Underpinnings of the transition from goods-centric to service-centric exchange: A relational perspective

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COMPETITIVE PAPER
submitted to the special track:
"Innovation: Exploring new challenges for Purchasing and Sourcing"

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Keywords: relationship logic, relationship transition, servitization, service-dominant logic, relationship marketing, business relationships

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INTRODUCTION

The marketing literature reflects the general pattern in the development of social sciences according which proposed new theoretical perspectives build a polarized setting of good vs. bad. In these presentations bad describes the previous and the good the proposed new perspective (cf. Kuhn, 1962). For example, the transition from the focal firm oriented organizational buying behavior approach (for a review see Johnston & Lewin, 1996) to diverse interaction and network approaches (see e.g. Håkansson 1982, Campbell 1985; Anderson, Håkansson & Johanson 1994) features such a setting. According to Ward and Webster (1991, 420) this transition was characterized more by "…common criticism of earlier "unit" conceptualizations than by a unified, coherent definition of just what the "interaction perspective" means". Despite this type of polarization underscores the lucrativeness of the proposed new perspective it shows a problem: we are equipped with general descriptions of previous and emerging perspectives that shows the controversy in their basic principles. However, we are not provided with defined dimensions according which to analyze and compare the change from one to the other.

A described setting holds when it comes to the service-dominant logic (SDL). In the seminal article launching SDL, Vargo and Lusch (2004) introduce a meta-theoretical classification of marketing thought in the goods-dominant and service-dominant logics. The former describes largely outdated approaches that are inconsistent with the current business practice in their focus on operand resources and that based exchange of tangible outputs over discrete transactions. The latter features approaches that are relevant in terms of current business practice in their focus on operant resources and their transmission over co-creative processes and relationships. The subsequent articles on SDL have considered the logics as characterizations of the marketing thought but also as practical business logics of exchange and value (co-)creation (see e.g. Vargo & Lusch, 2008). However, these characterizations represent mostly illustrative metaphors and their analytical usefulness is limited. Despite the popularity of SDL and the streams of research it has generated, the attempts to develop further and operationalize the notions of goods-dominant and service-dominant logic are scant. As far as we know, the work by Ng, Parry, Maull and Briscoe (2012) represents a rare exception in terms of its explicit consideration that tackles the transition from goods-dominant to service-dominant logic in a business case.

The lack of research aiming at identifying and operationalizing the dimensions according which to analyze and compare the logics and the transition from one to the other generates both practical and academic dilemmas. In analytical terms, how the proposed theoretical perspectives posits to the other and in practical terms, how a leap from the old logic to the proposed one can be supported and realized in business practice. For example, if a manager realizes the goods-dominant logic characterizing the company orientation, what are the pathways to follow and actions to be taken in order to move to the service-dominant logic. The current literature is scant in providing advice on this managerial problem. In terms of the academic audience and academic theory development purposes a similar problem exists. Leroy, Cova and Salle (2012, 1102) make a strong point in describing the prevailing situation regarding SDL and especially its key conceptualization of value co-creation that is "taken for granted" and "treated as fact and is exempted from close examination". We agree with these authors that this "premature closure" (p. 1102) of the core concept of SDL, value co-creation, leaves the SDL as a theoretical perspective largely inconsistent with the previous research and thus hinders the opportunities to carefully analyze its potential and

enforce and cross-fertilize its analytical power in the light of previous knowledge (see also Grönroos, 2011 for his critics on the metaphorical nature of the notion of value co-creation).

The focal study adopts an open-ended approach in its theory development purpose according which we aim at further understanding on goods-dominant and service-dominant logics of a buyer-supplier relationship and demonstrating how a transition from the former to the latter takes place. Respectively, the study launches two conceptualizations: relationship logic and relationship transition. Relationship logic comprises 1.) the overall characterization of the relationship varying between the goods-dominant and service-dominant relationship logics, 2.) the elements that underpin them. Relationship transition refers to the dynamics and respective leap from one logic to the other. Therefore, the study aims at firstly, defining the elements of a buyer-supplier relationship that underpin the relationship logic, and secondly, conceptualizing the dynamics that generate the relationship transition from one logic to the other and dimensions according which it happens. The focus on relationship level scrutiny stems from the strong relational emphasis of SDL in terms of its conceptual foundations as well as explicit statements in describing the service-dominant logic as a theoretical perspective being "inherently customer oriented and relational" (Vargo & Lusch, 2004). Especially, the role of relationship as a platform or catalyst for resource integration and value co-creation has been underscored (Chandler & Wieland, 2010). However, our understanding on the variant relationship elements, their mutual interplay and development, and connection with value co-creation is on its infancy.

Through empirical longitudinal case studies we show how relationship logic in case Alpha has transitioned from goods-dominant to service-dominant and how a similar transition process is ongoing in Case Beta. The results of the case studies reveal the relationship structural and action elements, their mutual development, and their effect on relationship logic and relationship transition. This facilitates theorizing towards a holistic framework to capture relationship logic and relationship transition as multi-level entities and on this basis to discuss the practical implications of the study.

The article is organised as follows. First, in section 2 the theoretical stances are described whereas the section 3 discusses the methodological approach. Sections 4 and 5 discuss and conceptualize the empirical findings. Finally, the conclusions and the study implications are discussed in section 6.

THEORETICAL BACKGROUND

Relationship logic and relationship transition

The goods-dominant logic emphasizes static operand resources and that based exchange of tangible outputs over discrete transactions, whereas service-dominant logic focuses on operant resources and their transmission over co-creative economic and social processes and relationships. Respectively, the both logics are anchored on resources and can be seen as having different perspective on resource integration (see Hilton, Hughes, Chalcraft, 2012; Kleinaltenkamp, Brodie, Frow, Hughes, Peters, Woratschek, 2012; Grönroos, 2011; Ford, 2011; Gummerus, 2013). A remarkable difference among the logics lies in the view on value with regard to resource integration. G-D logic describes value as added element loaded into the offering in suppliers manufacturing processes and exchanged for money on market (value-in-exchange). S-D logic viewpoint on value emphasize the co-creation perspective i.e. how the supplier and customer integrate and use their resources to gain benefits that the both parties value in terms of their usability (value-in-use) (see Gummesson & Mele, 2010; Gummerus, 2013).

The SDL describes the role of goods merely in terms of a distribution mechanism for resource integration and thus for service provision (Vargo & Lusch, 2004). Similarly, in terms of SDL perspective, the relationship may be seen as structures and processes that comprise the setting for resource integration and value creation (Chandler & Wieland, 2010). The framework in Figure 1 illustrates two extreme relationship logics, the G-D and the S-D relationship logic, and a relationship transition from the former to the latter.

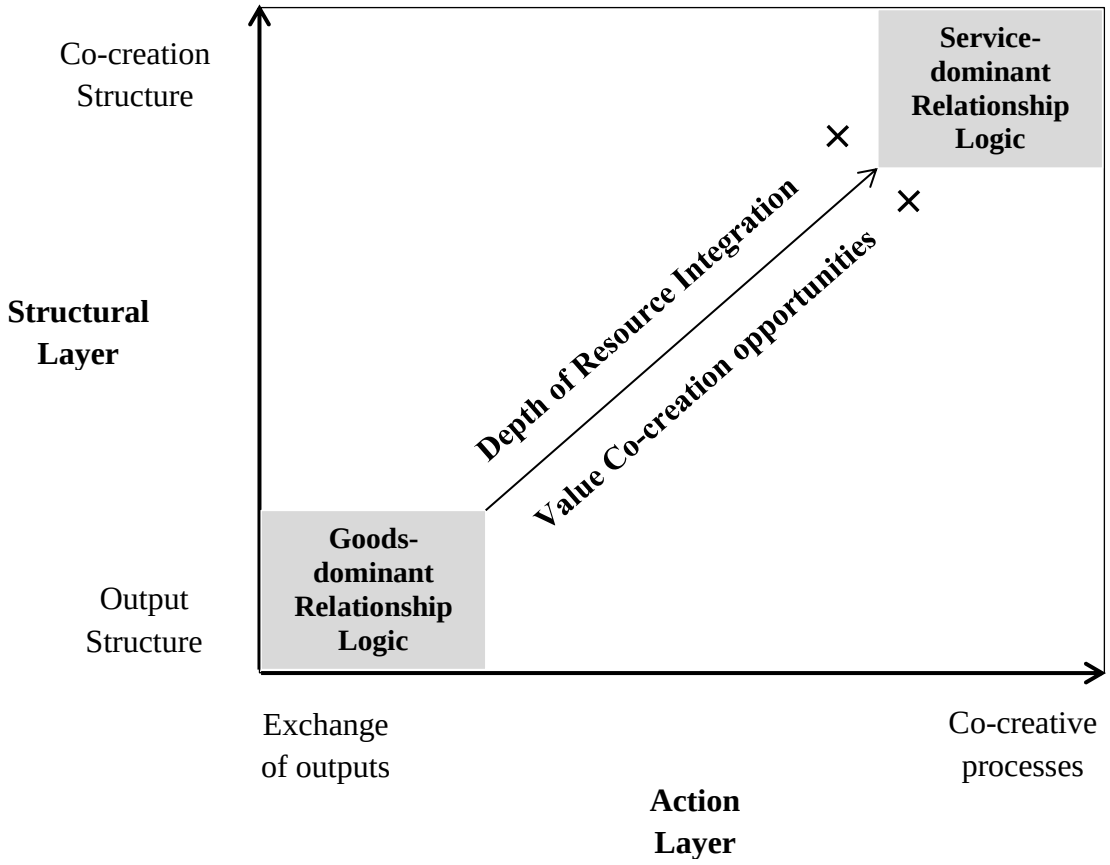

Figure 1 Transition from goods-dominant to service-dominant relationship logic

As previous research has shown, the nature of a relationship as a theoretical notion differs with respect to its use in S-D or G-D logic theoretical perspectives (Vargo, 2009; Vargo & Lusch, 2010). Similarly, the idea here is to show that the nature of the notion of relationship differs also with regard to the real life business relationship that the notion conceptualizes. In order to build the relationship logic and relationship transition towards analytical concepts, we split the notion of relationship into structural and action layers. Respectively, a G-D relationship logic features *exchange of outputs* of suppliers manufacturing processes as focal action that takes place in *output structure* supporting this type of exchange. On similar terms, S-D relationship logic is described as co-creative processes and co-creative structure. Resource integration in G-D relationship logic revolves around transactional exchange (cf. Dwyer et al 1987) comprising buy-sell actions and structures that facilitate these functions. The S-D relationship logic refers to more complex set of activities focused on the impact the parties have on each other and mutual value and respective structures that serve these functions. Respectively, the S-D relationship logic describes a business relationship that forms a channel over which the parties connect to each other's resources to co-create value and in which the resource integration builds on relational exchange processes (see Vargo, 2009; Dwyer et al 1987).

The model describes the value co-creation opportunities and the depth of resource integration to rise while the relationship transition from G-D relationship logic towards the S-D relationship logic occurs. However, the current SDL literature on relationships in the described role is scant and therefore a clear picture of the elements that underpin the relationship logic and relationship transition is missing. The next section draws from literature on business relationships in order to build respective understanding and define the elements underpinning the described action and structural layers determining the relationship logic and relationship transition.

A framework of the elements determining the relationship logic

The relationship focus in buyer-supplier literature has evolved partly as a reaction on focal firm centric buying models (for review see e.g. Johnston & Lewin, 1996) and a respective shift from the transactional buying perspective to the relational exchange has taken place. Relational approach locates single transactions as episodes and acts in their wider context of buyer-supplier relationship and its history and future (Dwyer et al 1987; Holmlund 2004). Thus the relationship is largely seen as a platform that shapes the mutual exchange, instead of transactional term of quality, quantity or price, for example. Perhaps this strong orientation on exchange has prevented the literature on relationship dynamics from developing; the literature introduces conceptualizations that capture the relationship structures and processes but remain silent in terms of what are the actual elements that develop, while relationship is stated to develop (see Batonda & Perry, 2003). Respectively, the literature describes relationship development in terms of rising "closeness" (see Rust et al. 2000, 2004; Sheth and Parvatiyar, 1995; Ford, 1980; Dwyer et al., 1987; Halinen, 1997), taking transaction-oriented customers or prospects "to higher relationship levels" (McDonald & Rogers,1998, 9), describing development in terms of the "degree of integration" (McDonald, 2000), or with regard to the leap from "transactional to relational exchange" (see for example Penttinen & Palmer, 2007). Thus, the literature on business relationship dynamics seem to be unidimensional and resemble each other in the belief that the closer the relationship the better it is. Also, as the underlying motivation driving the relationship development has been the idea of better effectiveness and profitability of the long-term customer relationships for the supplier (see Palmatier 2008; Frow and Payne 2009). In this respect, the statement that this stream of literature is largely G-D oriented (see Vargo, 2009; Ehrenthal, Gruen and Hofstetter, 2012) is easy to agree on and it seems that directly applicable framework to describe relationship logic and relationship transition do not exist.

Despite the focus on relationship as an exchange platform and that related G-D orientation in terms of resource integration, the literature on business relationships has featured conceptualizations on relationship structures and processes that facilitate to conceptualize relationship logic and relationship transition in the focal study. The following framework, depicted in Figure 2, provides the conceptual landscape to study relationship logic. The framework depicts both the buyer and supplier organizations as mutually linked through a structural, action and management layers of a business relationship and further connected to their upstream and downstream markets (Andersson, Håkansson, & Johansson, 1994; Håkansson 1982).

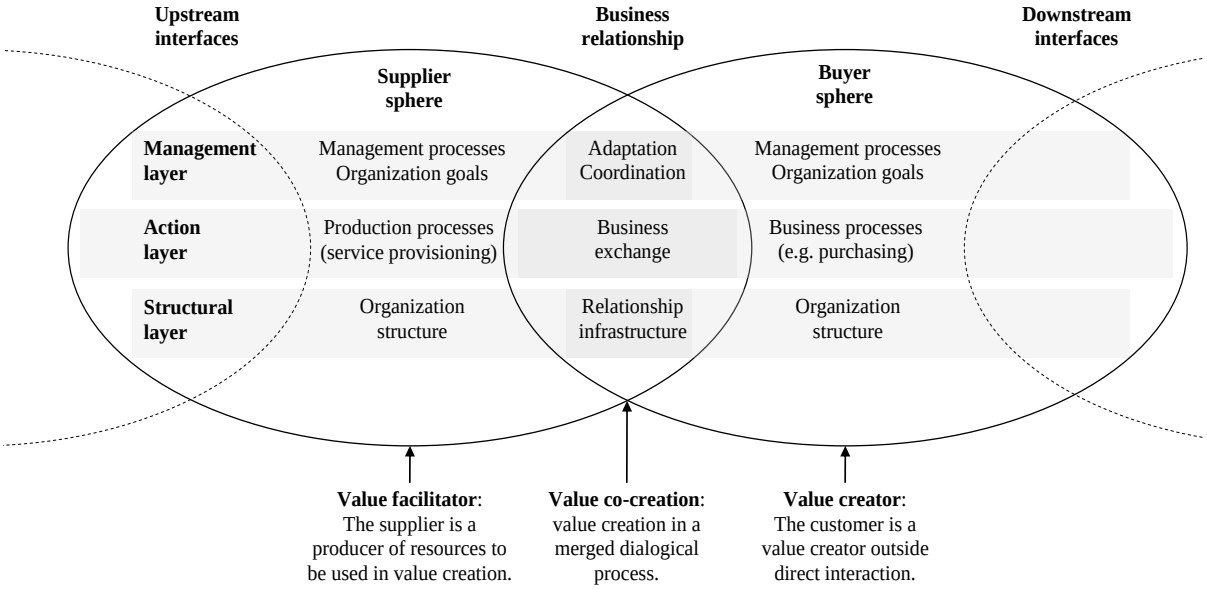

Figure 2 The research framework

These levels of the relationship link to the corresponding levels of the buyer and supplier organizations – manufacturing processes, management process, organization structure, and organization goals – and altogether comprise three layers – *action layer, structural layer, and management layer*. These layers are a continuum in which the actions and structures of the parties are integrated and form a framework for mutual resource integration.

The structural and action layers of a relationship

The lower part of the framework presents the *structural* and *action layers* of a business relationship. The *action layer* in a focal relationship comprises business exchange, which in line with the SDL mindset is not about the exchange of outputs but rather represent the undertakings through which the *organizational manufacturing processes* come together in the focal relationship. The *structural layer* comprises the *relationship infrastructure*, which reflects those areas of the *organization structures* of the parties that are activated in the focal relationship to support business exchange.

At the core of the supplier and buyer organizations are their manufacturing processes, which refer to all acts, events, and activities in which the organization converts different inputs into outputs. These activities fundamentally legitimize the existence of an organization. The organization structure refers to the competencies and resources upon which the value creation process of both organizations draws. Regarding manufacturing processes, the supplier's processes integrate with those of the buyer through business exchange. Business exchange comprises the flow of interlinked acts, actions, and episodes through which the supplier and buyer effect on each other's resources and manufacturing processes ().

Corresponding to the organization structure, the framework presents the relationship infrastructure that comprises social and technical bonds. Social bonds refer to the emotional-cognitive structures affected by history, as well as expectations of the relationship with regard to atmosphere, trust, and commitment (Håkansson & Ford, 2002; Halinen, 1997). Technical bonds, in turn, include activity links and resource ties (Snehota & Håkansson, 1995), which may be technological (information systems), procedural (predetermined communication practices), or legal arrangements (contracts). Together, social and technical bonds provide a context and structure that steers the business

exchange between the parties. Conversely, this also works in the opposite direction as the business exchange may either strengthen or weaken the social bonds and, similarly, influence the adaptation and coordination activities that affect the technical bonds (see Möller, 1994). However, the business exchange and the technical and social settings reflect each other, and the fit between them evolves over time (cf. Halinen, Salmi & Havila, 1999; Hellgren, Melin & Pettersson, 1993).

Management layer – balancing between the structural and action layers

Organizational value creation is guided by organizational goals and management process. First, the management process widely refers to the different types of capability that enable the organizational resources and competencies to be employed in the manufacturing processes, and, second, to the aims of improving the mutual fit between the organization's goals, organization structure, and manufacturing processes. In this context, the management process encompasses different capabilities; for example, production and production development capabilities (see Carillo & Franza, 2006) that refers to the ability to put the current resources into use and dynamic capabilities (see e.g., Ambrosini, Bowman & Collier 2009) that refer to the abilities to implement changes in the current manufacturing processes or make fundamental changes to improve the fit between the intra-organizational layers of manufacturing processes, organization structure, and the organization's goals.

Adaptation (changes in the elements of a business relationship that relate to the business exchange) and coordination (division of labor between the actors) refer to relationship level management activities (see Håkansson & Snehota, 1995). Adaptation and coordination aim to enhance consistency within the focal relationship and improve its value co-creation potential. On the one hand, *organizational goals* steer the adaptation and coordination activities in terms of what the organization aims to achieve regarding the relationship and, on the other hand, how the individual goals of the buyer and the supplier constitute the mutual goals set to guide the relationship's direction.

In contrast to intra-organizational management activities, a single actor's potential to influence adaptation and coordination activities is more restricted. Together with their expected outcomes, adaptation and coordination activities are also influenced by the other party in the focal relationship. For example, there may be conflicting interests in terms of coordination concerning activities that are allocated to the buyer and supplier, how the supplier should be compensated, and the extent to which the buyer expects the supplier to invest in the relationship. Just as a social setting evolves through the subjective perceptions of the actors, the effect of the adaptation and coordination activities is dependent upon how the other party perceives and interprets them over a period of time, and the kind of outcomes that are expected (cf. Bourdieu, 1977; Giddens, 1984). The direct impact on the action and structural layers may thus be limited in the short term (cf. Halinen, Salmi & Havila, 1999; Hellgren, Melin & Pettersson, 1993).

The interplay between the relationship infrastructure and the business exchange defines the outcomes of the relationship (Möller & Wilson 1995). It is proposed that the better the social and technical settings support the business exchange, the better the outcomes are likely to be. The reverse also applies as better outcomes lead to a stronger social setting and, perhaps, the involved parties' greater willingness to develop and strengthen the technical settings in order to maintain or improve performance.

To summarize, the framework depicted in Figure 2 views the buyer and supplier organizations as interdependent activity units whose very existence lies within manufacturing processes they

perform. The manufacturing processes are shaped by the management process reflecting the focal organization's structure and goals. The relationship between the organizations enables business exchange i.e. the integration of manufacturing processes. This inter-organizational business exchange is affected by the intra-organizational structures, goals, management processes, and manufacturing processes of both organizations as well as business relationship adaptation and coordination, relationship infrastructure, and relationship goals.

METHODS

As the present study investigates the trajectories between goods-dominant and service-dominant logics of a buyer-supplier relationship, we chose the qualitative case study approach (Eisenhardt & Graebner, 2007). This selection is justified, as understanding of this complex phenomenon requires collection of rich, longitudinal data in a real-life context (Voss et al., 2002).

In regard to sampling, the case selection was purposeful, derived from the goal of learning something based on studied cases rather than aiming at representativeness in terms of population. The cases represent two dyadic relationships between firms in two different industries. Case Alpha investigates the relationship between ManuGroup and Engio, whereas Case Beta represents the relationship between FoodComp and SupplyComp.

The data has been collected during a period of four years, from 2010 to 2014. The data collection approach supported our longitudinal empirical investigation of the phenomenon (Miller and Friesen, 1982). Managers and experts in each of the case organizations were selected as the primary informants for the study. The data includes interviews with the representatives of the buyer and supplier organizations. As of today, 30 interviews have been conducted in total. The interviews were personal, semi-structured interviews (Hesse-Biber & Leavy, 2006) and lasted from one hour to two and a half hours each. In addition to the primary interviews, the data collection included field observation and numerous informal discussions with the focal companies. Additionally, a large set of secondary data was collected from the cases, including company documents, workshop material, notes, plans, brochures, and other company-specific data. The multiplicity of the sources of data served the purposes of contextualizing the findings and creating a comprehensive understanding of the phenomenon.

DESCRIPTION OF THE CASES ALPHA AND BETA

Case Alpha comprises the relationship between ManuGroup and Engio. The relationship between the companies originates to end of 1990s, when ManuGroup outsourced part of its engineering function to a company which later became Engio. With its global presence in terms of offices, several production units and R&D centers, ManuGroup is one of world's largest manufacturers of capital goods for the built environment, with most important business areas in new product sales, modernization and maintenance services. Engio is a professional engineering service provider offering technical and plant engineering services and solutions related to product information systems and engineering process efficiency. As one of ManuGroup's main suppliers of engineering and technical planning services, Engio provides services for ManuGroup's R&D and delivery projects as well as for installations globally.

Engio has been a service provider for ManuGroup since end of 1990s and due to the long relationship history, the service provider has gathered substantial industry and customer specific

knowledge and expertise that are acknowledged on both sides of the dyad. For this reason, Engio has become the preferred supplier of planning and engineering services for ManuGroup R&D. The companies are integrated to the extent where Engio human resources are included in ManuGroup organization charts: "*Our people work in ManuGroup premises as part of their project teams, making the relationship unique. I doubt if people at ManuGroup even remember that some of the project team members are in fact from Engio. I haven't come across to any other customer who would include subcontractor's resources in their own organization chart. Our people are however there with their names and everything; there is no indication that these people are actually Engio resources."* (Regional Customer Manager, Engio).

Despite the ultimate closeness between the companies and the fact that the business exchange comprises expert services, business exchange revolves around buying and selling of work tasks. ManuGroup regards professional engineering service providers as sub-contractors. By nature, these service providers are intensively involved in ManuGroup projects also in physical terms i.e. sitting in the client premises, using ManuGroup's workstations, licenses and databases. R&D project managers and chief design engineers select the service provider for the specific task; this goes as far as naming the person that they would like to have for the job at hand in the work order. In addition to the task definition, the work order also specifies the amount of hours related to the specific task. For Engio, this is an example of "CV-business exchange" that has been the dominant way of working with their major clients for years.

However, as industrial clients, including ManuGroup are developing their own value offering and establishing services as an integral part of their business, subcontractors are also facing the need to transform their own businesses. This transition is described by Engio's Regional Director: "*As our clients are servitizing their products, we too are productizing our services.*" Productizing here refers to the attempts of systemizing and non-personalizing the service production. Consequently, Engio has been investing into developing and offering more comprehensive services, such as projects and integrated solutions for their clientele: "*We are clearly moving towards processual and project-based business, enabling our clients to purchase complete solutions and projects, whereby we take on more responsibility. This is how we want to move ahead and we have noted that also ManuGroup is willing to move into this direction*" (Regional Customer Manager, Engio). On the other side, ManuGroup is placing increased requirements on their subcontractors in terms of design-for-manufacturing expertise as well as innovativeness in general: "*We would prefer our suppliers to be pro-active"* (Vice President Technology, ManuGroup.) In R&D, there is a substantial time lag between the planning phase and the implementation into production -phase, whereby the challenge for ManuGroup is in evaluating the quality of the planned solution. *"If the technical solution isn't working, then we have to start all over again. We should be able to verify sooner that the solution works in a way that we can build upon it and take into production."* (R&D Director, ManuGroup). Thus, service providers for ManuGroup R&D are faced with increased requirements on expertise and service quality.

The upper part of Figure 3 describes the gradual relationship transition in Alpha. The situation prevalent for years in the relationship is described on the left. Engio business has been a spot or element inside ManuGroup functions and business. Now the situation has been changing and the mutual relationship is driven to more official and distant but simultaneously the share of Engio in ManuGroup business is growing. The desired future position on right describes a situation in which Engio has driven back to the core of ManuGroup functions with a wider share as compared to the start position.

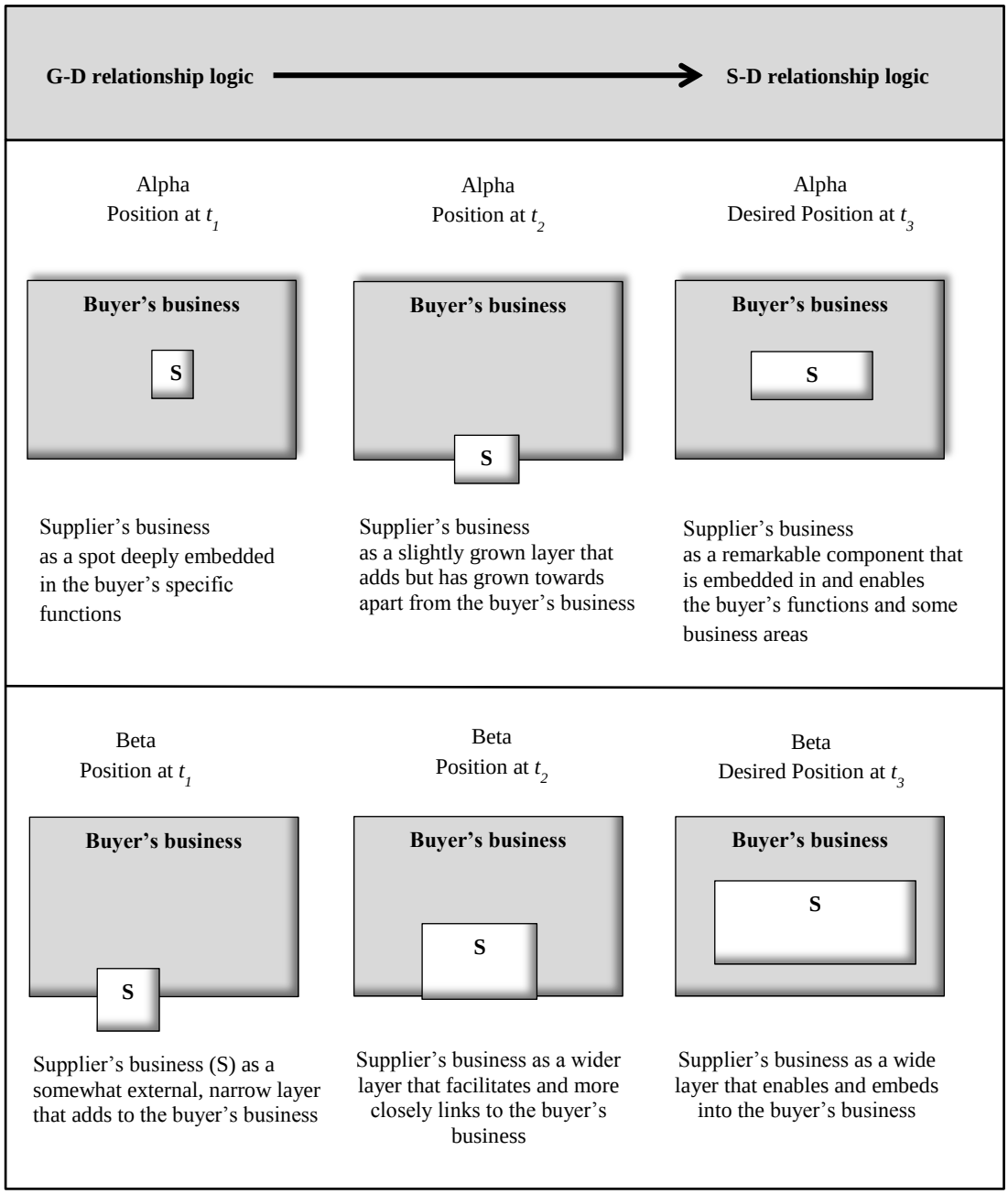

Figure 3 The relationship transitions in the cases Alpha and Beta

The bottom of Figure 3 describes the gradual relationship transition in case Beta (to be described next in detail). The start position is described on left; a situation in which the supplier was an actor among the other rival suppliers with a relatively small share of the buyer's business. The middle box features the current setting in which the supplier has driven towards more central and larger position in terms of buyer's business. The box on right describes the supplier's desired future position with regard to buyer's business. The following paragraphs describe the events and occurrences that underpin this illustrated relationship transition in Figure 3.

The case Beta comprises the relationship between FoodComp and SupplyComp which can be described as a strategic partnership in its current form. FoodComp operates through 1,100 restaurants in the field of catering services in Finland, Sweden, Norway and Denmark. In Finland the company operates through approximately 700 restaurants where the production of meals amounts to over 100,000 daily. SupplyComp is a nation-wide provider of services in procurement, marketing and logistics of grocery goods as well as non-foods in the hotel, restaurants and catering industry, operating as a link between original producers and sales points i.e. restaurants. The product range comprises approximately 23,000 products of which 3,000 are warehoused by SupplyComp. The time from purchase order, or call-off to delivery is 48 hours, which sets an extremely tight schedule for processing orders and organizing deliveries to hundreds of FoodComp's restaurants located all over Finland.

Collaboration between the companies started already in 1990s when SupplyComp was one of the traditional wholesalers that FoodComp used for supplying its restaurant and catering units. In terms of volume, SupplyComp covered only a fraction of FoodComp's spending for industrial goods. At the time, the market for grocery goods and non-foods in the hotels, restaurants and catering industry was extremely undeveloped and fragmented, which reflected in dispersed and non-optimized information and physical goods flows. Orders were placed manually, and there were multiple daily deliveries to the same restaurants. On corporate level, FoodComp did not have opportunities or tools to steer the purchasing behavior of their restaurants in terms of order size, ordering frequency or optimizing the product assortment. Prices were firmly controlled by the wholesale sector and were in no relation to actual costs related to warehousing or distribution services provided by the wholesalers. As a result, the buyer, i.e. FoodComp had no visibility into costs incurred in the value chain: "*All wholesalers gave different prices for the same product, so I ended up with 3 prices for the exact same thing. We wanted to understand the pricing logic and why there were different prices depending on the wholesale channel. This is why we wanted to go deeper into the activities behind the pricing model to understand what impacted on logistics costs and of course we wanted to open up the discussion with the producers. However, even when we got to talk to the producers, it was clear that actual prices would be decided elsewhere"* CPO, FoodComp. Efforts to rectify the situation by initiating Cost-Plus pricing in the wholesale sector did not gain wide-spread acceptance, which further accentuated inefficiencies in terms of value creation as well as value capture.

Early 2000 SupplyComp decided to redirect its strategy towards a customer-focused service model targeted at large customer chains and communicated their willingness to start developing a new business model to FoodComp. After rounds of discussions with the three wholesalers operating in the hotels, catering and restaurant industry, FoodComp issued a Request for Proposal late 2001 where the company challenged their wholesalers for improvement ideas on operational efficiency and cost savings in the joint value chain. The RFP also featured FoodComp's strategy to concentrate their warehousing and distribution requirements to one service provider instead of three. SupplyComp responded to the RFP with a list of development ideas, including implementation of electronic ordering, adding new product groups into the business model, increasing truck load sizes and changing the frequency of incoming purchase orders from FoodComp restaurants that were, at the time, placing orders daily. Amongst the responses, FoodComp regarded SupplyComp's proposal as the most extensive, showing true willingness to develop the service model in collaboration with the customer: *"After some months of discussions with all potential service pvoviders, it became clear that SupplyComp will be the service provider with whom we can start building a new solution. Compared to other suppliers, they stood out as the most ready for this type of transition"* CPO, FoodComp. After a year of negotiations and

discussions concerning the joint service model and the underlying relationship infrastructure, the companies signed a new contract to start collaboration early 2003.

CASE RESULTS

Case Alpha

Transition to service-dominant relationship logic with reference to action and structural layer in the relationship

The goods-dominant relationship logic is prevailing in Engio- ManuGroup relationship, despite the fact that the context is professional engineering services. The buy-sell nature of business exchange is dominant as ManuGroup purchases hourly-based work and resources from Engio, driven by the need for flexibility and levelling out resource peaks during intensive R&D projects. Consequently, the role of the service provider is to deliver these additional resources or "extra pairs of hands". This is however a paradoxical situation for Engio in that whilst there is a long tradition and steady cash flow related to the provision of hourly-based work for ManuGroup, the buy-sell nature of exchange and G-D relationship logic limits co-creation opportunities in the relationship. Respectively, Engio aims at redirecting the prevailing G-D relationship logic towards S-D relationship logic. In practice, it works on diminishing the role of CV-business and building for more comprehensive services, including ready-made solutions and projects. This is motivated by the fact there is over capacity in the market and new players are entering the field, which lead to the erosion of the current price level. Furthermore, from Engio's perspective, decreasing emphasis on hourly-based work and increasing emphasis on offering solutions and projects enables the company to be less dependent on macro-economic shifts that may impact on the client's outsourcing rate.

The transition towards solutions and project-based business requires that the client purchases knowledge and competences in terms of an outcome or end-result instead of hourly-based work. In fact, ManuGroup is already moving towards this direction in their delivery projects. In R&D however, contracting with suppliers based on outcome or outsourcing entire projects is not the typical way of operating with service providers. The current pricing structure reflects the transactional exchange of resources as prices are based on hourly rates. Purchasing comprehensive services by outsourcing entire projects or solutions requires a new approach to pricing engineering work, as noted by ManuGroup Senior Purchasing Director: "*We need purchasing insight to understand, what the entity is that we are in fact acquiring from the service provider and how to price it so that it makes sense… we should be able to fix the project and the related price. It is OK for the service provider to give detailed break-down of the hours related to the job, but in principle we are more interested in the end result, provided to the fixed price."* An additional challenge in purchasing projects with a fixed price in R&D is the fact that projects typically accrue frequent changes, which may incur additional and unplanned costs for the client. Also from service provider perspective, pricing resources based capability level is more straightforward than negotiating fixed prices for projects. Thus, additional input into the negotiation phase is required: *"If prices are based on CV, you can immediately figure out the price level for certain type of an expert, and we also know to some extent what competitors are charging (for similar resources). When we are moving away from CV sales, we need to be prepared for several rounds of price discussions with the client"*(Regional Director, Engio).This may also require a mind-set change for the client who are used to purchasing hourly-based work instead of outsourcing entire projects, as in the latter case the price tag for the service may simply seem higher, making the larger service entity a less lucrative option. Engio has recognized that a mind-set change does not happen overnight: "*Some clients just regard that it is more expensive to outsource projects to service providers. Of course it is more*

expensive, since we take on more responsibility, tasks and risks from the client. Our clients need time to understand what it means to purchase a more complete package" Regional Customer Manager, Engio.

Traditionally, Engio's employees have been physically present in ManuGroup's premises and worked as project team members. In other words, the service provider's resources have been under ManuGroup supervision and managed similarly as the client's in-house resources. This is however due to change in solutions or project-based exchange. Due to taking on more responsibility for the outcome, the physical locus of performing work shifts from the client to the service provider. For Engio, this is critical as it enables the company to optimize the use of their resources, develop competences and rotate people between projects. In comparison, when certain Engio employees are dedicated and tied into client projects month after month, there are fewer opportunities to use their know-how. The shift is also recognized on the client side: "*When moving towards solutions and projects, we don't necessarily name the resources that we want to work for us anymore, but it is up to Engio to decide how they organize the work in-house, if they for example want to do some of the work in China or in India. This obviously means that Engio should come up with different suggestions on (how and where to carry out the project)"* Senior Purchasing Director ManuGroup.

The change in the locus of work is also reflected in changes in the system infrastructure that supports and facilitates mutual business exchange. As of today, Engio resources use ManuGroup's workstations and licenses during project engagements. In this context, IT-systems facilitate resource integration between the companies, and can be regarded as the primary domain for value co-creation. However, provision of projects and solutions in terms of outcome and end-results does not require as strong system-wise integration. *"If we are working towards providing an end-result or an agreed outcome, we should be able to do it more independently and deliver the outcome to our client at the end of the day. This means less integration and communication between the systems"* Regional Customer Manager, Engio. The service provider has noted that also ManuGroup is willing to move towards this direction, partly because it enables uniform comparison of service providers in terms of price (as prices would reflect the fact that service provider is performing the work in their own premises, using their own workstations and licenses) and partly because this would free up capital in terms of tools and systems that are used by ManuGroup's subcontractors. As noted by Engio Regional Customer Manager: "*I hear from time to time that ManuGroup wants us to have our own systems and workstations. We could then integrate to ManuGroup's systems via an interface. The issue however is that connecting with the client this way is extremely slow. So it would actually drive us to working more independently in our own systems, and releasing the end-result to the client according to the set timetable."* However, looser system-wise integration and the fact that more work would be performed in-house increase the need to provide mechanisms for clients to follow-up project progress. "*If we were to take on projects, we work more in-house. However, we need to have transparent processes in place so that our clients can follow-up the progress through milestone reviews and reports"* (Regional Director, Engio).

Also work order practices are due to change in solutions or project based exchange. There is a new web- based ordering portal in place, which allows Engio's clients services on-line. For the service provider, receiving work orders through the web portal allows improved controlling and monitoring opportunities for following up performed work. Examples of follow-up measures are time between order receipt and fulfillment, or the rate of "complete-on-time". For the client, the tool allows for monitoring progress online. In CV business exchange however, the prevailing practice is that clients make orders by phone or e-mail. ManuGroup is not using the service provider's web-based ordering system, but relies on their own web-based tool for placing service orders from Engio.

Contracts between Engio and ManuGroup reflect the buy-sell nature of the relationship and thus sustain G-D relationship logic. Both companies acknowledge that in case ManuGroup outsources more comprehensive entities to Engio, contracts should be revisited. For example, contracts today do not include clauses on liability, warranty or sanctions for late deliveries from the perspective of project solution deliveries. A new frame agreement should address these issues, and additionally include clauses on ordering work or dealing with unforeseen costs, as emphasized by ManuGroup: "*For solutions and projects, we should have a frame agreement in place that prevents surprises related to situations where agreed costs are exceeded…The contract should also include rules for ordering project work, and maybe even define the contract template that should be used for projects*" Senior Purchasing Director, ManuGroup.

Traditionally, ManuGroup has purchased engineering services for R&D without sending out RFQs, in a manner similar to making call-offs where the work order has been used to specify the tasks and hours required. Moving away from pure resource exchange however requires a more professional approach in purchasing services for R&D: "*There are not that many people who are dedicated to service purchasing here in ManuGroup. Purchasing solutions or projects would require that technical people, those who are actually making the work orders, have more purchasing skills so that they are able to understand the business model and make RFQs*" Senior Purchasing Director ManuGroup. In particular, there are likely to be increased demands for the buyer's input in defining requirements. As noted by Engio this may be a burden for the buyer organization: "*It takes a much longer time to specify the work and to define the actual content (for the service). Many clients may not be ready to move towards this direction, since they feel it is such a time-consuming task to specify everything in detail in order to build a RFQ*". Regional Director, Engio. Nevertheless, the importance of requirements definition is underlined by the service provider, since clarification of requirements is seen as a pre-requisite for successful service provision: "*It really requires a lot of work already up-front. If you mess up the requirements definition phase, it will make your job a lot more difficult during the project"* Regional Customer Manager, Engio. The service provider obviously plays a role in the definition phase, but nevertheless, the key requirements should come from the client. *"It is important to set a clear baseline from the start so that when changes occur during the project we have something to compare against"* Key Account Director, Engio. Main task for the service provider is to detail out work packages, including hours and tasks, timetables and resources, so that these can be communicated to the buyer. Offers in this respect are not limited to planning and engineering but they can include the entire package, comprising prototyping and testing: *"When both the buyer and seller know what the work consists of, discussions become a lot easier"* Regional Director, Engio.

Transition to service-dominant relationship logic with reference to management layer in the relationship

The interaction between the companies today takes place on operational i.e. project level as well as on strategic level in management steering group meetings every four months. From ManuGroup perspective, the current relationship management model does not need major adaptations even if the business exchange will transform towards more comprehensive services: "*The management framework and the governance model for our relationship would be to a large extent very similar as today. This is the way how we collaborate also with our direct material suppliers, with whom we also have various kinds of collaboration and this is the model that works well*" Senior Purchasing Director ManuGroup. At the same time, ManuGroup acknowledges that developing the collaboration between the companies has not been actively addressed in joint discussions: *"We haven't actively discussed how we should develop our collaboration, but there is collaboration between our companies on various levels all the time, and during the years the collaboration has*

deepened; and there are direct contacts between Engio and our management" Senior Purchasing Director, ManuGroup. Deep social personal bonds and trust enabled by these bonds help in creating joint targets and goals also for solutions business: "*In partnership, there should be joint organizational goals and strategies, and this is what we are looking for. How successful we are in this is up to the personal relationships, that there is mutual trust and that we really understand our client's business so that we can find best possible solutions"* Key Account Director, Engio.

Engio regards that the current relationship management model works well for managing the collaboration on operational level; however, the service provider acknowledges a need to develop the context towards more strategic issues including long-term outlook: "*Steering meetings tend to address operational issues, including for example requirements for resources next week, and review of past projects. The meetings are very operative and technical in nature*" Regional Director, Engio. In other words, the management framework structure is in place to enable dialogue between the companies, but the context may need adjusting when moving towards solutions-based business. Concrete examples of potential topics for joint meetings are technology road-mapping and enhanced visibility into end-user needs. Today, both of these topics are only partly addressed in discussions between the companies.

In terms of relationship goals and objectives, companies acknowledge the importance of compatibility of goals and strategies on both sides of the dyad. *"We can say that we are aiming towards the same target: ManuGroup wants to purchase larger entities and we want to sell them"* Regional Manager, Engio. The view is shared by the client: *"Moving towards purchasing solutions and more comprehensive services is the way how we want to develop things and this is the direction that our R&D department is moving to. How far we are in this development that is hard to say, I think we are still purchasing resources and CVs to a large extent… But this (solutions business) is the direction that we both want to move into.*" Senior Purchasing Director ManuGroup. Implementing the transition is not only up to the service provider, but the buyer organization should be ready to purchase larger entities. *"It is not enough if we active in building and planning new processes (and services) and offering them in case the client is not ready to actually purchase them"* Regional Customer Manager, Engio. Even more important is the mind-set of the client, as emphasized by Engio: "*I think the pre-requisites are in place for this kind of change. We have a contract in place, partly common IT-systems and we communicate daily, so all of these structures are there already. Now it is just up to the client's mindset (to realize this transition)"* Key Account Director, Engio.

The traditional way of collaborating is based on the fact that Engio resources are deeply embedded in ManuGroup's projects. However, the service provider looking to establish a larger role in a wider domain within ManuGroup's value creation process by offering more comprehensive services, solutions and projects, that are exchanged based on outcome and end-results instead of hourly-based resources. This may mean moving from an extremely close relationship to more individualized way of working towards joint goals and thus, to a looser relationship. *"The relationship is changing. It is professional today, but will become even more professional and more commercial as ManuGroup will increasingly purchase planning and engineering services from the service provider market, compared to assigning tasks to named individuals*". Regional Customer Manager, Engio. However, the service provider is taking this as an opportunity to broaden the interface towards their client by bringing in new experts from other parts of the company i.e. people that have not previously worked in ManuGroup projects. Another opportunity related to the transition is forming partnerships with other sub-contractors in manufacturing for example to develop new service offerings for ManuGroup and other clients. From distance it is easier to see potential needs that a client has and bring in knowledge from other relationships. In the close relationship that Engio and ManuGroup

have today, the service provider feels that it is easy to be shortsighted and not see the "forest from the trees" in terms of service provision and potential areas for wider collaboration and value creation.

Case Beta

Transition to service-dominant relationship logic with reference to action and structural layer in the relationship

On relationship level, the business exchange between SupplyComp and FoodComp today can be described as highly relational and service-dominant, despite the fact that the business context is physical goods. Since 2003, FoodComp has outsourced the management of goods distribution and logistics to SupplyComp for the entire Finland, including processes for order handling, warehousing and invoicing, whilst keeping the sourcing process i.e. price negotiations and supplier selection in-house. The volumes that FoodComp channels through SupplyComp have grown significantly, and in addition to industrial goods, a range of other product groups, such as meat and poultry, vegetables, fruits and frozen goods are now distributed through SupplyComp. The role of SupplyComp has changed from a traditional "buy-stock-and resell" wholesaler to a nation-wide provider of logistics and procurement services. The entire industry, characterized once as decentralized and non-optimized, has undergone a major transition. Today, the service model between SupplyComp and FoodComp enables centralized, end-to-end optimized goods and information flows, facilitated by extensive system-to-system integration amongst all actors in the network.

The transition from a goods-dominant to service-dominant relationship logic required profound changes in the structural layer in the relationship, including the commercial and the operational infrastructure. A central feature in the new service model was the introduction of a new pricing model based on activity based costing. Prior to 2003 when SupplyComp and FoodComp started their closer collaboration, prices were set by the wholesale sector, leaving the customer with zero visibility into actual costs. The new pricing logic was based on separating between warehousing, handling and delivery processes and allocating costs to related activities based on product's weight. SupplyComp had trialed this type of cost allocation in one of the major product groups, and regarded activity-based pricing as a pre-requisite for establishing new value creation opportunities in their relationship with FoodComp.

In practice, activity-based pricing allowed the customer, i.e. FoodComp to separate between the producer's pre-distribution sales price and logistics costs, since the logistics costs, coming onto the top of the sales price, pertained to services provided by SupplyComp only. Implementation of the new pricing model thus enabled two major changes in value creation activities in the SupplyComp-FoodComp relationship. Firstly, FoodComp was able to leverage their purchasing power and negotiate prices directly with the industrial producers. Previously the supplier interface had been managed by wholesalers and it was highly unusual that a customer would actually discuss prices with producers. Due to the newly established transparency in the in the SupplyComp-FoodComp relationship and related service model, FoodComp was now able to start managing the supplier interface whilst SupplyComp concentrated on logistics and distribution services. Secondly, it was now possible for FoodComp to reduce their logistics and distribution costs through more efficient ordering, either by increasing the order line size measured in weight i.e. kilos or by changing the ordering frequency from daily to monthly. Value capture in this regard required that FoodComp trained their restaurant units on the impact of their purchasing practices to costs; in other words, started to actively steer their restaurants in the pursuit of more efficient purchasing behavior.

SupplyComp regarded more efficient ordering as a great value creation opportunity not only for FoodComp, but for the entire chain, including wholesale and producers.

In terms of structural changes, the renewed business model also required developing and building physical infrastructure to enable nation-wide service provision in distribution and warehousing. Consequently, SupplyComp upgraded the truck fleet to ensure safe transportation of frozen goods in a certain temperature. In addition, the delivery and distribution system was redesigned to fulfill FoodComp requirements in terms of routing, which was a unique set-up for FoodComp only. SupplyComp also made major investments into building regional terminals to cover for distribution requirements for the entire Finland. The new operational infrastructure allowed for centralized stocking of goods, which were then channeled to the customer in one truck through regional terminals.

A key element in the structural layer was building shared IT infrastructure to support firstly, the implementation of the new pricing logic and secondly, to enable electronic order and document processing between FoodComp restaurants, SupplyComp and producers. Pricing functionality in SAP and electronic ordering interfaces were built and taken into use during 2003-2004. Shared systems enabled huge improvements in process efficiency, since previously, purchase orders were placed manually and by phone. By 2014, nearly 100% of daily transactions (PO lines, delivery notes, invoices) between FoodComp and SupplyComp are processed electronically. Shared systems enabled implementation of new KPIs on various efficiency measures throughout the entire chain. This has promoted transparency and control from original producers down to each restaurant unit. After the early developments, IT infrastructure has been developed further in terms of a of a supplier portal, where producer-specific sales data and key performance measures are available in electronic format. Further developed functionalities include on-line forecasts from restaurants to the producers as well as on-line availability checks and feedback to restaurants at the point of order.

Building and implementing shared systems has been critical in the transition from a decentralized and non-optimized, goods-dominant business model to a centralized and service-dominant business model, where SupplyComp is an active logistics operator and information broker between the industry actors and FoodComp restaurants. The transition required major investments from SupplyComp into programming and developing system functionalities as well as building interfaces upstream and downstream. These investments were however seen a pre-requisite in enabling the strategic change towards customer-centric approach, which also marked a fundamental change in SupplyComp's i.e. the service provider's value creation activities through information and data management.

Regarding customer value capture, IT infrastructure facilitated process efficiency and improved time management at the customer end. By centralizing distribution and logistics to SupplyComp, FoodComp was able to reduce their logistics costs by 50% compared to the original model where producers delivered directly to restaurants.

One of the key structural elements that needed updating when companies started their closer collaraboration was contracts. As SupplyComp and FoodComp had been in a business relationship there was a contract in place that however needed to be reformatted to suit the joint pursuits of developing and building a new service model. Firstly, the companies agreed on a plan for implementing new product groups into the centralized service model gradually. This was regarded as *"an indication of our willingness to move towards the same direction"*, as stated by CPO, FoodComp. Secondly, the contract featured the principles underlying pricing transparency and its implications to division of power in the relationship. Consequently, the contract stated that

FoodComp would negotiate prices with original producers on pre-distribution basis; it further stipulated that pre-distribution prices would remain as they were up until delivery to SupplyComp's warehouses. An attachment in the contract detailed that SupplyComp would not allocate any extra costs to producers. As this had been the prevailing practice in the industry, it was important to stipulate that upstream cost allocation was no longer possible. In addition, a list of development issues regarding the joint business model was attached to the contract, but later on companies decided to discard this list, as it did not keep up with the pace of development in practice.

Transition to service-dominant relationship logic with reference to the management layer in the relationship

The interaction between SupplyComp and FoodComp takes place on various levels and interfaces which have been intentionally and systematically built into the relationship since early 2000. Collaboration and communication practices take several organized forms, connecting different organization levels and functions: *"Every interface needs a specific form of collaboration"*MD, SupplyComp. Key account management –structure with dedicated chain service managers at SupplyComp was taken into use early 2000, marking a profound change in customer service compared to other wholesalers. KAM structure enables direct communication between SupplyComp and FoodComp in operational issues in particular; one important factor here is that FoodComp's purchasing managers always knew, whom to contact. Additionally, when there are changes in FoodComp's purchasing personnel, KAM at SupplyComp briefs and trains newcomers on the complexities on the joint activities and supporting systems. In general, tasks and processes handled by KAM have been defined jointly as part of the development of the management layer. As the business between the companies increased, the KAM team at SupplyComp has grown from one to three persons.

In terms of joint forums, the executive level meeting takes place once a year. However, the most critical forum in terms of setting and managing relationship goals is the development team with dedicated members from both companies. Team meets regularly to discuss joint development issues such as distribution and deliveries, IT solutions, system-to-system integration and KPIs. At the meetings, to-do lists for development actions are prepared; lists are followed up in subsequent meetings. *"The development team is the heart of our collaboration, that comes up with new ideas every time we meet." MD, SupplyComp.* The atmosphere in development team meetings is open and trusting that supports free flow of ideas. In addition to formal meetings, companies also arrange informal meetings which are considered important in keeping up the relationship.

At the core of the relationship is the extremely well-functioning relationship between the Managing Director or SupplyComp and the Chief Purchasing Officer at FoodComp, who share a deep personal bond and mutual interest towards co-creating solutions. Many of the developments concerning shared systems or the introduction of KPIs that have been innovated together with FoodComp have also fed into SupplyComp's other customer relationships. This value creation opportunity for SupplyComp is acknowledged on FoodComp side, but the relationship is still considered to be win-win, since also FoodComp benefits, by for example bundling volumes with SupplyComp.

Today, the relationship is geared towards constant development and co-creation of solutions. In this respect, the joint business model is a result of pursuing of relationship goals by incrementally improving joint activities and supporting structures, instead of making radical leaps. A standard part of the relationship management agenda is joint risk management where companies systematically assess risks related to the operational side of the relationship. For example,

companies have identified risks in relation to warehouses and IT-infrastructure, particularly the system's ability to transmit purchase orders in case of an unexpected system shutdown. Meetings related to risks are arranged regularly on top of other management forums.

DISCUSSION AND CONCLUSIONS

This study integrates the buyer-supplier exchange logic approach and relational perspective to analyzing trajectories in the transformation of buyer-seller exchange towards increasingly service-centric relationships. It pursued to identify and assesses how transitions between goods-dominant and service-dominant exchange logics influence the relationship logic between the exchange partners. In addition, the case studies identified the relative changes in the product sales and service volume in the relationships.

In line with Ford (2011) and Grönroos (2011) the focal study aims at integrating the service/value creation and business relationships literatures to comprise an integrative framework. Our framework comprises the structural, action and management layers to investigate the underpinnings of the transformation in the relationship logic in business-to-business exchange. Our analysis in two case relationships shows that the framework can help creating a deeper understanding of different trajectories in the transition of the relationship logic between the buyer and the supplier.

First, we analyzed the *structural layer* of the relationships. In this regard, the present study contributes to the theoretical discourse of the relationship management by analyzing the relationship configuration, tie strength, and organizing principles of an exchange relation. Through our cases, we show that the structural configuration of a relationship takes in that the flexibility and ease of information exchange influence the level of contact and the accessibility of the partners in collaboration. As both of our cases manifest increasing information intensity in the exchange, the ties between the actors provide the channels for information transmission.

Second, the analysis improves the current understanding of the *action layer* of inter-firm exchange. Our analysis of the relationships in the cases took in the veritable action the exchange processes between the participants. In order to create mutual value, the actors involved in a relationship engage to social interaction, which is further consolidated with mutual trust and thus interplays with the structural dimension.

Third, our study sheds new light on managerial layer of relationship transition. Managerial layer involves management processes, goals, and shared vision of the purpose of the relationship. Further, we acknowledged that meaning construction regarding the purpose of the relationship is subject to the interpretation schemas of the actors. Through the two cases, we investigated how these cognitive aspects of the relationship are associated to, and manifest the dominance of the service-centric or goods-centric logic in the relationships.

Combined, the study makes a noteworthy contribution to the research of service transformation by proposing a novel conceptualization the aspects of buyer-supplier relationship. Also, our case studies reveal the essential underpinnings of the transitions in the relationship logic that influence the transformation.

While our cases provided a rich mine of information on the contingencies of relationship logic and depicted two different trajectories in the transition toward increasingly service-centric logic in inter-organizational exchange, the study is not free from limitations. We chose to analyze the service transformation from the dyadic relationship perspective, focusing particularly on the relationships between two buyer and two supplier organizations. The observation of the relationships could have been even richer by including all relationships among the actors in the cases into the analysis. However, the research design allowed us to dig deeper into the essential underpinnings of the relationships by focusing the relationship between the essential actors in the analysis. We call for more research of the influences of service transformation on the network orchestration of the actors.

Moreover, in regard to methodological concerns, we took various actions to control the threat of retrospective bias when analyzing the relationships. First, to build understanding of the underpinnings and consequences of the transitions in the relationship logic in the cases, we focused on factual elements rather than on subjective interpretations of the investigated phenomena. Also, our access to the organizations under study allowed us to develop a detailed longitudinal understanding of the evolution of the cases. Finally, our data draws from multiple informants and different data sources, ensuring triangulation which reduces the risk of bias arising from individual informants' perspective and retrospection (cf. Maitlis & Lawrence, 2007). However, future research could investigate the system-wide changes caused by the transition to increasingly service-centric operation. Especially, more empirical research is needed to fully comprehend the influences of service transformation on the productivity of organizations in the entire production system. Therefore, we call for more research of on the long-term influences of the changes in the relationship logic on the participating organizations' economic and market performance.

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