

# CREATING VALUE THROUGH INTERMEDIARIES

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## ABSTRACT

This paper focuses on the perceived buyer value of intermediated channels for building articles made to order. In order to include the co-creation aspect, this paper applies a triadic approach to describe, analyze, and understand the value creation in intermediary connected business relationships. The first section presents a review of literature on intermediaries and value. The following section presents the framework for the study. Moreover, we apply the framework to initial explorative results from a number of interviews with buyers. The initial results strongly point to a situation in the network characterized by inertia. The value creation is questioned, especially by the large buyers, who incur high acquisition cost in direct interaction with suppliers, because the merchants lack knowledge for customization of ordered goods. This situation is regarded as incompatible with trade-terms which endow merchants with a commission for ordered goods. As our study is highly explorative it leaves many interesting aspects to be investigated further. But it is clear to us that this field of research will benefit from a triadic research perspective. Although the study is in an early stage, the framework can help business managers better understand how indirect relationships through intermediaries create value.

Key-words: Intermediaries; Middle-men; Value-creation; Triads

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## INTRODUCTION

The ability to create and extract value is crucial for an intermediary. An intermediary, who is not able to create value for its connected partners as well as for itself, will hardly survive in the long run. In fact a lot of attention, driven largely by IT and the Internet, has lately been invested in finding and routing out intermediaries, who do not provide value. Topics such as dis-intermediation and re-intermediation have gained interest, because intermediaries are not only potential sources of value, but also potential cost drains and gatekeepers of information. However, it seems as if e-commerce does not make human intermediaries superfluous (Allen, Santomero 2001), but their functions change as channels are re-intermediated to incorporate e-commerce (Anderson, Anderson 2002).

Value is claimed to be the most addressed topic in B2B marketing (Komulainen et al. 2005). 'The issue does not seem to be whether an organization should compete on customer value delivery, but rather how it should do it' (Woodruff 1997). The underlying rationale is that competitive advantage implies delivering superior customer value, based on market orientation (Slater, Narver 1994). Consequently, it is not sufficient that intermediaries can economize on the cost of exchange and transaction, because "changing the price does not change the value" (Anderson, Narus 1998). Instead, both the supplier and his intermediary have to focus on customer value, and to involve the customer in the process as co-producer (Vargo, Lusch 2004).

In order to include the co-creation aspect, this paper applies a triadic approach to describe, analyze, and understand the value creation in intermediary connected business relationships. The first section presents a review of literature on intermediaries and value. The following section presents the framework for the study. Moreover, we apply the framework to initial explorative results from a number of interviews with buyers in the Danish building articles industry. In conclusion we suggest some managerial indications of such a framework and provide suggestions for future research.

The semantics within this field of study is not straight-forward and consistent. It has been habitual to operate with a distinction between the merchant, who takes and negotiate title, the agent, who does not take, but negotiate title and the (facilitating) intermediary who neither takes nor negotiates title (Mallen 1976). Parallel to this division the terms intermediary and middleman have been used in scholarly papers to signify its basic semantic meaning - something or somebody acting between others (Oxford English Dictionary Online). It is this neutral version of the concepts intermediary and middleman that we apply. However, in the description and analysis of the interviews we apply the term merchant to signify a specific type of middleman in the building articles industry, who negotiate and take title, but not necessarily physical possession of the goods they trade. The codified translation from Danish into English of this type of middle-man is (timber) merchant (Winterberg & Bodelsen 1976).

## REVIEW OF THE LITERATURE

### The intermediary in the channel and the intermediary in the network

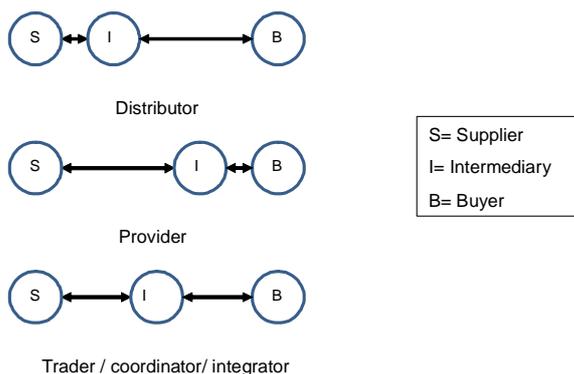
The early models and concepts for the description of distribution and marketing channels date back to the 1950's and 1960's with the work of Alderson & Martin (1965), Balderston (1958), and Bucklin (1965). They were all inspired by the microeconomic approach and aimed at modeling equilibriums or optimums in a channel structure; a structure governed by the economic forces of market demand and supply, in which price is the only discriminating variable. The intermediary was studied as the actor who economizes on the cost of interaction by specializing in handling a large number of transactions on behalf of buyers and sellers. And he was defined exclusively in terms of his functions and activities, as the importance of processes and relationships was not included (Heide 1994). However, Wroe Alderson is also the scholar who introduces the idea of studying channels as organized behaviour systems (Alderson 1950). This approach allows for the existence of an independent and idiosyncratic intermediary (Gattorna 1978), and by the inclusion of the importance of relationships between suppliers and intermediaries it introduces new perspectives in channel

research. Until the 1980's research in these relationships was dominated by a power and conflict perspective, which gradually changed towards interdependence, co-operation, and trust in the 1980's and 1990's (Johanson, Silver 2003).

In the mid-seventies this development was accompanied by the introduction of the perspective on distribution channel as systems of open, complex chain exchanges, constituted by mutual relationships between at least three parties embedded in an interconnected web of relationships (Bagozzi 1975). This approach introduces the idea that a chain is more than its dyads and actors: (Håkansson, Snehota 1989). They are elements in a pattern of vertical and horizontal integration, which is better described as a network rather than a chain (e.g. Achrol, Reve & Stern 1983, Håkansson, Snehota 1995). The concept of network accounts for actors and relationships in indirect sales which can be described as a "ménage a trois".

In spite of the increasing focus on interdependence and networks, channel research on the intermediary is dominated by a dyadic supplier perspective (Gadde, Snehota 2001, Frazier 1999). This is the approach applied by agency theory in which one party, the principal, depends on another party, the agent, to undertake actions on the principal's behalf (Bergen, Dutta & Walker Jr. 1992). The manufacturer is regarded as the principal and the dominant party, whereas the intermediary is the agent in the relationship (Antia, Frazier 2001), of which the efficiency is defined from the manufacturer's point of view, applying a transaction cost reasoning (e.g. Bergen, Dutta & Walker Jr. 1992, Johnson, Umesh 2002, Mookherjee, Tsumagari 2004).

The opposite position, the intermediary as the buyer's provider, is not new (Ferber, McVey 1960), and gradually it is becoming more visible in the B2C markets, due to consolidation of intermediaries and growing retail power (Blois, Reynolds 2000). Some researchers even claim that intermediaries only add value if they represent the buyer and solve his problems; if not, they are of no use to the buyer, and consequently of no use as intermediaries for the suppliers (Anderson, Anderson 2002). A third position for the intermediary as being "the man in the middle" seems less obvious in channel research. This was the function of the traditional trader, but it may also be a more accurate description of the modern intermediary, who is an important actor in the co-ordination of complex logistic arrangements in modern distribution (Dubois, Gadde & Mattsson 1999, Gadde 2004, Hulthén, Gadde 2007). He may not only be the "hired hand" of the supplier or the distributor, but a specialized middleman adding to the value creation in his own right. Not only as a coordinator of logistics, but possibly also as an integrator of the buyer's and supplier's activities and communication in the value-creation process. The three alternatives are illustrated in fig. 1.

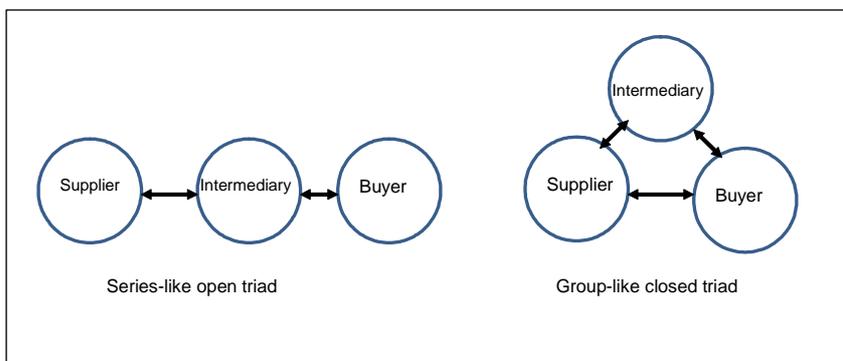


**Figure 1.**  
Three approaches to the intermediary in the channel

As a specific distribution arrangement in indirect sales involves at least three actors: the supplier, the intermediary and the buyer, the triad is a more precise unit for the analysis of such arrangements than the dyad. The term *triad* describes a structure formed by a micro-net consisting of three partners and their relationships. The significant difference between the study of interconnected dyads and triads is that in the study of dyads the importance of the interconnection of relationships may be acknowledged, but in the study of triads these interconnections are integrated as the construct, linking the dyads into a network structure (Anderson, Håkansson & Johanson 1994).

Conceptual papers about triads are rare (Blankenburg, Johanson 1992, Havila, Johanson & Thilenius 2004, Ritter 2000), but the applicability of an explicit triadic perspective has been tested in a number of case studies, applying qualitative methods data (Andersson & Mattsson 2004, Cunningham & Pyatt 1989, Jaaskelainen, Kuivalainen & Saarenketo 2000, Narayandas 2002, Odorici & Corrado 2004, Pardo & Salle 1994, Komulainen et al. 2005, Ronström 2005, Trimarchi 2002).

Havila, Johanson & Thilenius (2004) define triads as relationships involving interaction between all three parties. They describe open triads as serial-like and posit that such constellations should be studied as two interconnected dyads, whereas the closed, group-like triads, involving interaction among all three parties to more or less the same extent, should be studied as triads (figure 2). Blankenburg & Johanson (1992) apply the term triad, whether or not there is any direct connection between the first partner (the supplier in the context of this paper), and the third partner (the buyer in the context of this paper). This approach to triads points to the fact that no matter whether the triad is open or closed, it is more than its constituting dyads, because relationships influence each other and the dynamics in the triad results from changes in dyads (Komulainen et al. 2005).



.Figure 2: Unit of analysis of indirect sales. The illustration is based on definitions of triads in Havila, Johanson and Thilenius 2004. This mutual influence of relationships, the interconnectedness, can be studied based on a typology of three possible

basic effects of interconnectedness: a positive, a negative or a zero influence, resulting in ten different types of interconnectedness applicable for open and closed triads (Ritter 2000). 'An inter-organizational relationship can hinder, weaken, strengthen or enforce another relationship' (ibid p 321). We assume that the relationships in the triad will be influenced by the intermediary's function as provider, distributor, trader / coordinator / integrator. Therefore we will analyze this function as part of the triadic interconnectedness.

### Perspectives on B2B value and value creating activities

The research on value and value creation is quite multi-faceted and diverse (Payne, Holt 2001). Definitions of value vary as well as the type of studies carried out. Our focus is the value creation process and the resulting customer value in a B2B setting. Perceived value is the result of valuation; the process by which value is attributed to objects, persons, and actions (Jackendoff 2006). This process partly depends on *values*; rather stable, deeply rooted mental constructs, which may change over time, but differ according to childhood and adolescence. Consequently, value is an abstract property, which is not directly perceptible (Hitlin, Piliavin 2004). So whereas value may be identifiable, it is not always possible to measure and express the value of the abstract or intangible elements in monetary terms (Anderson, Narus 1998, Bowman, Ambrosini 2007, Woodruff 1997). In addition, the perceived value is subject to the influence of expectation (Flint, Woodruff 2001) and depends on comparison of alternatives (Sharma, Mehrotra 2007).

Certain perspectives seem more applicable than others for the description and analysis of value creation in a B2B interaction and network context. We have chosen to apply the following four perspectives:

- A short and a long term perspective (episode – relationship) (Ravald, Grönroos 1996)
- An actual relationship specific and a future network perspective (direct – indirect) (Walter et al. 2003)

- A sequence perspective on benefits and costs composed of three elements; a preparatory, a direct exchange, and an operations consequence element (Ulaga, Eggert 2006b)
- A dual relationship perspective consisting of two elements; the value and the quality (Ulaga, Eggert 2006a)

Value can be analyzed in terms of benefits versus sacrifices (e.g. Lapierre 2000, Menon, Homburg & Beutin 2005, Möller, Törrönen 2003, Ulaga, Chacour 2001, Wilson, Jantrania 1994). Basically, value can be created either by reducing the sacrifices or by increasing the benefits. And both benefits and sacrifices have to be valued in terms of the episode (one specific delivery or offering) and of the relationship, because they are mutually dependent. (Ravald, Grönroos 1996). The relationship is a context, which influences how a specific episode is interpreted; i.e. a customer may be more tolerant to occasional, inferior performance in a good relationship than in a bad one.

Value creation can be more or less direct. The direct value function depends exclusively on the relationship between the two actors in a dyad, whereas the indirect value function of a relationship is only beneficial in other relationships or in the future. Based on this distinction Walter et al (2003) categorize the aspects cost-reduction, quality, volume, and safeguard as the direct value function, and the aspects; market, scout, innovation development and social support are defined as the indirect value function.

Moreover, both benefits and sacrifices are composed of three elements: 1) Cost of preparation (acquisition / sourcing), 2) the direct costs (price) in exchange for core benefits, 3) the consequent operations cost and benefits (Ulaga, Eggert 2006b). Consequently, the value of a relationship depends not only on the core offering and the price. For both parties it also depends on the extent to which the actors are able to simplify the interaction needed for acquisition (institutionalization) and on the extent to which their co-operation increases operation benefits or reduces operation costs (adaptation). As a supplier depends on information on the customers' routines and operations in order to initiate such a development, these processes exemplify the importance of involving the buyer as co-creator of value (Frels, Shervani & Srivastava 2003, Hearn, Pace 2006, Normann, Ramírez 1993). Moreover institutionalization and adaptation require trust as the alternative value of the necessary investments may be zero or negative.

Satisfaction, commitment, and trust (relationship quality) are much researched concepts in relationship studies, whereas the performance element (relationship value) is less dominant (Ulaga, Eggert 2006a). Their study include both the value and the quality element and they conclude that: 'Superior value in terms of high benefits and low costs are a necessary, but not sufficient condition to stabilize a relationship' (p 322), but 'satisfaction with the supplier will only translate into commitment if the purchasing relationship is characterized by trust' (ibid). So both elements are important for the study of value.

Traditionally the middleman's share of the value creation has focused on the performance aspect and has been researched as three basic functions consisting of a number of activities or value aspects:

- the information function (Balderston 1958)
- the logistic function (Alderson & Martin 1965) and
- the risk-taking in holding speculative inventories (Bucklin 1965).

The information function concerns the importance of the pre-sale contact and communication, in which intermediaries economize on cost by reducing the number of contacts between producers and end-users. Balderston (1958 p 155) built his model focusing on the information needs; an approach which opens for a discussion of possible separate channels for logistics and information purposes (Bucklin, Ramaswamy & Majumdar 1996). When information becomes valuable it soon acquires the attributes of an economic good, and intermediaries become active traders and specialists in handling information in the supply chain (Etgar, Zusman 1982, Popp 2000). The intermediary as information specialist relates to a line of research based on assumed information asymmetry as the rationale for the existence of intermediaries. This approach is widespread in

finance (Allen, Santomero 2001, Ramakrishnan, Thakor 1984). That human intermediaries survive in spite of the dis-intermediating effects of e-commerce (Sen, King 2003) may depend on the fact that information intermediation includes a securization or quality aspect, too. These aspects are claimed to be a future growth potential for intermediaries along with customization (Anderson & Anderson 2002), because they are not easily substituted by ICT-technologies. But as pointed out by Wuyts et al. (2004), specialized customization demands that the intermediaries possess the relevant knowledge.

Alderson and Martin (1965) explicitly exclude the information function from their transvection concept and focus on the logistics needed to create the flow of goods through the channel. They separate channel activities in transformation in terms of form, space and time utility, and assignment (sorting) into heterogeneous or homogeneous sets of goods, which differ according to the end-product and the end-user. Intermediaries participate in transformation by stocking and transporting, but these transformation activities are always separated by a sorting activity performed by the intermediary. Today the transvection concept still contributes to research in modern distribution arrangements, which point to sorting as a decision activity demanding information and other human resources, whereas transformation demands physical resources for production, assembly or storing (Hulthén & Gadde 2007 p 189),

The concepts of postponement and speculation (Bucklin 1965) are related to the coordination of the channelling of the physical goods, but focuses on the specific aspect of financial risk resulting from uncertainty. Postponement is the principle of delaying cost-occurring activities to the latest possible time enabling a reduction of uncertainty as to demand. Speculation is the principle of getting supplies at the earliest possible point enabling a reduction of uncertainty in supplies in order to avoid costly transportation and loss of customers due to stock-outs. Bucklin claimed that the risk and opportunity on a speculative inventory is the economic justification for a title-holding intermediary in the channel (ibid p. 29). The balancing of speculation and postponement is still very important to enable quick response for world-wide demand for customized solutions (Gadde, Mattsson 2005). But due to global consolidation these considerations can be as much an intra-organizational as an inter-organizational network challenges.

It may be claimed that taking a network approach implies that the concept of intermediary or middleman is irrelevant or superfluous as all actors are interconnected. Consequently everybody is a middleman linking one dyad to another. We agree that this is correct when taking the network as the unit of analysis. However, what we attempt to do, by taking the triad as the unit of analysis, is not to take a network approach, but to expand the unit of analysis from dyad to triad. This implies that we are moving from a relationship to the smallest possible network or net consisting of three parties, enabling the inclusion of interconnectedness in the analysis. Our reason for doing this is to reflect the actual constellation of indirect sales, which consist of three partners, of which one is mediating the relationship between the two other actors. For this specific purpose the intermediary; the actor acting between others, is a relevant construct offering conceptualizations of functions and actions performed, for which the two parties he connects would otherwise have been responsible. The applicability of concepts of intermediary activities is demonstrated by recent IMP research (e.g. Araujo. & Minetti 2007, Gadde. & Mattsson 2005, Huithén & Gadde. 2007).

## THE CONCEPTUAL FRAMEWORK

The study focuses on the buyer's perceived value. This value is partly an aggregate of the value functions performed by the intermediary and the supplier. Based on the literature review, and results from an empirical pre-study, we have developed and studied the following six value functions as aggregates of a number of activities or aspects:

- Product function (price, quality and time of delivery)
- Logistic function (stocks, assortment, and coordination of deliveries for the construction site)
- Financial function (safeguarding on product guaranties, liquidity, risk)
- Knowledge function (of products in assortment or portfolio of suppliers)

- Indirect function (market, scout, innovation function, social function)
- Administrative function (billing, coordination of purchases)

These functions primarily point to the performance element of the relationship. In addition, the literature review points towards the importance of relationship quality; the influence of relationships and interconnections among relationships on the buyer's perceived value. Owing to this we have studied:

- The intermediary's function, in terms of distributor, provider, trader / coordinator
- The buyer's assessment of his relationship with the intermediary
- The buyer's assessment of his relationship with the suppliers

The resource dimension of relationships has not been studied separately. We argue this choice on Haakansson, Snehota (1995) positing that 'Resources are a result of activities as much as a condition that makes certain activities possible' (ibid p 132), and that relationships are 'the most significant resource in what makes a company capable of unique performance' (p 137). On these grounds, we have focused our data collection on activities and relationships.

The four perspectives on value

- The short and a long term perspective
- The actual relationship specific and a future network perspective
- The sequence perspective of benefits and cost
- The dual relationship perspective

are applicable across possible variation in the number and importance of value functions. This being so, these perspectives are suitable for the analysis and discussion of the data, and for the understanding of the attractiveness of indirect versus direct sales in the specific context of our study.

## **EXPLORATIVE RESEARCH IN THE VALUE CREATING ACTIVITIES OF THE SUPPLIER AND INTERMEDIARY**

The interviews respect a division of building articles in three categories: 1) Bulk in terms of sand, gravel, stone etc. 2) stocked commodities, e.g. nails, clamps, and minor (electric) hand tools purchased as standard on a regular basis 3) building articles delivered on specific order such as windows, doors, staircases, kitchens. The empirical study has been developed in an iterative process involving two case-companies, who are manufacturers of building articles to order. In consequence the focus is on deliveries according to order.

The selection of the four respondents was assisted by the case companies involved in the research, who were asked to find two small and two large buyers of building articles, to whom the case companies deliver through intermediaries. The interviews were organized as a combination of structured and semi-structured interviews to make room for diverging lines of thought and perspectives not conceived by the interviewer prior to the interview. The final part of the interview was designed to create a dialogue on the function of the intermediary, and the relationships with the supplier, on the basis of the above figures 1 & 2.

The citations from the interviews are translated from the Danish transcription of the interviews by the authors. The language is daily spoken colloquial Danish. The translations have been made as precise as possibly, but may not fully convey the lingo.

### **Results of the interviews**

The most distinct response came from respondent D. He did not perceive that the merchant added any value adding activities at all; these were performed by his suppliers and himself in cooperation. The other respondents perceived varying types of merchant activities which added value to the process. For an overview please refer to table 1 below.

TABLE 1: OVERVIEW – INTERVIEW DATA				
	RESPONDENTS			
<b>MERCHANT'S CONTRIBUTION TO VALUE</b> <b>BAMO = BUILDING ARTICLES MADE TO ORDER</b> <b>NON BAMO = BULK AND COMMODITIES</b>	A	B	C	D
<b>PRODUCT</b>				
Price – cost economizer BAMO	-	-	-	-
Price – cost economizer non-BAMO	+	+	+	+
<b>LOGISTICS</b>				
Coordination of BAMO	-	-	-	-
Coordination non-BAMO	+	+	+	+
Stock + assortment non-BAMO	+	+	+	+
<b>FINANCE</b>				
Liquidity		+		-
Safeguarding on risk	-		-	-
<b>PRODUCT KNOWLEDGE</b>				
BAMO	-	-	-	-
Non BAMO	+	+	-	+
<b>ADMINISTRATION</b>				
Nation-wide account	+	+	+	
Project based invoicing	+	+	+	
Support for calculations	+	+	-	-
	RESPONDENTS			
<b>SUPPLIER'S CONTRIBUTION TO VALUE</b> <b>(EXCLUSIVELY BAMO)</b>	A	B	C	D
<b>PRODUCT</b>				
Quality ( incl. customization of product)	+	+	+	+
Time of delivery	+	+	+	+
<b>PRODUCT KNOWLEDGE</b>				
Solutions (customization of information)	+	+	+	+
Information on novelties	+	+	+	+
Support for quotations (measurement and sales assistance in terms of assisted customer visits)	+	+	+	+
<b>LOGISTICS</b>				
Delivery on site	+	+	+	+

All respondents included the product function in their ranking in the value hierarchy. Building articles must fulfill the standards and criteria in the national building regulation and in the tenders, which govern an important part of the construction industry. Moreover, liability legislation in the construction industry is strict. The builder cannot win a case in court on the argument that he did as the customer demanded, if it is known that the customer's demand resulted in a problematic solution (respondent A) .So the functional quality aspect is important. Likewise the time of delivery is sometimes crucial and over-rules the price aspect (respondent C).

The price and discount aspects are important, too, but answers are inconsistent. On the one hand, the respondents expect that the merchants should be able to negotiate better prices with suppliers,

than they would be able to do themselves. On the other hand they mention the removal of middle-man commission as one of the possible advantages in direct transactions as compared to indirect sales. In this connection the buyers mentioned that they are annoyed because the merchants expand their retail departments. They feel that this has been at the expense of the B2B service and product knowledge. The situation is further aggravated, because the private account-holders in the merchants' customer portfolios can get the same level of discount as the professional customers (respondent C).

The assortment and stocking aspects are irrelevant when dealing with building articles manufactured to order. Consequently, the logistic function for this type of goods is a matter of precise coordination of deliveries to the building site, and it is important. And for goods ordered through the merchant, it is mainly his responsibility, and his customers expect him to be prompt and precise. However, the merchants seem gradually to lose this activity, too. Respondent D organizes his all logistic plans for deliveries of these ordered goods together with his suppliers with no involvement of the merchant. And it is habitual that the supplier is responsible for the delivery on the site.

Safeguarding is the only identified value adding aspect of the financial function identified, and here the respondents differ widely in their assessment of the importance of the merchant as a partner. Respondent C finds the merchant's backing of guarantees important, whereas respondent A, who points to the strict liability of construction companies, does not believe that the merchant is safeguarding him on his supplies.

All respondents pointed to the knowledge function as an important dimension of the merchants' value-creation, but the assessment of the merchants' capabilities in this value function and the importance of his ability to perform this function varied. All respondents have alternative direct and indirect sources of supply, and often get their information about products from suppliers. Moreover, all respondents have direct contact with the suppliers during preparation of deliveries of building articles made to order. Either directly to the factories or to the suppliers' regional sale representatives, who travel the country to assist merchants and customers. The customization of deliveries apparently demands knowledge that the merchants do not possess.

'This is where I really feel that it has slit down-hill lately..... I really don't think that you get the back-up or support from there, as we used to. They don't have time for us at all. ....they do not know anything about their products. You really have to be observant and attentive yourself.....when it involves something special. It may be interior doors of various size, and all sort of things.....then it is much nicer to sit together with the supplier, even when we purchase through the merchant. And it has probably always been like this, but it has not become any better, only worse. The merchant does not know anything anymore, so he actually throws us in the arms of the supplier right away' (respondent C).

Based on our explorative pre-study we had developed the concept of an administrative function including 1) facilitating easy invoicing to end-users and 2) of planning of purchases and deliveries through project based accounts. Surprisingly we encountered a third aspect in the very first interview with A. He pointed to calculation support as a much more important and value-adding activity performed by the merchant than the billing and purchasing activities. The merchants make thorough basic calculation of tenders and offers for their customers, based on the material that the customers receive from the ordering parties. Respondent A, the owner of the minor construction company, describes how the merchant assists his calculation of tenders and quotations:

'And then I give a copy to the merchant and say: Can you give me some figures for this. And then he takes it, and calculates it. Tries to calculate material volumes and types as prescribed or on which we agree. And then he calculates materials...he helps me in this way to make the quotation'.

Respondent B adds another detail when explaining the services offered by the merchant. Sometimes the merchant also assists in other preparatory activities:

It is the help in visiting the site and assisting in the measurement (i.e. of windows). And it is the assistance in - well sometimes if I am busy I simply drop the drawings at the merchant's. And then there is a measurer or calculator, and then he sits by himself, detailing the volumes. Then I only have to calculate the working hours. Of course it is still my responsibility, I invest my name. And of course I have to recalculate myself, if it doesn't look right, but in fact they do it all the time.

However, this is a service of no value to the large accounts, as they do their calculations of volumes and quantities themselves.

The respondents' perception of the merchant's role as distributor, provider, trader / coordinator varied a bit. A had no hesitation in assigning the merchant as a trader, whereas B and C both expressed that they would like to see the merchant as their provider, but they were not sure, whether he acted accordingly.

Concerning the relationship with the merchant, all respondents expected the merchant to economize on costs, by obtaining good (i.e. low) prices. Both A and B had changed merchant partners due to price issues, combined with what they called personal 'chemistry' in the relationship with the management, and the style in terms of forthcoming and quick service. Contrary to this, C had used the same partner for decades, in fact the same one as his father used before him, and when asked whether he has a trustful relationship with his merchant, he answers: 'The close relationship we had, it is not that – it erodes, definitely. I don't feel that they have the time for us or show the attention which we would like them to pay us'. D only expected the merchant to perform as a cost-economizer on bulk and commodities.

When presented with the illustration of serial dyads and triads all four respondents described their relationship with suppliers as illustrated by the triad. And all four respondents referred to the knowledge and professional support in finding the right solutions for their customers as the core of their relationship with the suppliers.

### Discussion of the results

The interviews provide a first impression of what is valued, and who is the active partner in performing the activities. Moreover, the interviews offer descriptions of relationships and indications of interconnectedness. It is remarkable that the interviews did not give any data on the indirect value functions. Apparently, the indirect functions are not part of what is consciously regarded as relevant and valuable. Probing questions on the scout and innovation aspects indicated that no such value adding activities are offered to the respondents, neither by suppliers, nor by merchants. Or if they are, their value is not acknowledged by the respondents.

All the respondents evaluate their relationships with suppliers very positively. The supplier is a partner on the product, the knowledge, and increasingly in logistics. None of the respondents expressed any negative assessment of this relationship, in spite of the fact that they are conscious that direct interaction with the suppliers increases the acquisition costs. However, the benefits in terms of core benefits, knowledge, solutions and customization for end-users more than balance these costs. The merchants still participate with logistic services in term of coordination on some orders, but it is obvious that this value function is eroding.

As illustrated in the description of the interviews, the respondents agreed on a number of value dimensions irrespectively of size, but the overall satisfaction or perceived customer value seemed to vary with the size. Therefore we will sum up separately on the merchant's activities in creating customer value for the minor companies and the major ones, and emphasize the differences. It is important to notice that the below discussion refers specifically to building articles made to order, because all respondents, including respondent D expressed that the merchants are value adding partners in bulk and commodities.

The two minor construction companies (A & B) have previously changed partner due to price and service issues. The fact that the present relationships with their their merchants have lasted for a

number of years indicates a relative satisfaction. The total episode value based on business in all three categories of building articles is positive and stable. They both explicitly refer to the value of support for calculation, which reduces their over-all acquisition costs, as a core element for satisfaction. But they incur acquisition costs in interaction with suppliers of ordered goods, and on grounds of this the minor companies are ready to switch from indirect sales arrangements to direct supplier-buyer relationships, if the possibility occurs. None of them expressed closeness with their merchant as an indication of a commitment, which would hinder a change of channel.

Contrary to this, the major construction company (C) has a long term relationship with his intermediary. On his own initiative he explains that he favours a long term loyal relationship with a merchant partner. Nevertheless, he has established an alternative relation with another merchant. He explains that this is due to the fact that his primary merchant has his premises in the middle of town, whereas the construction company has its premises at the outskirts. Therefore he buys commodities at an alternative merchant nearby. This may endanger his long-term merchant relationship, which is characterized by repeated episodes of lacking knowledge and deteriorating service. This development creates a context where the episodes are eroding the relationship capital. He is pleased with his supplier relationships, and expects that in the future building articles made to order will be handled in direct buyer-supplier relationships. A prospect which he finds reasonable and just a matter of time.

Respondent D expressed that the merchant created no value in this type of business, and regarded the present distribution arrangements as an unreasonable and unjustified source of income for merchants. But as mentioned previously, he was satisfied with his merchant in bulk and commodities.

The inconsistent data on the merchant as a cost-economizing provider is related to the contradictory position of the merchant in ordered goods as compared to bulk and commodities. The respondents perceive the merchant as a cost-economizer on bulk and commodities and a cost-drain on ordered goods. And being a partner seems to be an aggregate concept. Therefore respondent A, B and C convey an overall evaluation of the intermediary as a partner, but apparently for different reasons. A & B due to the value of calculation support, which increases the total relationship value with the merchant. Respondent C apparently because it is difficult for him not to do so, because this is how he believes it should be.

The trade terms ruling the relationship between merchants and suppliers are characterized by 'all or nothing'. The suppliers have a very small number of direct relationships, which are accepted by the merchants, if any. In terms of interconnectedness these exclusive rights hinder the relationship between buyers and suppliers, whereas the lack of product knowledge among merchants strengthens the direct interaction and relationship between buyers and suppliers. Concerning the assistance for calculation our initial studies indicate that this matter is not as simple as assessed by the buyers. In fact the calculation of quotations for customized articles is not handled by the merchant, but by the suppliers. It is an expensive service demanding specialized man-power, and the hit-rate in terms of orders relative to quotations varies substantially. This is one of the issues of discussion in the relationship between merchants and suppliers. Is the profit distributed fairly relative to the investment of sales-resources?

## CONCLUSION

The initial results strongly point to a situation in the network characterized by inertia. Apparently the merchants are regarded as cost drains, because even small buyers, who profit from calculation support, have to invest acquisition cost for the purchase of this type of articles. The merchants have a strong position based on exclusive rights, but especially the large companies are not satisfied and pressure the suppliers for change towards direct channels. A possible change may occur if the buyers pressure suppliers hard enough, or if alternative suppliers interacting directly with the buyers enter the network. The interviews indicate that the network is on the verge of changing. One of the respondents mentioned that this may be fuelled by the expected recession in the construction industry. Price will become an issue again, and if sacrifices in terms of prices are not reduced, or if

benefits in terms of value adding services are not increased substantially, a recession could be the environmental condition that necessitates change.

### Managerial implications

Although the study is still in an early stage, some managerial implications can be identified. The framework that we have developed can help business managers better understand how indirect relationships through intermediaries create value. The framework can help managers monitor their relationships and make strategic and tactical decisions to extract the most value. By applying value functions, combined with relationship aspects, it is possible to extract rich data on perceived buyer value. The subsequent analysis of the data with the four value perspectives result in a coherent description which can assist managerial decision making.

Specifically for this industry our study suggests a number of aspects for managers to consider. Independent of size all respondents regard the merchant as important partners on bulk and / or commodities. But the large construction companies expect and pressure their suppliers to change towards direct channels for building articles made to order. If the suppliers decide not to accommodate this wish, they are vulnerable to competition from competitors who establish a direct channel. But if the suppliers in building articles decide to accommodate this demand from their large accounts they will have difficulty in excluding the minor customers, who are willing to use, and expect to get access to direct channels, too.

Consequently, the merchants may consider actively involving themselves in this change and to focus on the development of value-adding offerings in bulk and commodities. It demands a change of attitude from the apparent "one size fits all" to a much more customized approach. By doing so they may preserve and strengthen their customer relationships in the lines of business, where the customers appreciate the services of the merchant. A continued opposition to change may only cause an increased doubt among customers, whether the merchants actually act as their providers or not, with consequent harmful effects on trust and loyalty. If so, they risk losing part of their B2B business in bulk and commodities, too. Small as well as large accounts already profit occasionally from alternative sources facilitated by the internet.

### Research implications

As our study was highly explorative it leaves many interesting aspects of intermediary value creation and value extraction to be investigated further by future research. It is clear to us that this field of research will benefit from a triadic research perspective. We also welcome future research in other industries to identify value functions and value drivers germane to those industries as we suspect that they will differ from the ones we identified.

Most of the literature on value and value creation has focused on direct relationships between suppliers and buyers, but we suggest that there is a need for further work to be done in order to more fully understand the indirect nature of value creation in the context of intermediaries. For this purpose we further suggest that the concepts of business relationships, interconnectedness, and networks are particularly well suited.

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