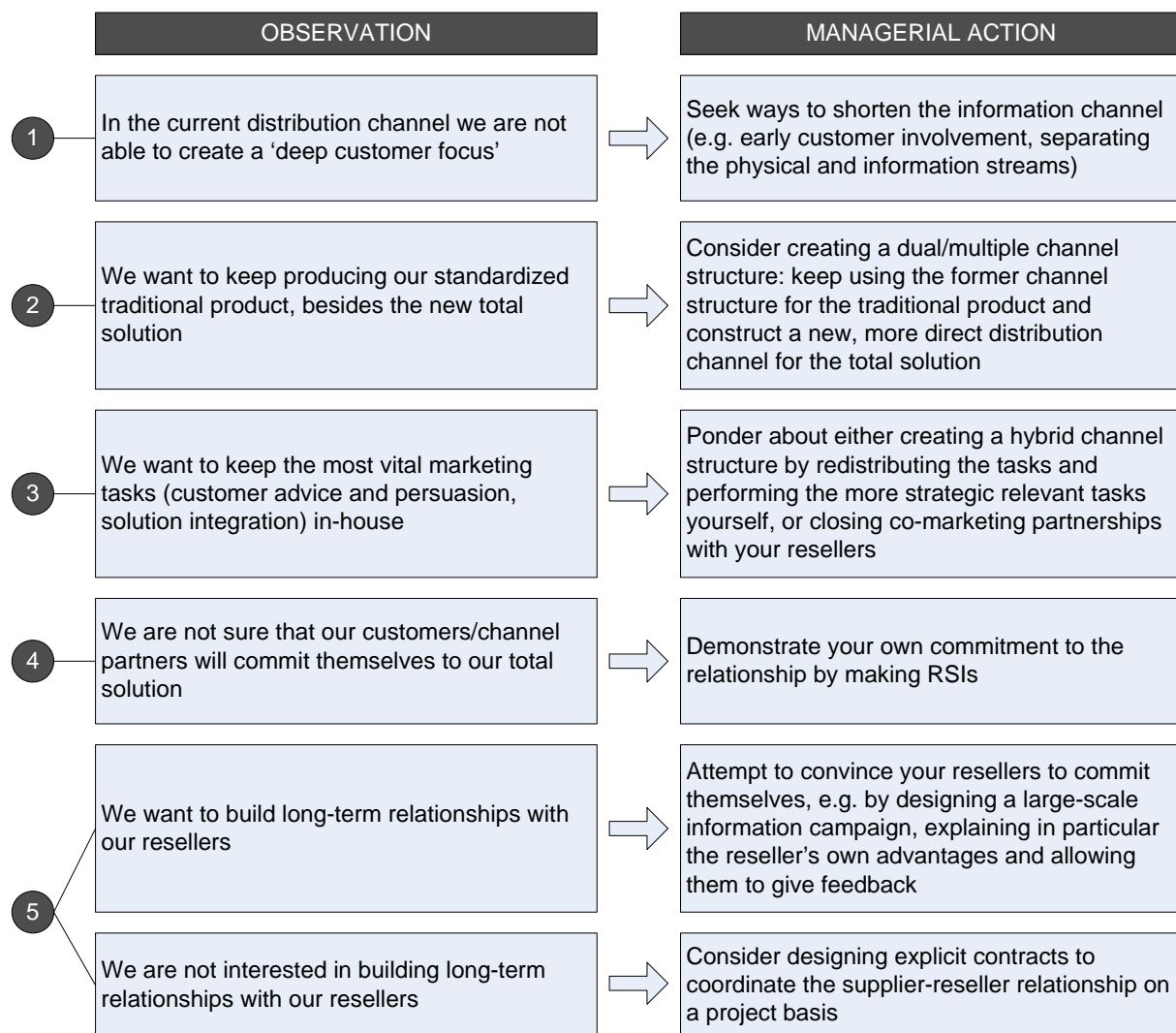


FIGURE 3: Managerial framework

TABLE 1 Selected cases

	Sector	Size (worldwide employees)	Physical products manufacturer (1) vs. service provider (5)
ALPHA	Compressors	> 25 000	1
BETA	Fuels	38	4
GAMMA	Networks	56 000	2
DELTA	Automation – systems integration	600	5
EPSILON	Digital printing	220	3

TABLE 2 **Validity and reliability of the performed research**

	Actions to enhance validity and reliability
Content and construct validity	<ul style="list-style-type: none"> • Multiple interviews per case • Two rounds of interviews • Correction of interview transcripts by contact persons • Use of both primary and secondary data sources
Internal validity	<ul style="list-style-type: none"> • Analysis of internal patterns through the use of a topic list for the interviews
External validity	<ul style="list-style-type: none"> • Confrontation with insights from literature review
Reliability	<ul style="list-style-type: none"> • Detailed documentation of research protocol • Multiple interviews per case • Two rounds of interviews

TABLE 3 **Cross case comparison: Channel design**

	ALPHA	BETA	GAMMA	DELTA	EPSILON
Shorter channels	X	X	X	X	X
Hybrid channels		X	X	X	X
Multiple channels	X	X			

TABLE 4 **Cross case comparison: Supplier-customer relationship**

	ALPHA	BETA	GAMMA	DELTA	EPSILON
Satisfaction	X	X	X	X	X
Trust	X	X	X	X	X
Commitment	X	X	X	X	X
Main control mechanism	RSIs	RSIs, relational norms	RSIs	RSIs	RSIs

TABLE 5 **Cross case comparison: Supplier-reseller relationship**

	ALPHA	BETA	GAMMA	DELTA	EPSILON
Satisfaction	X			X	n.a.
Trust	X			X	n.a.
Commitment	X			X	n.a.
Main control mechanism	Relational norms	Explicit contracts	Explicit contracts	Relational norms	n.a.