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## A Conceptual Overview of Value Creation in Business Relationships

\* Abhishek Pande

\* Mentor, Orange School of Business, Nagpur

### ABSTRACT

*Business relationships provide means for creating and appropriating superior value in the marketplace. Research pertains almost exclusively to the value after relationship creation and sharing among exchange partners. Consequently, the interaction between value creation and value appropriation remains relatively unknown in collaborative relationships. This study proposes a conceptual model that positions value creation and value appropriation as focal variables within the nomological net of business relationships.*

### Keywords :

#### INTRODUCTION

Customer firms perceive value creation as positive only if they appropriate a larger slice of the bigger value pie. Information exchange moderates customer firms' evaluations of value creation and appropriation efforts. In contrast to the highly competitive nature embedding the ongoing sourcing relationship reveals cooperative elements in the business relationships.

#### PURPOSE

The essence of investing in business relationships is putting funds at risk with the hopes of receiving a greater amount in return. If this is accomplished, it can be said that one has created value. The purpose of this article is to explore the conceptual basis of value creation as well as its practical application in the context of a going business. The present research attempts to close this gap by exploring relationship value from a grounded theory perspective. Greater relational satisfaction favors less aggressive value appropriation efforts.

#### LITERATURE REVIEW

Most research on customer value adopts a transactional approach focusing on product-related issues, neglecting relational dimensions of customer-perceived value (Dwyer & Tanner, 2002; Parasuraman & Grewal, 2000). In reviewing the value literature and its implications for relationship marketing, Payne and Holt (1999) state that "the most recent development has been to consider customer value from the viewpoint of business relationships. This is described as 'relationship value'. The conceptual roots of the relationship value construct lie in business and services that Anderson, Jain, and Chintagunta (1993) define value in business markets as "the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative offerings and prices." This definition represents one of the first efforts to identify and categorize the relational dimensions of the value construct, namely, social and service benefits. There is a growing recognition that collaborative relationships in business markets offer significant opportunities for companies to create competitive advantages and achieve superior results (Hewitt, Money, & Sharma, 2002; Lyons, Krachenberg, & Henke, 1990). The measurement of value creation in relationships is still in its infancy, and a sound understanding of the concept is a prerequisite for developing reliable and valid assessment tools (Eggert & Ulaga, 2002; Ulaga, 2001).

#### GOALS AND OBJECTIVES

The absence of good personal interaction may endanger the overall business relationships. Not having a good working relationship is considered counter productive. Beyond ethical considerations in how to handle personal interactions in a business relationship, some participants suggest that their organizations have implemented procedures limiting the role played by interpersonal relationships.

Several business participants mention a strong trend towards shifting more and more product development tasks in an organisation. Instead of communicating drawings and specifications to vendors for execution, they now ask them to bring in complete design solutions and take on project management. This trend has opened up a whole set of new opportunities to add value based on their design and testing expertise.

Some of the major value objectives are :

- Servicing customers and lowering customer service inquiries via traditional channels.
- Expanding reach and creating buzz.
- Sharing thought-leadership and participating in industry conversations.
- Gaining competitive intelligence.
- Monitoring your brand's reputation in real time.
- Building relationships with communities.

#### METHODOLOGY AND CONCEPTUAL MODEL

By their very nature, collaborative interorganizational relationships are ongoing, which is a major challenge for investigating the creation and appropriation of value, because empirical research requires a clearly defined unit of analysis. This study therefore focuses on business relationships, which share certain characteristics, including (1) a clearly defined beginning and end, (2) specified expectations and objectives, (3) specified participants, and (4) dedicated resources. In business practices, methods include joint cost reduction (e.g., Cannon and Homburg, 2001), quality improvements (e.g., Ulaga and Eggert, 2006), and collaborative innovation (e.g., Hoegl and Wagner, 2005).

**STEP 1 : MODEL** - The first step in applying value creation concepts within a going concern is to investigate the company's operations and construct financial models that mirror the company's operations in each area. At this stage, care



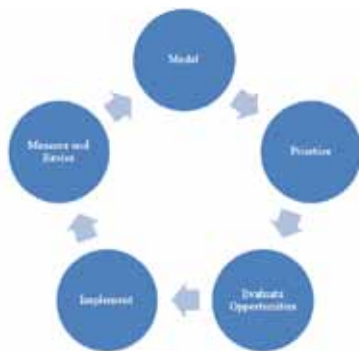
must be taken to capture the relationships between factors of production within the business. Linkages such as the attribution or allocation of various assets to various operations are often not apparent from a review of financial statements. The company model must capture these linkages to produce accurate conclusions.

**STEP 2 : PRIORITIZE** - The next step in the process is to identify the company's key value drivers based on testing the model to determine the sensitivity of the company's performance, and hence its value, to changes in each area of its operations. Each business is different in terms of which value drivers have the greatest impact. Managers should identify the areas of greatest sensitivity and set these as the highest priority for focus on improvement. In this essence the first priority should be placed on initiatives that may improve profit margins.

**STEP 3 : EVALUATE OPPORTUNITIES** - After setting priorities based on the measured impact of success in each area, we proceed to analyze and investigate any opportunities for improvement which may exist. For a manufacturing concern with a focus on margin improvement, this may mean a review of manufacturing processes and application of "lean manufacturing" principles or a focus on sourcing and purchasing materials at a more favorable cost. For another firm, utilization of its manufacturing capacity may be identified as its primary opportunity and it may take on private label manufacturing jobs to increase the base over which fixed costs are spread.

**STEP 4 : IMPLEMENT** - After specific opportunities are identified, management goals must be defined. In order to ensure these goals are met, two final steps are required. First, a system must be developed for measuring progress towards the goal. Second, the reward system must be altered to incent managers to achieve the goal.

**STEP 5 : MEASURE AND REVISE** - Finally, managers must recognize that the value creation process never ends. Changing dynamics of companies and markets cause the decisions required by management to change constantly. By making this process continual, companies assure their shareholders that they will not accept poor performance from their investments.



## BENEFITS AND ANTICIPATED OUTCOMES

As a consequence, companies devote significant efforts to decrease cycle times. For example, several years ago, it took car manufacturers 36–40 months from the start of the design of a new model to getting the first vehicle off the assembly line. Today, automobile companies have compressed cycle times to less than 18 months. Valued customers and suppliers are involved early in new product development. They are brought in as experts to suggest solutions and to take cost out of the product right up front.

Over the past decades, competitive advantage in industries has shifted from low labor costs and economies of scale to flexible manufacturing and value creation (Stalk, 1988). Today, speed and time-to-market have become strategic guidelines in designing and managing organisations (Stalk & Hout, 1990).

Dell's direct business model illustrates best this trend toward shorter cycle times. The company carries inventories of only 11 days on average and delivers its PCs built-to-order within 5–6 days of lead-time (Magretta, 1998). Inventory levels and replenishment needs are shared in real time. When new products are launched, suppliers station their engineers in Dell's plants to fix design flaws in real time. Participants voice an increasing pressure to develop products at a faster pace. New products represent a growing portion of a company's revenue base.

## CONCLUSION

The understanding of how business relationships create value and competitive advantages for customers is of increasing importance. Researchers have investigated and constructed business-to-business relationships (B2B) and suggested psychometrically sound measures of the concept. There is absolutely no barrier of entry in giving suggestions for value creation. It takes less than five minutes to create a blog and start giving opinions about quality product directly from a smart phone. It takes even less time to open a Twitter account and criticize a company for bad service. If the processes and business relationships are working effectively internally, then business will no doubtedly provide value to its customers and innovation can take place. It's a chicken and egg type of dilemma that triggers value creation in business relationships in this fast pace world.

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