

VALUE PROPOSITIONS IN A COLLABORATIVE SERVICE SUPPLY CHAIN

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Abstract

Purpose – The purpose of this study is to examine facilitators and inhibitors when developing a value proposition that satisfies both a service provider as well as customers in a collaborative service supply chain.

Design/methodology/approach – Empirical part consists of a case study of a multinational provider of project-based knowledge intensive construction, engineering and project management services. The empirical data was gathered by semi-structured interviews of the selected representatives of the case company.

Findings – The present study shows that interaction, dialogue collaboration and sharing knowledge both inside the service provider organization as well as with the customers are central to develop a value proposition that satisfies all parties. The project business is marked by stiff competition and if a service provider does not inform the customer of its value proposition sufficiently well and convince the customer the service provider can put the proposal into practice in collaboration with the customer; the customer will usually accept whatever proposal is cheapest.

Originality/value – The present study contributes to the knowledge related to the development of value propositions in business services incorporating that knowledge on demand-supply collaboration in a service supply chain.

Keywords – value, value propositions, demand-supply collaboration, service supply chain

The type of paper –Work-in-progress paper

INTRODUCTION

Persson and Håkansson (2009) suggest that research on supply chain management (SCM) is missing a link to a marketing perspective on how to organize interaction between the actors, not only within purchasing and/or marketing functions but in inter-organizational relationships as a source of competitive advantage through collaboration and interaction of both internal and external suppliers and customers.

Marketers could also learn from SCM how to successfully manage key business-to-business relationships, for example, by improving communication within supplier-buyer relationships by adopting the practices of frequent and open dialogue, information sharing and objective, jointly-determined performance measures from SCM (Ryals and Humphries, 2007, 322).

The goal of the present study is to describe facilitators and inhibitors when developing a value proposition that satisfies both a service provider as well as customers in a collaborative service supply chain (SSC). ‘In SSCs, customers supply some combination of input materials, labour, specifications, and so forth. This implies that SSC customers assume expanded roles beyond the traditional customer roles in non-service supply chains’ (Sampson and Spring, 2012). The literature on SSC is scarce and dispersed across several fields (Arlbjörn *et al.*, 2011). In addition, though value is one of the core concepts within service-dominant (S-D) logic, there is a very little research on the meaning and applications of value propositions in industrial marketing practice (Ballantyne *et al.*, 2011).

We are particularly interested in collaboration within business-to-business relationships and getting mutual benefit of all parties involved. According to Grönroos (2006; 2011) it is necessary for a service provider to be engaged in the customer’s value-generating process in order to provide the value propositions both expected and needed by the customers. We would like to see what a marketing perspective can learn from supply chain management and vice versa. The research question of our study is ‘What kind of facilitators and inhibitors there are in developing value propositions in a collaborative service supply chain?’

This study utilises a qualitative single case study method and abductive reasoning to gain an in-depth perspective on the research topic. The case company is a multinational provider of knowledge intensive construction, engineering and project management services and it was selected for the present study because of its way of operating was seen to bring contribution to this research field.

In the following paragraphs, we want to gain an understanding of demand-supply collaboration in a service supply chain as well as facilitators and inhibitors of developing value propositions. We suggest a framework as well as a summary of theory enhanced with empirical data. The study concludes with a discussion on facilitators and inhibitors when developing value propositions in a collaborative service supply chain. Next, we first present our arguments about demand-supply collaboration.

DEMAND-SUPPLY COLLABORATION IN A SERVICE SUPPLY CHAIN

The research on SCM has been strongly inclined towards product supply chains (Sengupta *et al.*, 2006) emphasizing logistics, purchasing, operation management and marketing. Recently published papers have tried to fill the gap that has arisen in research concerning the integration of supply and demand, by addressing issues like demand collaboration (see Kahn *et al.*, 2006), and Lusch (2011) on the service dominant (S-D) logic perspective of reframing supply chain management.

SCM thinking can also be applied to services, while it strives for ‘maximize competitiveness and profitability for the company as well as the whole supply chain network including the end-customer’ (Lambert *et al.*, 1998). The service supply chain (SSC) emphasizes managing information sharing, capacity and skills in organizational and operational processes, customer and supplier relationships, and making value promises to the customers (Arljbrön *et al.*, 2011).

Demand-supply integration ‘represents a strategic approach to bundling the customer value propositions from demand-side and supply-side operations in order to create value in the

marketplace' (Esper *et al.*, 2010), thus incorporating demand into the SCM. That might have an implication for marketing because it requires a change in research approach from a product focus to one of customer functionality, and from an emphasis on product differentiation to one of solution customization (Esper *et al.*, 2010). Hence, demand chain management (DCM) is not just a new name for demand driven SCM, but a different way for a service provider to benefit from marketing point of view on how to achieve a customer focus that highlights the essence of interaction between marketing and SCM as an enabler of value creation (Hilletofth *et al.*, 2009; Hilletofth, 2011).

Sampson and Spring (2012) divided studies focused on provision of B2B services based on each study's contribution to the SCM theory. We are interested in the service customer perspective, though the customer in the centre of the service network, where providers jointly work to fulfil the customer's needs, has several roles according to SSC. For example the customer can be a supplier of (own) labour, design and production activities, and products.

Demand and supply integration requires marketing relationships where the both parties involved try to manage co-produced value propositions (Kahn *et al.*, 2006; Esper *et al.*, 2010). Sharing and integrating knowledge to prompt a dialogue between suppliers and customers is central to developing the final value proposition that satisfies all parties concerned. The value is not delivered, but reciprocal commitment and co-production will be apparent in value-in-use for the customer. That means that the value proposition can be context and/or relational-specific. (Ballantyne *et al.*, 2011.)

In order to answer our research question, it was crucial to take a look at features of demand-supply collaboration in a service supply chain. Next we will take a closer look at value propositions.

VALUE PROPOSITIONS

SCM and SSC approaches both see relational aspects of value as relevant, especially in business markets. We now take a look at how a service provider can develop value propositions both expected and needed by customers.

The customer determines how value is created, creates that value and experiences the value too (Vargo and Lusch, 2004). Grönroos (2011, 288) argues that the statement of Ballantyne *et al.* (2011) 'the customer participates in the co-creation of value...' is not correct, but instead 'it is customers as users who are in charge of their value creation' and according to Grönroos (2008) 'the service provider could be invited to join this process as a co-creator'.

The service provider cannot create or deliver value independently, but can offer value propositions striving to be more compelling than the propositions of its competitors. The customer is the one determining value and participating in creating value (Vargo and Lusch, 2004). Corsaro and Snehota (2009, 993) argue that we must better understand how perceptions of value are formed and how they guide behaviours in interaction. Kowalkowski (2011) highlights that competitive advantage can only be achieved by understanding which value to emphasize and when to emphasize it in the value propositions. That requires *knowledge of the service provider's own organizational structure and capabilities but also of the customer's organization*. This kind of knowledge should enable firms to recognize, shape and exploit value-creation opportunities effectively.

The reciprocal value proposition with equitable exchange is highlighted and applied in this study. In co-producing a value proposition, the customer participates in the co-creation of value, which is assessed through the *sharing and integrating of resources with service providers*, especially the customer's skills and knowledge emphasizing the interactive process with the service provider and other parties. The customer is making a final judgment on value co-created through interaction with service providers, and on value-in-use from interaction with goods and other physical resources (Ballantyne *et al.*, 2011). Value propositions can also be seen as communication practices from unidirectional communication of value delivered toward communication of reciprocal promises of value (Ballantyne *et al.*, 2011) enabling a change from inbuilt transactional bias toward more relationship oriented practices (Grönroos, 2006; 2011).

Tokman and Beitelspacher (2011) point out that the competitive advantage in a service business not only depends on the competence of the service provider, but on the value proposition co-created by the entire supply chain network. According to Kowalkowski (2011) value propositions should reflect the length and history of the relationship of the service provider and the customers. Although close and long-term relationships may offer better opportunity for co-creation, they are not prerequisite for innovative value propositions. Thus, firms should manage customer segments through different value propositions, based on a multidimensional segmentation scheme that recognises the dynamic nature of value and value propositions.

We propose a framework illustrated in Figure 1 that describes related facilitators and inhibitors in developing value propositions in a collaborative service supply chain.

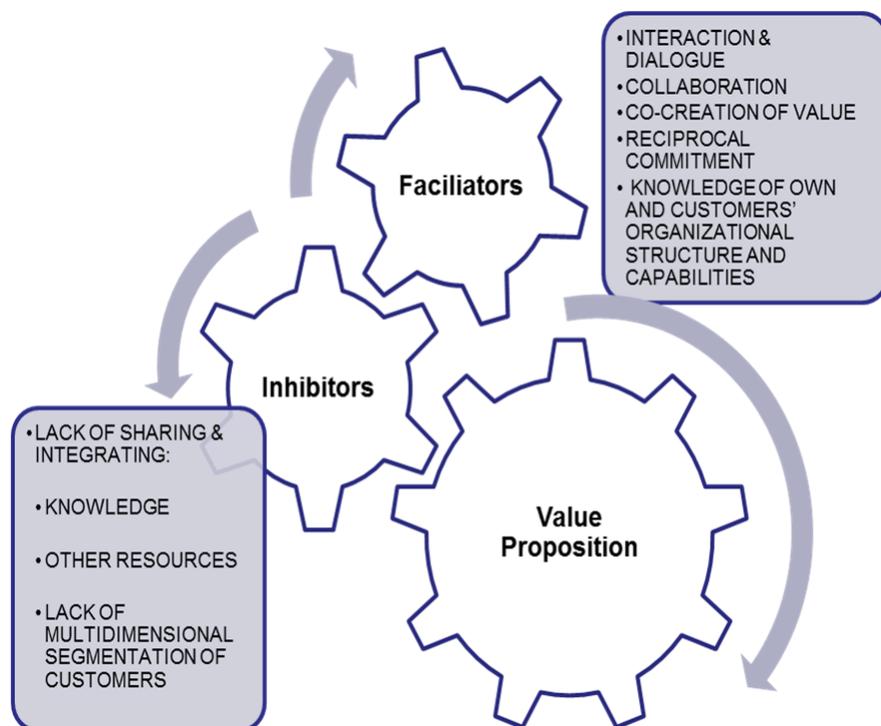


Figure 1. Facilitators and inhibitors in developing value propositions in a collaborative service supply chain.

METHODOLOGY AND THE CASE

A qualitative research methodology is preferred in this research as it enables understanding of the social phenomenon (Myers, 2009, 5) and produces the most comprehensive description of the phenomenon (Gummesson, 2005). We have applied abductive reasoning, as a process of “back and forth” movements between theory and empirical study, as it emphasizes the search for theories suited to an empirical observation (Kovacs and Spens, 2005; Dubois and Gadde, 2002). This study employs a single case study methodology to facilitate the investigation of the research topic in detail in its specific context (Yin, 2009, 180).

The case company providing engineering and construction management services to manufacturing companies is a large multinational organisation, which operates mostly on a project basis. The data was collected through five face-to-face semi-structured interviews of the case company representatives. In table 1 we specify the interviews we have performed. All interviews were taped and transcribed in full. The transcribed interviews were analysed by categorizing the transcripts according to the research themes and by searching for similarities, differences and recurring themes as well as by allowing new themes to arise from the empirical data.

Table 1. Interviews in the case company.

Interviewee	Position/ Role	Date
Region Director	Coordination in project marketing and in R&D	20.3.2012
Department Manager	Construction management	20.3.2012
Business Development Manager	Business development in minerals processing	21.3.2012
Regional Manager	Local project services	22.3.2012
Quality Manager	Quality development	28.3.2012

ANALYSIS

We will describe and analyse in abductive research facilitators and inhibitors the service provider faces when developing the final value proposition that satisfies all parties' needs concerned in a collaborative service supply chain.

Facilitators

Integrating human resources through collaboration across demand and supply chains enables the cost-efficient delivery of value propositions. However, customer orientation is realized as customized value promises by the sales department. This means that intensive communication with the customer is required to build a value proposition fulfilling both parties' goals.

The biggest thing is managing the project supply chain; the biggest thing is managing changes. The one managing the changes will manage everything. We are willing to make changes as per the customers' requests, as many times as they need. Very clear scope definition must be agreed and written in the contract. (...) It's very common that our sales people usually say that we can do everything, as they are eager to make a deal. Sales people have a different view than project people. (Quality Manager)

We help customers with the planning, configuration, evaluation...almost every phase. Because the earlier we are involved in the customer's project, the better we can influence the customer's projects, so we can make arrangements and build our service offerings. (Regional Director)

The case company is aware that it must communicate interactively with the customer to determine the core elements of the value proposition. It is also important to let the customer know the scope of the service offering that meets the co-realized needs of the customer through active communication.

What we can offer does not exactly fit with what the customers need. We need to help them understand some part of their need is not within our range, but when sales people promise to customers 'we will do everything', we do not recognize that what they need is not exactly the same as what we are going to offer. The impact is that we won't get payment for the extra work, as customers claim that the extra does belong to that scope. Basically, we should manage this issue very well. The restriction should be set in the contract. (Quality Manager)

The case company highlights that they must communicate value propositions to the customer clearly. That is important to make possible to identify the service needs, and plan the design and implementation of the project whereas the customer and the service provider have different roles in each collaboration phase.

No matter what kind of service scope the customer is purchasing, the most important thing is that in the phase we clarify very clearly what the scope of our work is and what data is required from the customers, and when we need them to deliver it so that we can do our work. Based on that phase, our project manager has to make a project plan; it means the scope of the work is detailed. (Department Manager)

The decision-making process is much easier if communication is done well. You cannot communicate too much; more communication is always needed. Engineers and customers are sitting in different places. If you are in the same building and same level, communication is natural. We need to do our work properly so we can make the decision more easily. Sharing information within the project team and with the customers (is central). (Business Development Manager)

The case company emphasized the importance of being engaged in the customer's decision-making process in order to provide value propositions that satisfy the needs of its customers. The company pointed out that its goal is to offer value propositions more compelling than those of its competitors. The case company usually competes with other companies on price. If the competing proposal is cheaper, the case company can do little about it. The case company understood that when building value propositions it is essential to show how good they are, so that customers know that they can ask anything they want.

We need to find any innovation or idea in systems and the process to offer added value to the customer. When we compete with another company, we usually compete on price. The lower price usually wins. There are those points where we need to show how good we are. So if customers have that kind feeling that we cannot offer what they want, they will wonder who will be the next company to fulfil their demands. (Quality Manager)

Customer's wants and needs are different. Sometimes, customers want something that they don't need. We have to work with the customers to let them know what is important and what is not. That has something to do with the supply chain. It influences procurement as well. (Regional Director)

Interaction is essential within the case company's business based on the scheduled project management. Open dialogue and regular personal contacts as well as group meetings improve the understanding of both parties. Efficient project management relies on internal interaction to promote all information and documentation for information sharing between and within the organizations.

I think communication in project management is very important, for example, open and face-to-face discussions, regular meetings via the web work well. We discuss with the customers very openly. It is our task to bring out the options to help customers to understand each option. After the decision on the options is made, then we follow up the decision. (Business Development Manager)

[There is a] need to promote effective communication within and outside the company's project, as effective communication helps reduce the time and cost spent on the project. (Quality Manager)

Interaction at project manager level as well as between the organizations is important for mutual understanding of the value proposition represented in the service offering level. Close interaction with the customers (meetings, knowledge sharing, acting together) help to decrease the time-related costs and the harm caused by delays in the allocation of resources within the service provider's service supply chain. Interaction will aid understanding of the customer and its needs, but also identification of the future needs of the business and understanding of the forthcoming changes in the business environment.

Customer decision making is one part of our process, and influences our project scheduling. We cannot move our projects forward, without the client making a decision. In some cases, it takes three months to get the decision from the customer. If the customer does not make the decision on time, then it's very difficult situation for us, because we still keep our people engaged on the project. Sometimes, customers understand the impact of their behaviour on us; sometimes, customers don't understand at all. It depends on the experience the customer has. There are several reasons for decision making being delayed [including] the project manager taking great care over the decision. It is about human issues. (Business Development Manager)

Regular meetings are a good way to interact with clients. We have development meetings once or twice a year. We must be very alert; we must collect all the information inside the project so we can identify the trends. (Regional Director)

The case company emphasized the importance of sharing knowledge and engaging in dialogue between the service provider and the customers to develop value propositions that satisfy all parties. Developing value propositions requires communication and reciprocal commitment. It was mentioned that the case company builds trust particularly through endorsements of performance on earlier assignments. This is in line with the notion that value is relation specific, rather than transaction specific in the context of business relationships.

Usually it is the business line who builds up the trust, business people and sales people also build relationships and trust. Someone has to be the door opener. The most suitable door opener in the mining sector is a different person than in real estate; we have to select the right person based on his or her relations and experience with customers. In real estate, there are two or three candidates. After opening the discussion, we can bring in more people with the specific knowledge where the case demands great experience. (Regional Director)

The most important stage is the planning phase, where we are invited into their discussion. Then in the evaluation phase, the customer evaluates our proposal and decides the winning proposal. We have to be involved in the bidding and configuration phases as well. That's how we can influence the customer. When everything comes down to a personal level, the company is just virtual and abstract, it should be at the individual level where trust is built. The key thing is trust; the customer must trust us. (Regional Director)

Inhibitors

The service provider must define the customer's requirements, with the focus on cost efficiency and competitive pricing.

If the customer sends the requirement (...) we start to narrow down the options we have and do the preliminary budgeting, and then we discuss it within our company and with the customers. If the solution is not within the budget, we are asked to find (another solution). (...) After that, it's pretty straightforward. (Regional Director)

The case company has made an effort to integrate demand and supply chain thinking to pursue superior customer value through collaboration. The main problem is insufficient information in the supply chain. Such information is crucial to aid customer decision making from the perspective of the case company's human resource allocation, since nothing can be done beforehand to the storage. For the service provider, it is also vital to remember the crucial role of innovation while making the whole supply chain as lean as possible.

We can allocate those human resources only after when we get an order. (...) But we can't keep our people just waiting for the project; we cannot do anything to the storage. (Department Manager)

One big challenge in building value propositions through a resource-oriented supply chain representation is ensuring that the customer is able to see the novelty and innovativeness of the service provider to propose the value fulfilling corresponding to the customer's own value expectations.

Nowadays, the main problem is that in the supply chain there is not enough information to support customers in decision making. (...) Process is very important for the customers. The process produces products for the customers. (...) From my point of view, we have forgotten this, because people think that we have to make the whole supply chain so lean...[with the result] that we have forgotten innovation. (Quality Manager)

The information flow is so huge that in some cases there is a huge need for different types of interface structures for different customers and projects. An appropriate interface structure can facilitate intercompany communication, which must go step by step. Some basic data is needed from the previous steps.

It means that it is very important that we do all those things in a planned way to avoid double work. The engineering is like this; you put some input and get some output. It must go step by step. You cannot jump some processes without doing the necessary steps, we need some basic data from the previous steps. (...) It is very important that we divide every single engineering discipline into its constituent parts, then [put in place an] order that you cannot start this phase unless this phase is finished. If we ignore it, we start a process earlier than the previous steps, we just waste time and then we have to do it again. (Department Manager)

The case company organizes relationships through interaction inside the company and externally with its customers. The case company's marketing and sales function mixes

knowledge from SCM to successfully manage key business-to-business relationships in the KIBS, where communication and information sharing lay a huge part in managing risks.

It depends on the type of projects and relationship with the customers. Some managers talk with both parties. In some cases, there are project coordinators who direct the relevant e-mails or the right persons in our company. The information flow is so huge that in some cases we need different types of interface structures for different customers and projects. An appropriate interface structure can facilitate intercompany communication. (Quality Manager)

Figure 2 summarizes the key issues from theory as well as from the empirical data to describe facilitators and inhibitors in developing value propositions in a collaborative service supply chain.

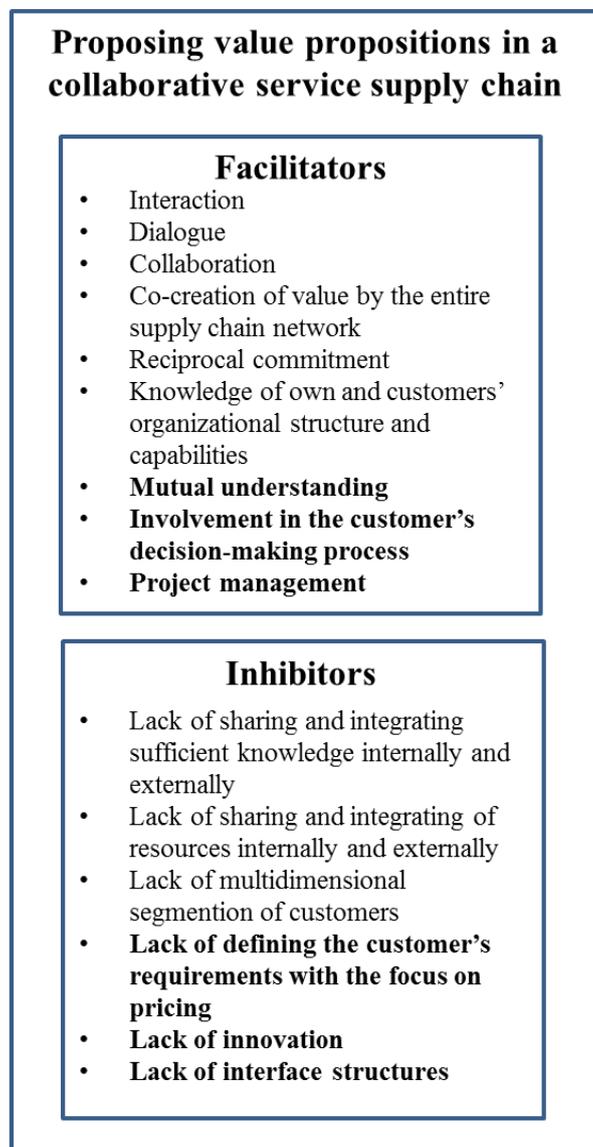


Figure 2. A summary of facilitators and inhibitors in developing value propositions in a collaborative service supply chain.

CONCLUDING REMARKS

We have investigated what kind of facilitators and inhibitors there are in developing value propositions in a collaborative service supply chain. We have suggested a framework and summarized the key issues from theory as well as from the empirical data to describe facilitators and inhibitors in developing value propositions in a collaborative service supply chain.

In line with Ryals and Humphries (2007) this study shows the essence of interaction, dialogue and collaboration both inside the service provider organizations as well as with the customers when developing a value proposition that satisfies both parties.

We also found that reciprocal commitment and co-creation of value brings crucial value-in-use for the customers. The importance of customers is crucial, since the service supply chain is bidirectional. Service output is heavily affected physically, intellectually and emotionally by the amount, nature and quality of the customer's inputs. The customer's contribution to the service delivery process is integral to the successful provision of the service, affecting both the value of the service outcome and the customer's satisfaction. The managers within the service provider also highlighted mutual understanding between the parties, involvement in the customer's decision-making process and sufficient project management.

Relational aspects were seen to be essential to manage interactive processes with the customers and those aspects clarified the importance of sharing knowledge and the service provider and customers engaging in dialogue to develop a value proposition that satisfies all parties. Service providers have to realize the importance of being engaged in the customer's decision-making process, so that value propositions can be made to work towards satisfying the needs of the customers.

For example, Persson and Håkansson (2009) note that interaction at all levels within and between the companies is a prerequisite for getting the deal done. We also found out that main inhibitors are lack of sharing and integrating sufficient knowledge as well as other resources internally and externally.

The empirical data also highlighted lack of defining the customer's requirements with the focus on pricing, lack of innovation and interface structures as inhibitors. The project business is marked by stiff competition and if a service provider does not inform the customer of its value proposition sufficiently well and convince the customer the supplier can put the proposal into practice in collaboration with the customer; the customer will usually accept whatever proposal is cheapest.

We have now focused on the service provider perspective related to the research question. Future research should aim at describing the customer perspective. It would be beneficial also to evaluate these perspectives side by side and this will be our next task.

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