

Conceptualising Business-to-Business Relationship Value

Sergio Biggemann

Macquarie Graduate School of Management
Macquarie University, NSW 2109, Australia
sbiggemann@optusnet.com.au

Francis Buttle

Macquarie Graduate School of Management
Macquarie University, NSW 2109, Australia
francis.buttle@mgs.edu.au

Abstract

"The value of relationships has been enormous because it has made the pain more bearable" claimed the manager of one large company that participated in our research.

Building and maintaining relationships in business-to-business (B2B) contexts involves sacrifices by the parties involved, whether in time or money or by precluding the development of relationships with other parties. Relationships also deliver benefits which may or may not surpass these costs. The net value of a relationship can be thought of as the difference or ratio between these costs and benefits.

We have conducted extensive case-based research into B2B relationships and found that relationships deliver value in forms that go beyond simple financial considerations.

We find that B2B relationships deliver value in four different forms, each of which can be indicated in a number of ways: 1) Personal value, indicated in customer retention and referral; 2) Financial value, expressed through increases in efficiency, share of business/wallet, share of market, and received price; 3) Knowledge value, expressed through market intelligence, idea generation and innovation; and 4) Strategic value, experienced through gains in long term planning and access to extended networks.

Personal value is connected to another relational outcome - non-economic satisfaction. We observed that when personal value is found in a relationship the parties are more willing to stay, as well as more willing to recommend their business partner to others.

Relationships may also permit sellers to achieve higher prices or either/both parties to reduce their costs of dealing with the other. We call this type of value 'Financial Value' which is linked to economic satisfaction with the relationship.

Relationships allow communication to flow between parties. That is, parties share information, which might include market intelligence, feedback on their performance, methods to improve processes or new ways to manage their business. The parties also are more likely to work together in 'idea generation' teams. Put another way, the parties learn from one another, which we regard as 'Knowledge Value.'

We also found that companies that maintain relationships experience longer time horizons for planning, as well as access to extended networks from which they can benefit. This provides the parties with a competitive edge that that we have called 'Strategic Value'.

Keywords: Relationship Value, Relationship Benefits, Knowledge Value, Financial Value, Strategic Value

Introduction

Relationships have, for a long time, been regarded as fundamental for business success. It has been suggested that relationships deliver several forms of value. Although the most frequently cited form is financial value, other dimensions have been mentioned in research. Anderson *et al.* (1993) identify four classes of benefit from relationships: economic, technical, service and social benefits. Wilson and Jantrania (1996) suggest that relationship value comprises economic, behavioural and strategic dimensions. Ford and McDowell (1999) also argue that relationship value goes beyond the financial dimension. They propose knowledge transfer, reputational gains, and network access as forms of relationship value. Ford and McDowell remark that value depends upon the participants' perceptions. Our research data suggest that companies can identify four different forms of value: personal value, financial value, knowledge value and strategic value. We believe that this taxonomy helps both practitioners and academics understand the nature of relationship value.

Literature Review

Significant amongst the reasons for companies wanting to build relationships is the value that relationships generate. Ford and McDowell (1999) observe that relationship value is a common theme in managers' conversations, as well as in the business and academic literatures. They stress, as do other authors, that it is often unclear what is judged as relationship value. For instance, Keating *et al.* (2003) assert that satisfaction and value are commonly used interchangeably in both academic and business literature.

Value can be thought of as the difference or ratio between costs and benefits. It can be achieved either from increasing gains or reducing sacrifices (Ravald and Grönroos 1996). Payne *et al.* (1995) define value as the summation of all positive effects upon a customer's business. However, the identification of both costs and benefits is not simple. Anderson *et al.* (1993) stress that relationship value is 'perceptual in nature,' which means it is connected to social or personal values. Möller and Törrönen (2003) note that relationship benefits are often future oriented, thus difficult to anticipate.

Two existing organisations engaged in commercial exchange create a kind of 'hybrid organisation.' Their long-term relationship delivers more value than the sum of the individual values created by each one of the organisations (Borys and Jemison 1989; Thorelli 1986). That is, the efficiency and/or effectiveness of the resources used by two existing organisations in relational interaction is greater than the efficiency and/or effectiveness that those organisations can achieve working individually. Relationship-created value may result from shared knowledge, technology and other resources.

Wilson and Jantrania (1996) merged the hybrid-organisation model with previous work on relationship development (Dwyer *et al.* 1987; Morgan and Hunt 1994; Scanzoni 1979; Thibaut and Kelley 1959). Wilson and Jantrania acknowledge that value creation takes place in the context of the social, economic, political, and religious aspects of the system in which the companies are located. They propose a three dimension construct of relationship value: 1) Economic dimension, which moves from simple cost reduction to "a complex concurrent engineering relationship that creates value through cost savings and design, in assembly and field service and also has the benefit of reducing the time to market" (p.62), 2) Behavioural dimension, which includes social bonding, trust and culture and, 3) Strategic dimension, which develops core competencies within the hybrid relationship. They add that the closer the culture of the parties, the easier the emergence of the hybrid culture. Wilson and Jantrania (1996) conclude that the value of a relationship should be assessed initially in terms of economic value, followed by strategic value and finally behavioural value.

Ford and McDowell (1999) confirm that valued relationships go beyond financial concerns. Knowledge transfer, reputational gains, or network access are characteristics of relationships that are highly valued. It is important to know the elements of a relationship that create value. Day (2000) allocates a strategic value to relationships, asserting that the ability to create and maintain relationships provides the basis for building competitive advantage. He also warns about the damage that high personnel turnover causes to relationships.

The value that is conferred on a relationship may be connected to an individual's feelings about his or her role in society. The expected outcomes of actions within a relationship are influenced by the individual's

beliefs and attitudes. Barnes (2003) observes that customer relationships are special emotional constructs, in which value is reflected in forms that extend beyond retention and repeated buying. Meaningful relationships are founded on creating emotional value. Forms of emotional value include: shared history, values, goals, interests, beliefs, sense of commitment, reliance, social support, intimacy, interest, respect, and trust. This type of value can be thought of as personal value.

Sweeney and Webb (2002), drawing on interview-based research identified seven relationship benefits: 1) Symbiotic benefits, denoting collaboration and understanding between the parties, 2) Psychological benefits, denoting 'trust or confidence in the other party' (p.84), 3) Operational benefits, related to improved processes in, and from, working together, 4) Social benefits, an extension of the business relationship to the social context, 5) Economic benefits, derived from reduced costs or increased business, 6) Strategic benefits, from which the parties improve their competitive advantage, and 7) Customisation benefits, signifying that parties have access to treatment that goes beyond standardised value propositions. Sweeney and Webb conclude that both buyers and sellers benefit equally. Economic benefits were more evident for sellers but buyers also benefit by achieving their own organisational objectives. This ultimately results in better financial outcomes.

Kalwani and Narayandas (1995) report that suppliers embedded in close long-term relationships grow at the same rate as their customers. They can also reduce costs as a result of better management of their inventory. Although customers experience part of the savings, overall, the supplier's profitability increases. In another study, Dzever *et al.* (2001) found that relationships deliver value to suppliers not only by improving the efficiency of their operations but also by making their business possible.

Our Research

We adopt a constructionist approach to our research. We define relationships as social constructions that result from the interaction between two or more companies over time. Sequences of acts amongst the parties dynamically build the social reality of business relationships. Thus, each time an act is performed it potentially changes the relationship and therefore the value that the relationship delivers to the parties.

In this context of permanently evolving relationships, we sought data that would lead us to understand the kinds of value that companies attribute to relationships and how value perceptions change in relation to different contextual conditions that impact on relationship construals.

Data collection

Data was gathered through interviews within 15 different companies sitting on either the buyer or seller side of a commercial dyad. Participating companies were drawn from a number of industrial sectors: manufacture of structural and ornamental steel for the construction industry; international trading of vegetable oils; food processing; manufacture of steel and aluminium cans; personal care products manufacture; copying and document management; and in department store retailing. Government service suppliers were also involved. Over 50 people were interviewed ranging from managing directors to sales representatives and buyers.

In addition to the interviews, we reviewed documents such as marketing plans, sales contracts and agreements, and intercompany correspondence. We also attended company-to-company meetings.

Data analysis

Records from interviews and notes from observation were transcribed and subsequently analysed with the aid of NVivo 2.0. Passages related to relationship costs, benefits or value were coded. Ultimately, codings collapsed into the four forms of value identified: personal, financial, knowledge and strategic value.

Results

Evidence for all four types of relationship value was found within the transcripts. However, it was noticeable that the interviewees' perceptions of value differed not only from case study to case study but also within a single case study. We posit that relationship value is not always perceived in a common way because of the socially constructed nature of relationships. Relationship value is ultimately evaluated in the historical context of the focal relationship, other relationships, and expectations of the future.

There is support within the network approach to relationships for the notion that particular acts or episodes can have transforming effects on B2B relationships. It is also clear that past experiences, perceptions of the present situation, and expectations of the future condition the parties' evaluation of the relationship (Alajoutsijärvi *et al.* 2000; Ford *et al.* 1996; Håkansson and Ford 2002; Håkansson and Snehota 1995).

Personal Value

Sometimes individuals assign value to relationships based only on their personal values and interpretation of events. We regard this as Personal Value.

Ford and McDowell (1999) define this as the value connected to an individual's personal beliefs. Barnes (2003) refers to those forms of value that are more central to the feelings and emotions of the customer as emotional value.

Personal Value can be identified in episodes in which one of the parties legitimates or accepts the actions of others that in different circumstances would be prohibited or disapproved.

Evidence of Personal Value was found in a number of the transcripts. Indications of Personal Value are present when interviewees comment that they are more willing to help the customer, or are more willing to tolerate the supplier in difficult circumstances. One informant suggested that a good relationship provided a buffer that could be utilized in difficult situations, thus preventing relationship termination.

Within one case study, the supplier, a manufacturer of steel and aluminium cans, was having a very hard time in meeting market demand. One customer had experienced an extraordinary rise in demand that was beyond their expectations. As a result the supplier could not deliver enough cans to fill, causing the customer problems with retail and warehouse stock-outs. Nevertheless, the customer did not substitute or find additional suppliers. Instead, they gave the company an extended opportunity to find a solution to the problem. The supplier's Sales and Marketing Manager commented that they retained the customer because the relationship provided a kind of buffer of tolerance to errors which prevented the customer seeking alternative suppliers. The supplier's General Manager:

"The relationships at the coal face make the pain bearable. That is what it is all about. It may go as far as to stopping them for doing the extreme alternative because they value the relationship but it doesn't give you more cans, doesn't help you supply more cans, it just makes the pain a bit more bearable."

In a second case study, a provider of imaging solutions supplied a university with a document management solution which worked so well that the customer became a very important advocate. The customer was willing to give referrals to other prospective customers due to their experience with the product. The customer's satisfaction was based on more than simply having purchased a cost-effective solution. Rather, the customer recounted the experience as being a jointly-produced, unique, solution to their document management problems.

These two stories illustrate how relationships deliver personal value. In one case, Personal Value led to the retention of the customer under conditions of duress; in the other case the customer was encouraged to utter positive word of mouth. In the literature, it has been suggested that Personal Value is visible in Customer Retention and Referral outcomes, which may in turn lead to further Financial Value (Reichheld and Sasser 1990; Reinartz and Kumar 2003). It also has been suggested that Satisfaction increases levels of Customer Retention (Ennew and Binks 1999; Eriksson and Löfmark Vaghult 1999). Personal Value and Non-Economic Satisfaction are connected in a number of studies. For instance MacNeil (1980)

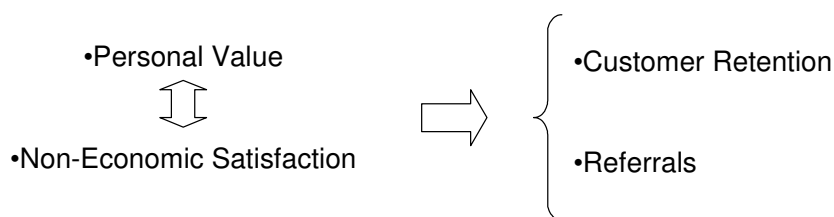


Figure 1. Appraising Personal Value of Relationships

asserts that personal non-economic satisfaction can be derived from relational exchange, satisfaction being defined as a positive affective state (Anderson and Narus 1984).

Thus, Personal Value and Non-Economic Satisfaction are connected. Customer Retention and/or Referrals are the evidence that parties find Personal Value in a relationship, as illustrated in figure 1.

Financial Value

When it comes to assessing the value of relationships, the first reaction is often to think about financial costs and benefits, which although not easy to assess are still the most tangible form of relationship cost and benefit. Our research has identified various forms of Financial Value, including: 1) the belief that customers would be willing to pay more - estimates vary from 0.5% to 5%; 2) the suggestion that close customer relationships represent an intangible asset that can be dollar-valued when a business is put up for sale, rather like goodwill; 3) The belief that quality relationships help companies meet budgeted targets; and 4) the most widespread observation that close relationships lead to increased business opportunities and improved efficiency, particularly as a result of better planning.

A provider of logistics services to the international trading of vegetable oils supplies evidence of how relationships may lead to a greater share of a customer’s business. The Customer Relationship Manager of the logistics company explained that having established a relationship with the customer for managing their vegetable oils inbound freight, a number of new opportunities arose. So significant were these that the customer became the most valued customer of the company.

“The relationship with [the customer] is now going fantastic. We’ve got the crushing. Now they take most of the oil from it. We also have the freight from South America bringing sunflower oil for them as well, and that sort of contract. So we got shipping, and we are moving product in and we are also talking about the crushing plant. So that is coming in. We are selling the oil from our crushing plant which is always tough for us. Suddenly our crushing plant is making money so we are happy there. We are getting money from the freight, bring imported vegetable oils for Australia and New Zealand, then we got an opportunity in Western Australia. A little crushing plant that [the customer] used to buy they oil from has gone bankrupt and they came to us and said, guys we need someone who buy it, we are happy to sign a deal for few years if you buy. Suddenly we have got the backing of the biggest consumer in Australia and all of it is coming from a relationship.”

The story supports previous work in which satisfaction has been linked to economic outcomes of relationships (Geyskens *et al.* 1998), as well as to relationship profitability (Storbacka *et al.* 1994). It seems that Financial Value can be connected to Economic Satisfaction, and is indicated by Increased Efficiency, more Share of Business, more Share of Market, and the customer willingness to Pay More, as illustrated in figure 2.

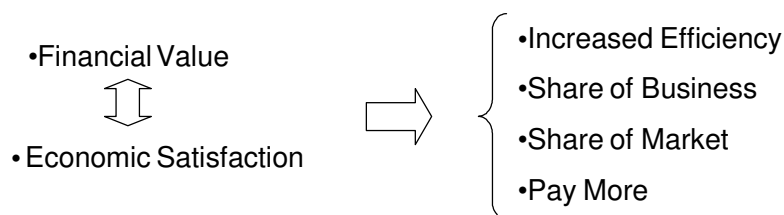


Figure 2. Appraising Financial Value of Relationships

Knowledge Value

Relationships can also deliver value in the form of knowledge creation and transference. Generating new ideas, sharing more detailed information or gaining market intelligence to respond to demands better, are outcomes of relationships that represent Knowledge-based Value.

Close relationships open communication channels that permit the parties to share information. Participants regarded this as gaining market intelligence, as getting feedback from the counterpart, or as learning more about the business itself. One person reported that the value of having a relationship is the 'idea-generation' dynamics that emerge between the parties.

A key account manager of one of our case companies, the supplier of imaging solutions, recalled that as a result of a close relationship that had been established with a retailer, communication flow improved and they formed a 'steering committee' which analysed the market and identified the best ways to satisfy customers.

"The big one is really idea generation. If you have an open relationship, ideas, discussion, willingness to participate, all these sort of things will be generated."

Within the same relationship, the retailer notified the supplier that an introductory price for a new colour laser printing was wrong because other companies supplying the market were about to launch their own models at lower prices. It is unlikely that that sort of information would be available without a good relationship in place.

Overall, the parties are able to discover new ways to manage their businesses, to develop improved processes, as well as to innovate jointly. Evidence from the case studies is supported by Ballantyne (2004) who sees relationship-specific knowledge as socially constructed and co-created by interactants. Knowledge value, he asserts, enables innovative solutions to emerge, improves mutual understanding and promotes trust.

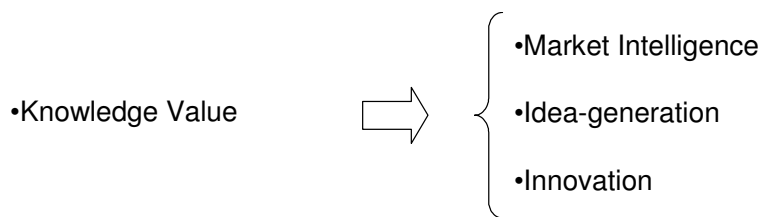


Figure 3. Appraising Knowledge Value of Relationships

We found that Knowledge Value was expressed in Market Intelligence, Idea-generation and Innovation outcomes, as illustrated in figure 3.

Strategic Value

Strategic Value results from the increased stability and decreased uncertainty that relationships provide to the parties involved, thus enabling them to extend the time horizon in planning. This allows better planning, reduces risks, makes possible better utilisation of the assets, and provides a foundation on which business can be built. Strategic Value exists if companies improve their competitiveness as a result of the relationships in which they are engaged.

A number of text passages indicate that Strategic Value has been conferred on relationships. For instance, the can manufacturer was appointed sole supplier to one customer as a result of having a long-term relationship. Sole supplier status provides very secure grounds for long-term planning, lowering the risk of investments. In another case, the manufacturer of steel for the construction industry recalled a customer whose competitive position, as reflected in the ability to enter new markets, was considerably enhanced by switching from fibro-cement to steel. This enabled the customer to exploit the company's connections to the largest steel producer of the country. The Vice-president Marketing of the company said:

"Changing to steel changes the product. Then working with [the company] and [the parent company] would be incredibly important for them to enter the market."

This idea of getting benefits from the extended business network was identified and named by Anderson *et al* (1994) as Anticipated Constructive Effects on Network Identity. Möller and Törrönen (2003) propose that within the Supplier-Network Function is the access to resources of the supplier's extended network.

In another case, a department store identified Strategic Value in bringing together two of their suppliers of computers and printers who had complementary products for a joint promotion.

Strategic Value of relationships can be characterised through Long-term Planning and Extended Network Connections as illustrated in figure 4.

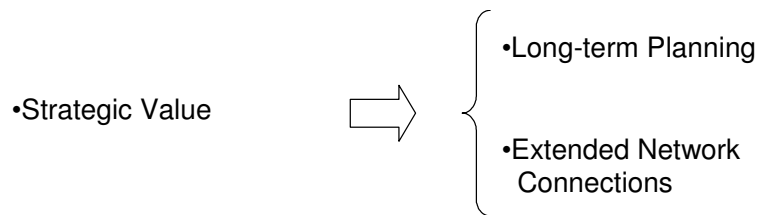


Figure 4. Appraising Strategic Value of Relationships

The Influence of Context on the Perception of Value

The context in which relationships are co-created critically influences the value that parties assign to the relationship. For instance, the case study episode in which the can manufacturer was unable to fulfil the customer's needs does not illustrate any of Möller and Törrönen (2003) three dimensions of supplier's value creation potential: efficiency, effectiveness or network. However, the parties maintain the relationship because of perceived Personal Value. If the supply shortfall were to continue it could become a relational context in its own right. Under that context, the profit sacrifices might lead to a perception of negative financial value, diminishing the personal value assigned and therefore leading the relationship to termination.

In all the other case studies, the context in which the relationships were performed made possible the manifestation of value in one or more of the four dimensions we found.

Conclusion

We have identified four dimensions of relationship value in our research – personal, financial, knowledge and strategic value, each of which is indicated in different outcomes. This 4-D model allowed us to account fully for all textual references to relationship costs, benefits and value in our case-based research.

Because relationships are context dependent, the value that is attributed to those relationships is likewise context dependent. Thus, the weight of each of the four dimensions of value that is attributed to a relationship varies from case study to case study, as well as within the same single case study.

Our research presents a new taxonomy that can be used for organising the parties' perceptions of what counts as relationship value, as well as by proposing operational indicators of the four dimensions of relationship value.

It cannot be said that one dimension of value is more important than another. Neither it is possible to say which one of the operational indicators is more frequently encountered. Instead, we suggest that B2B relationships can deliver value in one or more of the four dimensions, each of which is indicated by a number of variables that may or may not be present depending on the context in which the relationships have been performed. We conclude that Total Relationship Value (TRV) can be portrayed through four dimensions and operational variables. The TRV model is illustrated in figure 5.

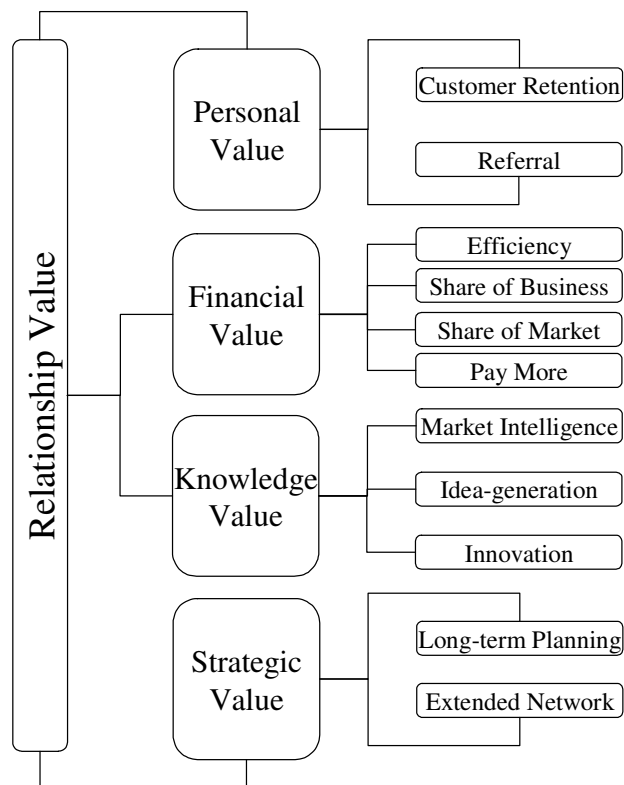


Figure 5. Appraising Total Relationship Value

References

- Alajoutsijärvi, Kimmo, Kristian K. Möller, and Jaana Tähtinen (2000), "Beautiful exit: how to leave your business partner," *European Journal of Marketing*, 24 (11/12), 1270-89.
- Anderson, James C., D.C. Jain, and P.K. Chintagunta (1993), "Customer Value Assessment in Business Markets: A State-of-Practice Study," *Journal of Business-to-Business Marketing*, 1, 3-29.
- Anderson, James C. and James A. Narus (1984), "A Model of the Distributor's Perspective of Distributor-Manufacturer Working Relationships," *Journal of Marketing*, 48 (Fall), 62-74.
- Ballantyne, David (2004), "Dialogue and its role in the development of relationship specific knowledge," *Journal of Business & Industrial Marketing*, 19 (2), 114-23.
- Barnes, James G. (2003), "Establishing meaningful customer relationships: why some companies and brands mean more to their customers," *Managing Service Quality*, 13 (3), 178-86.
- Borys, B and D. B Jemison (1989), "Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organization Combinations," *Academy of Management Review*, 14 (February), 234-49.
- Day, George S. (2000), "Managing Market Relationships," *Journal of the Academy of Marketing Science*, 28 (1), 24-30.
- Dwyer, F. Robert, Paul H. Schurr, and Sejo Oh (1987), "Developing Buyer-Seller Relationships," *Journal of Marketing*, 51 (April), 11-27.

- Dzever, Sam, Mohamed Merdji, and Anne-Laure Saives (2001), "Purchase decision making and buyer-seller relationship development in the French food processing industry," *Supply Chain Management: An International Journal*, 6 (5), 216-29.
- Ennew, Christine T. and Martin R. Binks (1999), "Impact of Participative Service Relationships on Quality, Satisfaction and Retention: An Exploratory Study," *Journal of Business Research*, 46, 121-32.
- Eriksson, K and A Löfmark Vaghult (1999), "Customer Retention, Purchasing Behaviour and Relationship Substance in Professional Services," in 15th Annual IMP Conference, D McLoughlin and C Horan (Eds.). University College, Dublin.
- Ford, David and Raymond McDowell (1999), "Managing Business Relationships by Analyzing the Effects and Value of Different Actions," *Industrial Marketing Management*, 28 (5), 429-42.
- Ford, David, Raymond McDowell, and Cyril Tomkins (1996), "Relationship Strategy, Investments and Decision Making," in *Networks in marketing*, Dawn Iacobucci, Ed. Thousand Oaks: Sage Publications, Inc.
- Geyskens, Inge, Jan-Benedict E.M. Steenkamp, and Nirmalya Kumar (1998), "Generalizations about trust in marketing channel relationships using meta-analysis," *International Journal of Research in Marketing*, 15 (1998), 223-48.
- Håkansson, Håkan and David Ford (2002), "How should companies interact in business networks?," *Journal of Business Research*, 55, 113-39.
- Håkansson, Håkan and Ivan Snehota (1995), "Analysing business relationships," in *Developing relationships in business networks*, Håkan Håkansson and Ivan Snehota, Eds. London: Routledge.
- Kalwani, Manohar U and Narakesari Narayandas (1995), "Long-Term Manufacturer-Supplier Relationships: Do They Pay Off for Supplier Firms?," *Journal of Marketing*, 59 (January), 1-16.
- Keating, Byron, Robert Rugimbana, and Ali Quazi (2003), "Differentiating between service quality and relationship quality in cyberspace," *Managing Service Quality*, 13 (3), 217-32.
- Macneil, Ian R. (1980), "Power, Contract, and the Economic Model," *Journal of Economic Issues*, XI (4), 909-23.
- Möller, Kristian K. and Pekka Törrönen (2003), "Business suppliers' value creation potential. A capability-based analysis," *Industrial Marketing Management*, 32, 109-18.
- Morgan, Robert M. and Shelby D. Hunt (1994), "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing*, 58 (July), 20-38.
- Payne, Adrian, Martin Christopher, Moira Clark, and Helen Peck Eds. (1995), *Relationship Marketing for Competitive Advantage: Winning and keeping customers*. Oxford: Butterworth-Heinemann.
- Ravald, Annika and Christian Grönroos (1996), "The value concept and relationship marketing," *European Journal of Marketing*, 30 (2), 19-30.
- Reichheld, Frederick F. and W. Earl Jr. Sasser (1990), "Zero Defections: Quality Comes to Services," *Harvard Business Review* (September - October).
- Reinartz, Weber J. and V. Kumar (2003), "The Impact of Customer Relationship Characteristics on Profitable Lifetime Duration," *Journal of Marketing*, 67 (January), 77-99.
- Scanzoni, John (1979), "Social Exchange and Behavioral Interdependence," in *Social exchange in developing relations*, Robert L. Burgess and Ted L. Huston, Eds. New York: Academic Press.

Storbacka, Kaj, Tore Strandvik, and Christian Grönroos (1994), "Managing Customer Relationships for Profit: The Dynamics of Relationship Quality," *International Journal of Service Industry Management*, 5 (5), 21-38.

Sweeney, Jillian C and Dave Webb (2002), "Relationship Benefits: An Exploration of Buyer-Supplier Dyads," *Journal of Relationship Marketing*, 1 (2), 77-91.

Thibaut, John W. and Harold H. Kelley (1959), *The Social Psychology of Groups*. New York: John Wiley & Sons, Inc.

Thorelli, H. B (1986), "Networks: Between Markets and Hierarchies," *Strategic Management Journal*, 7, 37-51.

Wilson, David T. and Swati Jantrania (1996), "Understanding the Value of a Relationship," *Asia-Australia Marketing Journal*, 2 (1), 55-66.