

Business model development – it's all about perceived value

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ABSTRACT

Research has demonstrated the importance of business model development for value creation and firm performance, as well as the importance of business relationships in value creation. So far, research on business models has provide a rather static focus with a primary firm perspective, and by that overlooking the effect that perception of value in business relationships has on business model development. Through an in-depth case study of a close customer-supplier relationship this study argues that business model development is differentiated depending on the value dimension, and we identify three characteristics of business model development from a relational perspective, suggesting that business model development is value depending, procedural and relational. The study highlights the importance of new perspectives on business models and in specific on business model development, in order to address the challenges and impact that perception of value in business relationships has when understanding the concept of business models.

INTRODUCTION

When developing partnerships, companies seek to strengthen relationship, tying resources and linking activities more closely often leading to new roles in interaction. To an increasing extent many (large) customers aim for developing few but stronger relationships with preferred suppliers when purchasing

key components or specific systems. In turn, suppliers' experience new demands for taking on more pro-active roles contributing to customers' innovation and business development. In such cases, suppliers may need to reconsider their understanding of how to create and deliver value, and as part of that process continuously develop their business model.

Developing a preferred partnerships, customers and suppliers alike will need to adjust and adapt their business model. The preferred partnership will raise demands for both parties. The supplier will need a deeper insight in what the customer values to build an understanding of what offering to deliver. Similarly, engaging and investing in a relationship with a preferred supplier, the customer will need to understand the value expectations of the supplier. We build on the assumption that both parties in the relationship aim for value creation (Anderson & Narus, 1998), and that this will be a somewhat mutual process and a matter of ongoing adjustment to each of their business models in interaction with the specific and preferred business partners. Further, the parties will have to consider how other actors in their wider network will directly or indirectly take part in or at least influence the value creation. Value plays a central role in managerial practice, and is a dominant criterion used in managerial decision making (Corsaro & Snehota, 2010). In the present study we are particularly interested in how preferred partners build a perception of the value to be created in the preferred relationship and how they act to develop their business model accordingly. We study the following research question: *how do perception of value in a preferred customer-supplier relationship influence managerial decisions to develop the business model of the supplier.*

The paper is outlined as follows: The next section introduces and outlines the theoretical framework build to study perceived value in preferred partnerships and the related impact on the business model of the supplier. This is followed by a section introducing the research design of the study and then a presentation of the case findings constituting the empirical basis of the present study. The paper completes with a concluding discussion, and managerial implications.

BUSINESS DEVELOPMENT AND THE ROLE OF RELATIONSHIP VALUE

Definitions of a business model often center on terms by which a firm delivers value to customers, entices customers to pay for value, and converts those payments to value (i.e. profit) to the firm (Teece, 2010, p. 172). Thus, value is an important aspect of the business model concept. Examining additional definitions of the business model concept further support this notion. Zott and Amit (2010, p. 219) define the business model as depicting the content, structure and governance of transactions designed to create value through exploitation of business opportunities. Osterwalder and Pigneur (2005) state, that a business model reflects how a firm creates, delivers and captures value. This understanding of value in business has, however, been criticized for being too focused on a firm perspective on value creation (Morris, Shirokova, & Shatalov, 2013; Simmons, Palmer, & Truong, 2013), not leaving room for discussing value creation in business relationships or networks. Critiques also concern a one-sided

view on value (Clarke & Freytag, 2012) as taking a single firm perspective rather than raise discussions of how value creation may be dependent on your business partner. Further, we would argue that the notion of value in business model definitions are very centered on customer value, rather than including value creation in relation to e.g. important suppliers.

For this specific study, we do not consider value equivalent to the traditional marketing perspective of creating value to customers (Kotler & Keller, 2009). Rather, our interest is the value created by two or additional partners in business relationships. Since our aim is to explore value in a preferred relationship between a customer and a supplier, and in particular how the perception of value changes managerial action to develop a firm's business model, we search more broad for a theoretical frame considering value creation in a relational perspective. We take point of departure in the seminal work of Anderson (1995) arguing that value creation is the very *raison d'être* of relationships and focus on value creation for both parties in a dual relationship. Our conceptualization of value draws on research related to the Industrial Marketing and Purchasing group (IMP). Value is a complex topic which makes it both interesting and deterrent. Interesting because several aspects need to be explored and deterrent because it is difficult to actually explain *what* value is, and what *is* value. Considering value in a relational perspective even raises complexity. Some existing studies discuss value in a relational context either from a customer perspective (Anderson & Narus, 1998; Möller, 2006; Ulaga & Eggert, 2006; Ulaga, 2003), a supplier perspective (Walter, Ritter, & Gemünden, 2001), a relationship perspective (Corsaro & Snehota, 2010) or a network perspective (Johanson, 1999). Since we study perception of value in a customer-supplier relationship and how this affects managerial action for business model development, our theoretical foundation includes: firstly, perception of value as formed in business relationships; second, specifically value as perceived by suppliers; and thirdly, by customers. A fourth and important part of building a theoretical frame for the present purpose is related to how perception of value affects managerial actions for change a firm's business model. This issue is also called for by Corsaro and Snehota arguing for a "*need for a better understanding of how perception of value impact the conduct of the parties involved*" (2010, p. 993). To capture perceptions of value and related managerial actions, our study focuses explicitly on activities and actions implemented to change the firm's business model.

Business Model Development

There is a growing academic focus dedicated to understand changes in business environment, but only a limited focus on the impact that environmental changes have on how business is done (Wirtz, Schilke, & Ullrich, 2010). The business model concept serves a framework for understanding how firms do business and two main perspectives can be identified; a static view considering the business model to be a blueprint of the firm, and a more dynamic view, arguing that a business model is dynamic and something that firms must develop (Demil & Lecocq, 2010). For this particular study we will build the theoretical body on the dynamic perspective as we are interested in business model development.

Research on business model development often build on the concept of innovation explaining both how business model development can be considered innovation (Cavalcante, Kesting, & Ulhøi, 2011), or vice versa how innovation (e.g. product innovation) leads to business model development (Calia, Guerrini, & Moura, 2007). Since the business model concept became popular during the rise of the internet, not surprisingly most research takes its departure in the e-business industry focusing on how environmental flux constantly challenge how firms within that specific industry designs and innovates their business model based on, or guided by technological innovation (Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Wirtz et al., 2010).

We find a only limited research on how business model development are being effectuated in firms; e.g. Cavalcante et al. who applies a process based perspective defining the business model as the core standard process of the firm. They propose four types of business model development; a) business model creation, b) business model extension, c) business model revision and d) business model termination. A prerequisite for business model development is though that it must affect the core standard repeated processes of the firm. Another suggestion is made by Mitchel and Coles who describes business model development as improvement, replacement or innovation and suggesting three ways to do business model development; either by changing a single element of the business model, by improving four or more of the business elements or when business replacement results in new customers who were not available before the replacement (Mitchell & Coles, 2004). Finally Zott and Amit apply an activity perspective to the business model defining it as “a system of interdependent activities that transcends the focal firm and spans its boundaries” (Zott & Amit, 2010:216). They argue that a business model can be seen as a bundle of specific activities, including a specification of which parties conduct which activities, and how the activities are inter linked. They suggest that developing the business model includes linking activities in a new way, 2) adding new activities and/or 3) changing the parties that perform the activities. (Amit & Zott, 2012)

Despite that the growing focus on business model development, the concept is still poorly understood (Bucherer, Eisert, & Gassmann, 2012). What we see in those different suggestions to business model development is a rather stringent focus on answering the question of *how* business model development can be done in practice, and only a limited attention is given to understanding why business model development are being considered valuable, what are the specific drivers that lead to change, and what specifically characterizes business model development. In addition to this a firm perspective is dominating as the actions suggested are mostly directed to internal activities and processes, and only a limited attention is given to the business relationships, that every firm in different forms are engaged in, and by that also depending on and being influenced by.

For the present purpose we take a broader approach to discuss business model development including the potential differences in interacting partners' perception of the value outcome of a business model and further how these perceptions may lead to managerial decisions to change the firm business model.

Perception of value in business relationships

One thing is to study value from either a customer or supplier perspective, another thing is to study value in the relationship. By applying a relational perspective to the value discussion the level of complexity rises, and new challenges occur. The element of value perception becomes more multidimensional as several actors with different perceptions become a part of the overall picture. Recent literature on value perception in business relationships points to the complexity of actors perceiving and interpreting value differently. Snehota and Corsaro (2010) identify three specific patterns related to value perception in a business relationship, arguing that value should be considered actor specific in the sense that the economic value of a business relationship originates in the spatial and temporary context of an actor and cannot be determined from features of the relationship or of the actor (Corsaro & Snehota, 2010, p. 992). Secondly, value perception differs between supplier and customer in the relationship regarding specific elements (Ulaga & Eggert, 2006), meaning that value in a business relationship is phenomenological, and that actors judge and define value on only a limited set of elements (Corsaro & Snehota, 2010, p. 993), and third, value perceptions change over time, and by that value becomes emergent and mutually enacted as parties interact (Corsaro & Snehota, 2010, p. 993).

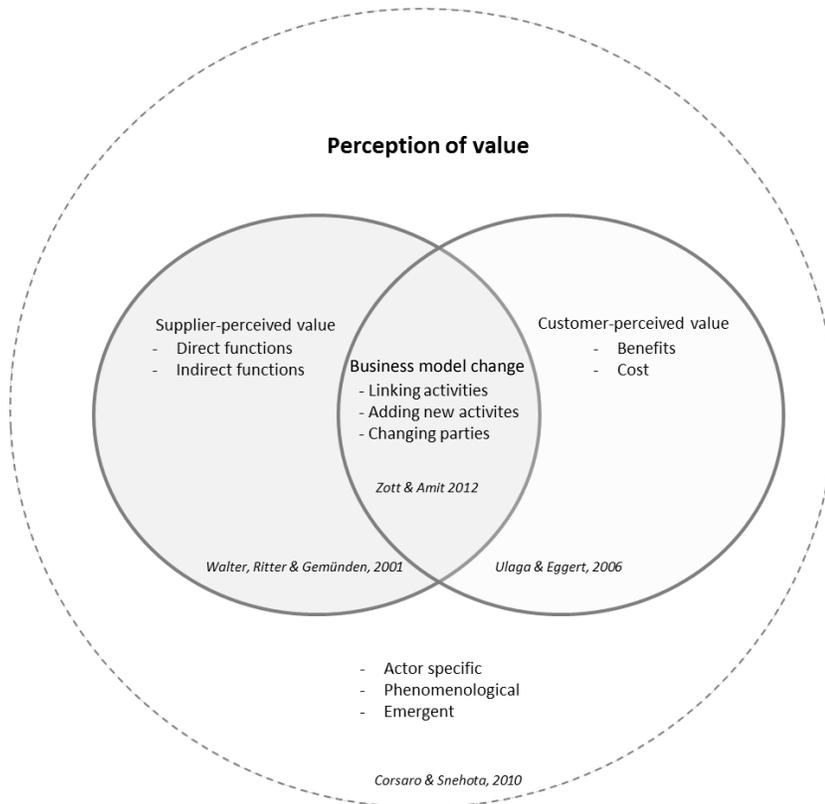
Given that value are perceived differently by actors in a relationship the question is then what is considered value to respectively, a customer and a supplier in a business relationship. There is a predominantly focus on customer value in the majority of current industrial marketing research (Walter et al., 2001), addressing how suppliers can create and deliver value to their customers. A reason could be that customer value is considered the way for company's success and survival (Woodruff, 1997), and the cornerstone of the marketing management process (Anderson & Narus, 1998). There is empirical evidence, that customer value do not originate simply in the products produced or the lowest prices given by the supplier (Corsaro & Snehota, 2010; Ulaga & Eggert, 2006), instead value have multiple dimensions (Ulaga, 2003) and spanning between being both rather tangible and intangible (Baxter & Matear, 2004). In the empirical study by Ulaga and Eggert (2006) two dimensions of customer value are identified; benefits and cost, and three operational levels; the core offering including elements like product quality and delivery performance, the sourcing process including service support and personal interaction, and customer operations including supplier know-how and time to market.

That the majority focus is on customer value doesn't mean that supplier value has no relevance in fact there is a growing interest in also studying value from a supplier perspective, given that a valuable relationship must be founded on mutual value creation (Ford & McDowell, 1999; Hakansson et al, 2009). In studies of value from a supplier relationship, Ritter et al (2001) suggest that value for the supplier are connected to a number of direct- and indirect customer functions. The direct functions are concerning profit-, volume- and safeguard functions and are created in the relationship independent from other actors in the network. The indirect functions are related to more than only the customer and

supplier in the dyadic relationship, but also to the wider network. The indirect functions cover the arrears of innovation, market, scout and access, and value from these is not directly related to profit like in the direct functions, but instead more to the effects of being in the relationship.

Taken together we see that value in business relationship is a complex matter of different perceptions of “what is value” and “what is value to whom” and “when is it value”. What we don’t find in these value discussions is knowledge on how different perceptions of value in a business relationship affect firmbehavior, and more specifically “how perception of value impact the conduct of the parties involved in interaction” (Corsaro & Snehota, 2010, p. 993). To meet this we build on the business model concept, as explained above, and by that building a framework for understanding how perception of value in a relationship affect or influences business model development. This theoretical framework is illustrated in the following figure 1.

Figure 1. Theoretical framework for studying perception of value and related managerial action



RESEARCH DESIGN AND ANALYSIS

This paper is part of a larger research project studying how firm collaboration is influencing business model development. Since a case study method will allow for obtaining a holistic and meaningful characteristic of a real-life event such as the development of preferred customer-supplier relationships, we choose this method (Yin 2003: 1-2). Following the argumentation of Dubois and Gadde (2002) and Easton (1998) we choose to study in-depth one preferred customer-supplier partnership, since this allow us to better understand the interaction between the phenomenon of preferred customer-supplier relationships and its context while reflecting on the complexity of their collaboration. The relationship includes a customer in the global windmill industry and one of its preferred suppliers of hydraulic solutions. This particular relationship was chosen due to a unique opportunity of one of the authors to follow and study the relationship on close hold during a one-year period.

For the present purpose our empirical material consists of observation studies of ten business meetings, six of which was held internally to the supplier and four joint meetings between the customer and supplier. The overall and general agenda of the ten meeting was to develop the customer-supplier relationship. Further, five in-depth interviews has been completed: two group interviews at the supplier and three interviews at the customer. Interviewees where chosen due to their direct engagement in the relationship and direct responsibility for mutual activities and/or at the supplier. The interviews have contributed with insights on which activities the parties consider valuable to developing their own business as well as their mutual relationship.

Observation of meetings followed the procedure by Jorgensen (1989) and Gold (1958). The role as 'participant as observer' (Gold 1958) has been applied. Since one of the authors stayed for a longer period in the company the observer can also be described as an 'in-sider' (Jorgensen 1989). However, employees at both the supplier and customer have been informed of the research data collection taking place and thus the observer role can be considered 'overt' (Jorgensen 1989). Due to the continuous engagement at the supplier company the observer is a known and recognized person which have gained the confidence of employees to a degree that they do not feel observed (Gold 1958).

During internal meetings at the supplier observation notes relate to discussions of how the customer's demands and requirements where to be understood and accommodated as well as discussions and decisions related to activities to be initiated or adapted at the supplier to meet the customer's demand. At joint meetings between the customer and supplier, the customer has presented supplier evaluations. During meetings the partner have discussed issues related to improving supplier performance as well as the supplier's presentations of activities initiated and plan to accommodate demands. Notes from observations of joint meetings include customer's demands and requirements as well as the partners' discussions and decisions on activities necessary for developing the relationship.

Since this study is part of a larger project multiple interviews have been completed. The five interviews selected for this particular study can be characterized as deep and focused (Darmer, 1996). The interviews were conducted as an open dialogue in which respondents have the opportunity to elaborate on their answers, and there has been opportunity to touch upon relevant issues not covered by the interview guide. When respondents were invited to an interview, they were presented to the general topics and themes of the interview guide. The respondents from the customer were sent the interview guide prior to the interview.

Each interview opened with an introduction to the research project and issues of how the data will be used. The interview guide includes two sections: (1) The first part of the interview gives insights to customer-supplier relationships in which the parties engage in general. (2) The second part relates on the preferred customer-supplier relationship in focus including activities, actors and resources considered valuable to the collaboration. One interview with the CEO at the supplier includes an additional issue related to outlining the company business model as well as managerial and strategic

consideration related to activities initiated and completed to develop the business model in light of the specific customer-supplier relationship. Every interview were recorded and transcribed. The transcriptions are sent to respondents and approved without comments.

Analysis

The data analysis has followed the framework developed by Miles and Huberman (1994) building on three phases; data reduction, data display, conclusion drawing and verification. Building on this framework we have analyzed the data from the observation studies as well as the data collected through interviews.

The data reduction process with the purpose of selecting, focusing, simplifying, abstracting and transforming data (Miles & Huberman, 1994) has been done as the first step. As this paper is a part of a larger research project, the data collection has had multiple factors included, why the reduction of data is very important in order to get an overview of which data is use full for this particular paper. By using a set of six questions building on the nine value drivers of Ulaga & Eggert (2006) and the seven functions of Ritter et al., (2001) in order to to discover perception of value from the perspectives of both the supplier and customer, we have been able to select data that are focusing directly on this matter. After reducing data concerning perception of value, we have used four questions addressing impact and activities related to cooperation between customer and supplier, and the development of the business model of the supplier in particular. These questions are guided by the three steps of business model development developed by Zott & Amit (2012). By selecting and reducing data with the help of 10 questions, we have created a set of use-full data that can be the empirical foundation of the paper addressing the overall research question.

Next phase in the analyzing process has been to display data in a way that will provide us with an organized, compressed assembly of information (Miles & Huberman, 1994). For that we have made five cross-case display matrix-analysis, building on the results from Corsaro & Snehota, 2010. Here we distinguishes between the role in the relationship, either customer or supplier, and the position of the interviewed; for the customer we distinguishes between the category manager, the purchasing group and the technical group, and for the supplier we distinguishes between the CEO, the sales group and the technical group. In each of the matrixes we have gathered answers to the ten overall questions, which give us an overview of the answers divided on both the roles of the companies in the relationships, but also on the personal position level. By dividing data like this, we will have the opportunity to discover opinions on value and impact not only from two sides, but also accordingly to the position in the firm, and also how parties in the relationship consider value and impact from the perspective on the counter part. By that we can identify similarities and differences, and also identify potential patterns.

Finally, we have outlined conclusions from the data by considering the analyzed data against the overall theoretical framework presented in figure 1.

CASE FINDINGS: PERCEPTION OF VALUE AND IMPACT ON BUSINESS MODEL DEVELOPMENT

In the following we will present our findings from the empirical study divided in two sections; first we will study perception of value in a customer-supplier relationship, and secondly how perception of value leads to management decisions on business model development. By using this order we will present our case findings in a structured way guided by the purpose of the paper, to explaining *how perception of value created in a preferred customer-supplier relationship influence managerial decisions to develop the business model of the supplier.*

Perception of value in customer-supplier relationship

Based on the theoretical framework, we will discuss value from the perspectives of the customer and the supplier in order to study how value is perceived by each of the parties in the relationship. At first we will present our findings using quotes from the surveyed respondents, respectively, customer and supplier. Then we will discuss these findings against the theoretical model presented in figure 1, in order to identify similarities between our findings and the findings of Ulaga and Eggert (2006) and Walter, Ritter and Gemünden (2001), but also the areas where our findings differ, and leading to new understanding on value perception from a customer and supplier perspective.

Customer perceived value

The customer underlines the importance of suppliers being capable of delivering solutions that fulfill the demands for low prices, high quality and delivery performance. But also new ideas for solutions that can contribute to enhance the competitiveness of the customer are enhanced as being valuable.

“We have a goal on reducing prices on our products, and we expect our suppliers to help us make that happen. In the end it all comes down to money” Technical Manager

Besides from the financial drivers like price, quality and deliver performance, there is also a strong focus on supplier knowledge in terms of specific input during the development process of new solutions.

“We expect suppliers to have the right competences in order to challenge us on our solutions” Category Manager.

The customer further expects the suppliers to fulfill potential gaps in the in-house knowledge, and it is considered valuable that the supplier have the ability to complement the customer firm in arrears that are not a part of the core competencies

“As customer we have to realize that we cannot be the experts of everything, instead the expert knowledge must come from our suppliers” Strategic Purchaser

Also global as well as local support is highlighted to be of most importance. As the customer is a global firm with activities worldwide it is considered valuable to collaborate with suppliers not only locally but also on a global level.

Besides from the elements mentioned above also the mindset of the suppliers is enhanced as being important. It is considered value when the supplier has a positive mind-set towards the customer, and focus on the positive things in the relationship.

“Value is when our suppliers have the right mindset and an attitude saying `yes we can’ ”. Category Manager

Furthermore the suppliers are expected to be open and constructive towards changes, and capable of changing directions rapidly.

“We make new decisions all the time. Perhaps we change the production plan or change our priorities, and no matter what we expect the supplier to take it with heads held high “. Category Manager

What is also considered important is transparency and honesty in the relationship due to elements like prices and production. The customer firm has introduced the concept of “open book” including information on prices and costs related to the collaboration. By using this tool the customer firm has the ability to compare prices and costs across suppliers, and afterward use it in the collaboration with the single supplier. But the demand for transparency and honesty goes beyond that, also including openness on other factors in the supplying firm. For instance regarding every day challenges that in some way can affect the relationship, but also on how the business are going, are considered central to the customer. The suppliers must be confident about own business, and work actively with elements like business strategy and business development.

“It is important that our suppliers provide us with an insight to their business and that they show us that they know how to run it’ ”. Strategic Purchaser

In summary we learned from the interviews that the customer focuses on eight value drivers; Price quality, delivery performance, competencies, global & local support, mind-set, transparency & honesty and professional business. Compared to the nine value drivers suggested by Ulaga & Eggert (2006) and illustrated in figure 1. we see that there is a general compliance between their suggestions and our findings, for instance on the elements of price, quality, delivery performance, supplier know-how and service support. Furthermore we see in our study, that in addition to the rather financial driven elements identified by Ulaga & Eggert (2006), there is also a softer dimension of value including the mind-set of the supplier, transparency & honesty in the relationship, and the capability of the supplier to do business in a professional way.

Supplier perceived value

For the supplier we see the following seven elements are the supplier we see that it is the following 7 items are highlighted as being valuable.

Information is considered one of the most important values in the relationship with a customer. Information is regarding identification of requirements and needs from the customer, but also elements like forecast and future demands. In order to be able to develop new products and plan production, the right information in the right time is considered a necessary.

“In order to secure a good delivery inside the company we need sufficient information from the customer. We are not capable of making a good solution for the customer if we build on wrong information” Technical Engineer.

Another element considered valuable is financial solidity, indicating that there is a certain security for the payment of the orders placed by the customer. This element is important for two reasons; first of all there are invested considerable resources in developing solutions, and getting paid for that is paramount for the firm, second it is also important for the possibility of the supplier to attract good sub-suppliers.

“It is important for us that we get paid for what we do. Our business is built on the orders from our customers, and we need some kind of assurance that they are capable to pay when we have delivered” Managing Director

Professional business, in purchase and development, is also enhanced as being valuable. It is considered important that persons in the supplying organization collaborate with a professional team of purchasers. The purchasing work should be structured and coordinated in a way that supports the supplier.

“If the customer doesn’t have a professional purchasing function, it is actually difficult for us to do our job. We need to collaborate with people who know about reel purchasing” Key Account Manager

The mutual respect in the relationship is highlighted as being fundamental for the collaboration, and an important aspect of doing business in a relationship.

”We need to show each other respect. By that I mean respect for the way we individually run our business”. Managing director

Respect due to payment on time is emphasized as being important as well as respect for the answering time regarding queries from the customer.

“It is not respectfully for our business when the customer makes an inquiry and expect answers within two days, knowing that it takes at least two weeks to create an answer” Technical engineer.

As well as being considered valuable for the customer, openness is also considered valuable from the supplier perspective. For the supplier openness is mainly due to future expectations. It is emphasized as important for the supplier to have some kind of knowledge on future cooperation, concerning the overall strategy and priorities of the customer.

“In order to plan our future business, we need some kind of information on where our customers see them self’s in years to come” Managing director

Finally joint development is considered valuable as it secures a joint ownership of the projects. By collaborating on joint development-projects there is the possibility to share resources and knowledge, and by that securing a more successful development process. Furthermore joint development is also an opportunity for the supplier to not only show competencies, but also gather new knowledge.

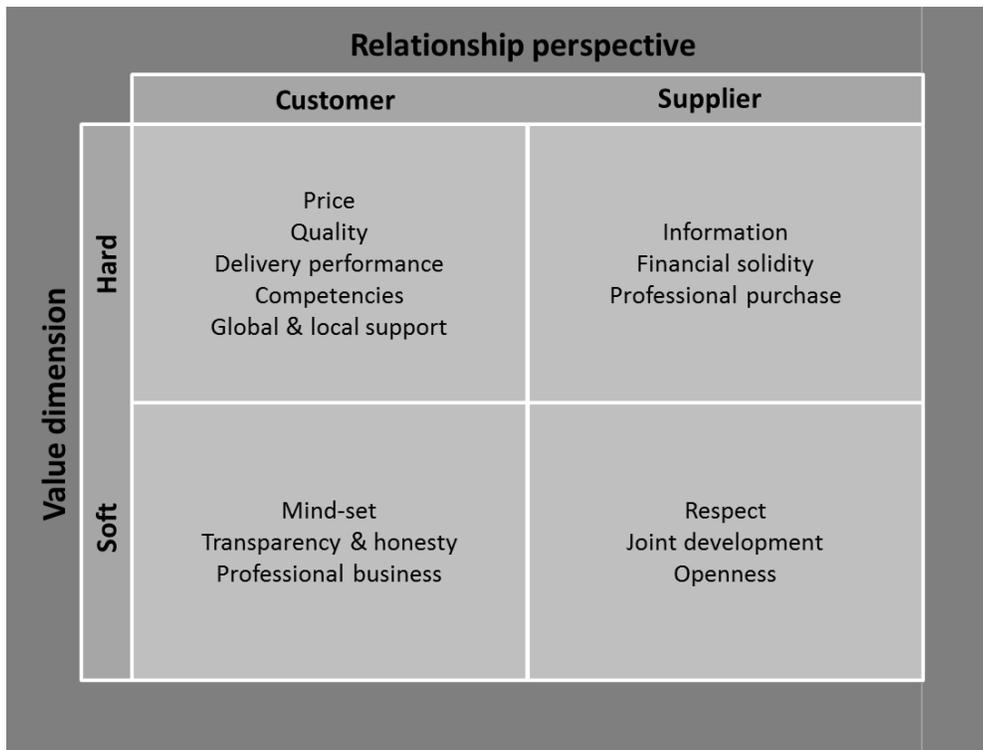
“When we collaborate on development-projects we are in close contact with the customer. We then have the possibility to get to know them, show what we can, but also expand our own knowledge in specific areas” Technical engineer.

In summary we identify the following seven value elements when looking at perception of value from a supplier perspective; information, financial solidity, professional purchase, respect, joint development and openness. Compared to the seven functions related to supplier perceived value suggested by Walter, Ritter and Gemünden (2001) we see that for some of the functions there is a direct match, for instance the profit and volume function as well as the innovation function. However, we also find, in line with the findings on customer perceived value, that there is a softer dimension to value that these seven functions include. We find that elements like respect, joint development and openness is assessed as valuable to the supplier.

Value dimensions and value perspective

Based on these findings we suggest that our understanding of value is being explored to also including a more soft perspective on value. Both Walter, Ritter and Gemünden (2001) and Ulaga and Eggert (2006) discuss value from a rather financial and more tangible perspective considering value to be *functions* and divided in *benefits* and *cost*. In our study we recognize and support these contributions to understanding perception of value from a customer and supplier perspective. However, a softer dimension of value perception can be added, and we suggest value to be characterized by what we call a “hard-dimension” and “soft dimension”. Where the hard dimension is very much in line with what is found in previous work, the soft dimensions suggest a new way of understanding value perception. As we study value perception from two perspectives; the customer perspective and the supplier perspective, we have constructed a matrix figure illustrating value from a “hard dimension” and a “soft dimension” towards the two relational perspectives. This is illustrated in figure 2.

Figure 2. Relationship perspective and value dimensions



On a general level, we find that value is perceived differently by the actors in the relationship, and that there are differences in the perception of value in respectively the customer and supplier relationship between people internally. As an example the Managing Director in the supplying firm considers elements like financial solidity and information on future strategic choices as valuable, while the technical engineer considers elements like forecasting and technical specifications as valuable. In the customer company we see the same differences in perception of value, as the category manager enhances elements like competitive performance and business development as being valuable, while the technical manager emphasizes elements like quality and delivery performance.

Further on we find that the perception of value changes over time as the firms develops. The relationship between this specific customer and supplier was established more than ten years ago, and the interviewed employees on all levels in both companies mention how there has been a continuously shift in demands and expectations primary from the customer. For instance stated by the category manager at the customer;

“We have just been through a shift in our collaboration with sub-suppliers moving from having a large portfolio of supplier to having a more focused portfolio of fewer preferred suppliers. It means that we have changed from a primary focus on price to a more broad perspective also considering value for both parts. It has to be to be a good deal for all of us” Category Manager

Also the managing director from the supplier describes a relationship that over the years has been rather dynamic;

“I would characterize our collaboration as being dynamic. During our collaboration we have witnessed that our customer has change course, and by that also their expectations. Recently, there has been a fundamental shift in their strategy changing significantly our role as a supplier. Previously it was expected that we as suppliers did not question solutions, whereas today there is an expectation that we dare to take the lead in co-operation and act pro-active” Managing Director

To summarize our findings on perception of value in customer-supplier relationship we have suggested that a softer value dimension should be considered to the present understanding of value, and by that understanding value from a “hard dimension” and a “soft dimension” and from the perspective of the customer and the supplier. We meet the results from Corsaro and Snehota (2010) supporting that value is actor specific, phenomenological and emergent. Taking these into consideration we will now focus on the impact that perception of value has on managers decisions regarding business model development.

Perception of value and the impact on business model development/business actions

After having presented our findings regarding perception of value from the customer and supplier perspective, next step is to present our findings regarding managerial decisions, more specifically how perception of value in a specific relationship between the customer and supplier affect actions in the supplying firm. The section will be structured according to the three development stages by Zott and Amit (2012) starting with how activities are being linking in a new way, secondly how new activities are being added, and finally how the parties that perform the activities are being changed. These findings are based on an observation study throughout a period of one and a half year, and supported by interviews in the firm.

Adding new activities

During the observation period it has been clear that the firm is frequently implementing new activities in order to meet requirements from the customer, focusing primary on activities related to quality, production and purchase.

“We have implemented a new warehouse management system for the production, and also adopted the PPAP process (Production part approval process) required by the customer, meaning that we are now working with new activities for documentation and evaluation”, Supply Chain Manager

Also activities related to the sales function is being increased, as there is a request for more global support that paves the way for new sales activities in order to coordinate and organize in a global context.

“We are currently working on initiatives in order to increase our performance in a global context regarding this specific customer. We develop a form of guide book that will help our partners in supporting this customer. Furthermore we are working on several coordination activities in order to organize meetings where we can discuss our collaboration now and in the future” Key Account Manager

Linking activities

Implementing the PPAP quality system has led to a number of activities currently carried out by a different structure than previously. An example could be that production processes are now standardized in order to meet specifications in the PPAP, and not as earlier due to standards of the supplying firm.

“By adopting the PPAP we have been forced to structure our productions processes in new ways, linking activities between our development department and supply chain department closer” Supply Chain Manager

Furthermore activities have been linked differently in the structure between the inventory department and the production in order to meet requirements for cost-out in all processes. Since the customer consider projects with the purpose of reducing cost very valuable, projects on LEAN and Six-Sigma has been implemented and carried out. Also the structure concerning delivery has been change as the customer has changed from a push strategy to a pull strategy in the manufacturing system.

Changing parties

Regarding the parties that performs the activities changes happens both in relation to parties inside the firm, but also due to parties outside the firm, for instance sub-suppliers.

“Sometimes the customer has special requirements for our sub-suppliers, meaning that we have to consider if it is possible for us to change our supplier. It is mainly on larger components or sub-systems that the customer has special demands” Supply Chain Manager

But it is not only on specific requirements that the supplier change the performing parties.

“We are continuously evaluation on the possibilities to integrate one or more activities into our supply chain in order to increase business. We are for instance considering collaboration with partners in the market that can help us to stay stronger in competing with other suppliers like us” Managing director

Also parties in the organization of the supplier are changed in order to adjust to the collaboration with the customer. New employees are employed in order to meet new production orders, technical

competencies are applied in the development department in order to support the employees working with the specific customer, and a specific team of employees are created in order to support this customer only.

What characterizes the findings on business model development so far is the dominant focus on creating value that we describe as the “hard dimension”. Findings further shows that the supplier initiates activities with the intention of supporting the softer dimension.

“We are planning a presentation of our suggestions to the future collaboration, and a description on future actions that we plan to take in order to meet the expectations from this specific customer” Key Account Manager

Also the managing director notes the demands for more than products and prices;

“We know that it is not all about being the supplier with the best prices. There is more to the collaboration than that. Currently we are working on a specific collaboration program directed at this specific customer. It is our intention, that by focusing equally on reducing prices and supporting the relationship in a more strategic way, our chances of remaining preferred supplier will be strengthen” Managing Director

The managing director further states;

“But this is rather new to us, and we have to change our business model in novel ways. It is not just about new productions methods or securing the right products, we need to be more on our toes in order to show that we are a professional firm working with strategies, goals and actions in a structured way” Managing Director

To summarize our findings we find that the business model of the supplier are being develop in all three ways; by adding new activities to the firm, by linking activities of the firm in new ways, and by changing the parties that perform the activities, both internal and external. Furthermore, we find that the changes are closely related to requirements and expectations of the customer. Building on the three development steps developed by Zott and Amit (2012) we can explain how business model is developed by adding new activities, linking activities in a novel way and changing the parties that perform the activities. This is closely related to what we describe as the hard value dimension. What is more complex to describe is how the business model is developed in order to meet the softer value dimension, like for instance openness and honesty, that tend to be more fluffy and complex to handle. Development in order to create that “kind” of value is difficult to describe as simple as that.

DISCUSSIONS OF FINDINGS

In order to understand business model development a value perspective has been applied. Value is considered the very *raison d'être* of business relationships (Anderson & Narus, 1998) as well as the core element of a business model (C. Zott, Amit, & Massa, 2011). Against the theoretical background, we have made an empirical study of value perception in a close relationship between a customer and a key supplier and the derived effects on business model development. Based on our case we present the following findings;

First we find that managerial decisions regarding business model development is closely linked to relationships with customers. We identify various examples of business model development directed towards the customer in order to maintain or improve value creation, for example by adding new activities in forms of new meeting structure or project planning, or by changing the parties that perform the activities when redefining the portfolio of sub suppliers at request from the customer.

Secondly we find that business model development is not a one-time-performance taken place once a year, but instead an ongoing process without any regular startup or closure. The development process consists of a series of interactions where actions, discoveries and new insights are the basic for development, and creates a dynamic development process. In the specific case we see that the supplier are continuously working on developing and adjusting the business model as the customers perception of value leads to new demands and change of needs, and as the company itself develops new understandings and insights.

Thirdly we find that business model development is based on a multidimensional and complex alignment (and misalignment) of value perception. We see in our study that business model development at the supplier is based on perception of own value, but also what the supplier expects to be valuable to the customer founded on the business experience that they have together. Furthermore we find that value is perceived from two very different dimensions; a dimensions of value drives with a tangible character for example prices, payment terms and delivery performance, and a dimension of more intangible values like having the right mindset and showing openness and respect. Value perception within each of the value dimensions calls for different kinds of business model development, and we see in the case that it tends to be more straight forward to meet the demand for lower prices, different payment terms or improved delivery performance, while it is rather difficult to change mindset or to show completely openness and transparency.

With these three key findings we meet some of the theoretical gaps identified in business model literature. First of all, by suggesting that the business model is relational we raise the perspective from being firm oriented to a more interactive perspective considering the business model to be a relational construction that are being developed and defined, not in the firm, but in the relationships that the firm are integrated in. Secondly we challenge the static view of business models, by saying that business models has a dynamic character, and that the business model is being developed through a dynamic

process between the focal firm and parties in the relationship. Finally we state that business model development is value dependent. It means that the foundation of business model development lays in the perception of value from partners in the relationship, and not as stated in traditional business model literature in the activities of the focal firm.

MANAGERIAL IMPLICATIONS & FURTHER RESEARCH

Business model development is a relevant concept for all existing firms. We believe that business model development is something that all firms do either very explicit or more implicit in the daily work. For that simple reason our findings have an impact. Value is difficult to measure and by that also to react upon. Taking our findings into considerations, managers needs to pay attention to perceptions of value from more than only firm perspective when developing the business model of the firm. To balance expectations in the relationships between customers and suppliers becomes an integrated task in order to develop the business model. Further on, managers must consider relationship value to be something important when managing a business model. It is not enough to explore own business, instead managers have the task of exploring also the parties on the other side of the table.

As for further research on business model development we have in this study only touched the surface of business model development in a relational context. We need to study more in-depth the consequences of those three findings in relation to future research on business models. In particular we need to understand better the impact that different actors have on the development process of the business model, as well as the different types of development related to different parties.

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