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Interaction, Interconnection and Position

Mette Vedel

The PhD School of Economics
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Mette Vedel
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Value Creation in Triadic Business Relationships

Interaction, Interconnection and Position

Mette Vedel

Doctoral School of Economics and Management

Department of Marketing

Center for Applied Market Science (CAMS)

CBS / Copenhagen Business School

Herning, Denmark 2010

PREFACE

This thesis reports on the theoretical foundation, the research process and the findings of one of three co-financed research projects under the heading: “Customer Driven Innovation in the Building Material Industry”. The project is conducted by Center for Applied Market Science (CAMS) at Copenhagen Business School.

The selection of value creation as the important issue for the thesis is the result of a dialogue between the involved practitioners and me, whereas the applied triadic network perspective is a choice that I made. This perspective supports the conceptualization of a framework for the analysis of channel relationships as value creating networks, which is one of the contributions of my study.

The following organizations and foundations have contributed to and are partners in the project:

- UMT Udviklingscenter for Møbler og Træ
  (Development Centre of the Furniture, Wood-working and Timber industry)
- Forskningsfonden Midt- og Vestjylland
  (Research foundation of region Mid-West Jutland)
- Realdania
- Tun
- Dansk Byggeri
- Kuben

I am very grateful for their support which has enabled my research. Moreover, a number of private companies have participated. Two of these companies whose names are not disclosed for reasons of confidentiality have been my close partners. These two companies engaged in a dialogue from which I have profited immensely, and they supported my research by offering me a platform for the empirical part of the study. The close dialogue was enabled from the very first day by the CEOs of the two involved suppliers. I am thankful that they trusted my ability to handle confidentiality, and gave me unrestricted access to their companies.

Together we also adjusted our mutual expectations to the outcome of their involvement by describing the difference between consultancy and research. We agreed on a metaphorical interpretation of the difference: In science we may have an initial idea

whether we are going north or south, west or east, but we do not know the road or the final destination before the journey has ended. In consultancy we know both.

Moreover, I have communicated very frequently with my partners. Apart from the formal bi-annual meetings which reported on the progress, I have communicated on a regular basis: Issuing newsletters, participating in sales meetings and management meetings with sales-staff and managerial boards. I am convinced that the early adjustment of mutual expectations and the frequent communication is the reason why this partnership has been so rewarding. So, if I am to give any recommendations it must be as to the process itself. Make sure that the partners have a clear and realistic picture of what they may achieve from their involvement in a research project, and do not stop communicating.

The two project managers in the involved companies have been my sister and brother in arms. They have helped me with contacts and information, and facilitated meetings inside and outside their own organization. Likewise, my supervisor Associate Professor Jens Geersbro, who has guided my way through this new experience, has been a tremendous support, and the support from my co-advisor, Professor Thomas Ritter, has encouraged me. During the process I have also learned a lot from colleagues at CBS, and in the IMP research community, and I have been much inspired by professors and doctoral students whom I have met during my course-work, at conferences and seminars. The services that Liv Bjerge Laursen at the CBS library has rendered during the past three years also eased my way all along. Finally, the willingness of a multitude of individuals involved in the building material industry to discuss and to share their experience with me has been of utmost importance for my work.

But it would never have been possible had it not been for my husband who dared to take the chance together with me, when I decided to jump the fence between practice and academia. I am greatly indebted to him. Luckily he has a support team of family and friends. They have tried to follow my elusive thinking, but first of all they tied me down in the reality of life ticking by with sorrows and joys. Thank you for not giving up, but persistently believing that somewhere behind the veil of confusion, reflection and distance, it was still possible to find the family member and friend, and for pulling her out in the daylight from time to time.

Mette Vedel
August 2010

SUMMARY (ENGLISH)

This thesis reports the findings of one of three co-financed research projects under the heading: “Customer driven innovation in the building articles industry”. The issue is value creation in triadic business relationships, and the aim is to explore in what ways the expansion from a dyadic level of analysis to the level of micro-networks can inform our understanding of value creation in intermediated systems.

The study is inspired by the empirical context of channel relationships in the Danish building material industry. In the marketing and distribution of certain customized goods it is customary that the supplier, not the merchant, is the active partner in the servicing of customers. In this system, the intermediating merchants apparently contribute very little to the value creating activities. The study explores in what other ways such intermediating actors contribute to the value creation in a way which legitimizes their share of value appropriation.

The observed cases are constituted by a supplier, a merchant and a customer who are all communicating. This structure of three actors who are mutually linked with three relationships can be defined as a triadic relationship; the smallest possible network unit. Consequently, this study takes a network approach to value creation. The application of a network perspective facilitates the substitution of the dyadic level of analysis, which is customary in channel research and value studies, with the triadic approach applied in this thesis.

The theoretical foundation of the study combines Social Network Analysis (SNA) and the Markets-as-Networks (MAN) approach in the conceptualization of triadic relationships. The two network traditions approach the study of structures from two different perspectives. The SNA tradition focuses on the way that structures condition the outcome of the network processes. The MAN approach centres on the way in which networks emerge from the processes in dyadic actor bonds, and on the related resource ties and activity links.

Likewise, the study combines B2B value studies and channel research in the conceptualization of value dimensions. B2B value studies direct the attention towards exchange as a combined transactional and relational process. Value creation is a matter of process and outcome. Moreover, this line of research facilitates the distinction between the indirect value function of a relationship as the future network potential of positions, and the direct value function of a relationship as the present result of interaction. The

contextualization of the interaction in terms of activities is based on channel research which points to three basic intermediary functions; logistics, information and risk.

However, neither B2B value studies nor channel research offer conceptualizations of the value of the space, encapsulated by relationships and position in a triadic micro-network. The present study offers a conceptualization of the value function of this space. It is described and defined as a continuum of intermediation patterns. The concept of intermediation patterns is based on the re-conceptualization of interconnection as a subjective actor perceived and interpreted phenomenon. It is not an objective result of resource and activity interdependences. Intermediation patterns therefore describe how the actors interpret the influence of one relationship on other relationships; the interconnections. Each pattern visualizes how a focal actor combines activities and relationships, direct and indirect value functions into a subjective interpretation of the ways in which a constellation of relationships affects value creation. This interpretation of the value function of interconnections supports the analysis of channel relationships as differentiated and complex phenomena.

On the basis of a framework which defines interaction as the direct value function, interconnection as the value function of perceived patterns of intermediation, and position as the indirect value function, four cases of triadic value creation in channel relationships are described and analyzed. The data are collected through semi-structured interviews with the supplier, the merchant and the customer in four triads. The respondents are the individuals involved in the exchange of customized goods between the organizations who are parties to the triadic relationships. The findings of the four case studies support the proposed framework for the analysis of channel relationships as value creating networks.

The managerial implications of the study are related to the conceptualization of a continuum of intermediation patterns. The customary categorization of channels as either direct or indirect is an undue simplification. A multitude of patterns of intermediation exist which offer dissimilar value potentials. But the potential value is perceived differently by the involved actors. Consequently, the involvement of close partners in the mapping of perceived patterns of intermediation can yield important information for management decisions. It is a way to counter unanticipated reactions. Even if it is not possible to engage partners in such an endeavour, a careful internal analysis of the intermediation systems in which organizations are presently engaged will offer a more nuanced understanding of the value potentials of various constellations of relationships.

A pattern of intermediation visualizes the present and the desired combination of direct and indirect value and how this relates to the division of labour. Furthermore, the continuum of intermediation patterns emphasizes that channel decisions are not purely a matter of intermediation or dis-intermediation; transitional patterns of re-intermediation can be an attractive alternative.

DANSK RESUMÉ

Denne afhandling beskriver resultatet af et ud af tre eksternt medfinansierede forskningsprojekter med det fælles tema: ”Markedsinnovation i byggevareindustrien”. Emnet er værdiskabelse i treparts-relationer, og formålet er at undersøge, på hvilken måde en udvidelse af analysen fra dyader til mikro-netværk kan belyse værdiskabelsen i samhandelsformer, som involverer en mellemhandler.

Forskningsprojektet er inspireret af, hvordan kanal-relationer er organiseret i den danske byggevareindustri. I markedsføring og distribution af ordreproducerede skaffevarer er det en udbredt praksis, at det er leverandøren frem for tømmerhandleren, som er den aktive aktør i serviceringen af kunderne. Tilsyneladende bidrager tømmerhandlerne relativt lidt til de værdiskabende aktiviteter. Forskningsprojektet undersøger, på hvilke andre måder, denne type mellemhandlere indgår i værdiskabelsen, der berettiger deres andel i indtjeningen.

Samhandlen i de undersøgte cases er organiseret således, at en leverandør, en tømmerhandler og en kunde alle kommunikerer indbyrdes. Denne struktur, som består af tre aktører, der er gensidigt forbundne med tre relationer kan defineres som et triadisk netværk; den mindst mulige netværks-enhed. I konsekvens heraf er der anlagt en netværkssynsvinkel på værdiskabelse. Dette understøtter den anlagte triadiske tilgang, som udgør et alternativ til den dyadiske tilgang, der er den almindeligt anvendte i undersøgelser af kanalrelationer.

Det teoretiske grundlag for konceptualiseringen af triaden som en netværksstruktur bygger dels på Social Network Analysis (SNA), dels på Markets-as-Networks (MAN). Disse to traditioner inden for netværksforskning anlægger forskellige perspektiver. SNA traditionen fokuserer på, hvordan netværksstrukturer betinger resultatet af processerne i et netværk. MAN traditionen er orienteret mod, hvordan netværksstrukturer opstår som resultat af de processer, der finder sted i de dyadiske relationer mellem aktører, og som resultat af de dermed forbundne koblinger af aktiviteter og ressourcer.

Desuden inddrager afhandlingen forskning i værdiskabelse i B2B relationer og kanal litteraturens konceptualisering af værdidimensioner. Studier af B2B værdiskabelse beskriver bytteforholdet mellem to aktører som en kombination af transaktioner og relationer. Værdiskabelse drejer sig dels om en proces, dels om resultatet af processen. Endvidere underbygger denne forskningstradition en opdeling mellem den direkte her-og-nu værdi af interaktionen mellem to aktører, og den indirekte værdi af denne relation i

form af det fremtidige netværkspotentiale, som aktørernes positioner giver adgang til. Kontekstualiseringen af de aktiviteter, som bidrager til den direkte værdiskabelse i mellemhandlersystemer, er baseret på forskning i kanalrelationer. Denne forskning peger på tre grundlæggende funktioner for mellemhandlere: logistik, information og risiko.

Imidlertid er værdien af det felt i en netværkskonstellation, som omkranses af relationer og positioner, ikke defineret, hverken i forskningen i B2B værdiskabelse eller i forskningen i kanalrelationer. Denne afhandling fremlægger en konceptualiseringen af værdifunktionen for dette felt. Den defineres og beskrives som et kontinuum af samhandelsmønstre, og den bygger på en re-konceptualisering af interconnection som et fænomen, der subjektivt fortolkes af aktørerne. Interconnection er ikke et objektivt resultat af aktivitets- og ressourcebindinger. Disse mønstre er et resultat af aktørernes oplevelse af den indbyrdes påvirkning mellem relationer (interconnection). Hvert mønster visualiserer, hvordan en given aktør kombinerer aktiviteter og relationer, direkte og indirekte værdifunktioner i en subjektiv fortolkning af, hvordan en konstellation af relationer påvirker værdiskabelsen. Denne fortolkning af værdifunktionen af interconnection understøtter analysen af kanal relationer som komplekse og differentierede fænomener.

På grundlag af en metodisk struktur, der definerer interaktion som den direkte værdifunktion, interconnection som værdien af samhandelsmønsteret og position som den indirekte værdifunktion, beskriver og analyserer denne afhandling fire tilfælde af triadisk værdiskabelse. Datagrundlaget består af delvist strukturerede interviews med leverandøren, tømmerhandleren og kunden i fire triader. Respondenterne er de personer, der er konkret involverede i samhandlen med skaffevarer mellem de tre organisationer, som er deltagere i de triadiske relationer. Resultaterne af de fire triader understøtter den foreslåede metodiske struktur til analyse af kanalrelationer som værdi skabende netværk.

Afhandlingens praktiske anvendelighed er forbundet med beskrivelsen af samhandel som et kontinuum af varierende mønstre. Den almindelige opdeling af afsætningskanaler som enten direkte eller indirekte er en uberettiget forenkling. Der eksisterer en række forskellige samhandelsmønstre, som indebærer forskellige værdipotentialer, men disse potentialer opfattes forskelligt af de involverede aktører. Derfor kan en kortlægning af samhandelsmønstrene i samarbejde med nære forretningsforbindelser give ledelsen et væsentligt beslutningsgrundlag. Det er en måde at imødegå uforudsete reaktioner på. Selv hvis det ikke er muligt at involvere forretningspartnere i sådan en opgave, kan en omhyggelig intern analyse af de samhandelsmønstre, hvori en organisation er involveret, bidrage til en mere nuanceret forståelse af det værdipotentiale, der er forbundet med forskellige samhandelsmønstre.

Et samhandelsmønster visualiserer den aktuelle og den ønskede kombination af direkte og indirekte værdifunktioner, og hvordan denne kombination relaterer til arbejdsdelingen. Og dette, at der eksisterer et kontinuum af sådanne mønstre, understreger, at kanal-beslutninger ikke alene er et spørgsmål om direkte eller indirekte salg. Der eksisterer en række alternative mellemformer, som kan være attraktive.

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CHAPTER 1: INTRODUCTION

The study originates in the Danish building material industry. Section 1.1 offers a background description of the industry and is intended for the reader to get an impression of the context of the cases which constitute the empirical foundation of the study. Section 1.2 presents the initial research questions, and section 1.3 discusses the relevance of the study. The final section 1.4 outlines the structure of the thesis.

1.1 Background – the context of the Danish building material industry

The empirical context of this study is the Danish building material industry. Building materials can be divided into two groups: Off-the-shelf items and customized good. Of-the-shelf items, which are also named assortment goods, comprise bulk (e.g. insulation, timber, standard bricks and tiles) and commodities (e.g. screws, nails, clamps, tools, fittings, clothing, and shoes). These articles are purchased in large quantities by merchant-chains and organizations, and are offered by local merchant outlets in stocked assortments, which reflect the demand from the merchants' customers. Special order items include customized and semi-customized building materials, which are made to order (e.g. windows, doors, staircases, kitchens). Merchants are active in the distribution and marketing of off-the-shelf items as well as customized goods. But in the marketing of customized goods, the suppliers are much involved in the servicing of the merchants' customers. This does not apply to the same degree for suppliers of off-the-shelf items, but it depends on the product and the size of orders.

The structure of the industry has gradually changed within the past 25 years. The emerging structure is influenced by

- Technology enabling a shift from standardization and speculation to customization and postponement
- Consolidation and tendering
- Changing customer preferences, and the inclusion of the B2C segment in merchant trade
- Dis- and re-intermediation of distribution channels for building materials

This section describes how these trends manifest themselves in the marketing and distribution of wooden building materials such as; windows, doors, kitchens and staircases. The section ends with a description of

- The present organization of the merchant trade and
- Triadic channel relationships

1.1.1 Technology and the shift from speculation to postponement

The change of technology in the industry within the latest 40-50 years is characterized by a move from craftsmanship, via standardized industrial production, to the present widespread use of single-piece industrial production technologies. The development in the window industry illustrates this process.

When the window industry industrialized in the sixties it entailed a standardization of windows. The common offering was standard-measures 60x60 cm and 120x120 cm, and the marketing was based on speculation. Speculation is the principle of getting supplies as close to the customers as possible, at the earliest possible point in time. This principle reduces uncertainty of supplies, the cost of transportation and the risk of losing customers due to stock-outs (Bucklin 1965) . The principle of speculation facilitated a rather stable production pattern over time. During winter when the demand was slow, the factories produced for stock. And in early spring, when the construction industry was resuming activities, the storage was full, and windows were shipped to merchants who offered these products as part of the assortment.

Gradually the market for windows was taken over by companies which offered customized windows at an attractive price. This development was based on the introduction of modern technologies which enabled cost-efficient production of single-piece orders. And the ability to offer modern insulated two glass copies of old style windows changed the demand away from standard windows.

The change from standardization to customization is also a change from speculation to postponement. The principle of postponement is the opposite of speculation. Postponement is the principle of deferring cost-occurring activities to the latest possible time, enabling a reduction of costs related to uncertainty of demand (Bucklin 1965). Merchants are no longer stock-piling windows. They have to postpone their orders until they know the precise demand. And this demand is still exposing a pattern of seasonal variation. Consequently, fluctuations in the building material industry are common.

1.1.2 Consolidation and tendering

The present suppliers of wooden customized building materials primarily originate in the shift from mass-production to single-piece technologies. During this transition a significant number of the companies which offered standard components did not realize that this

change was coming. This enabled industrious craftsmen who were willing to invest in the new technologies, to increase their market-shares. And as they expanded, their market reach grew from local and regional, to national markets. In order to be able to service these markets, they established distribution through merchants.

Until recently, many of these producers have been privately owned by the entrepreneurs who founded them. However, this ownership structure is gradually changing along with the advent of a new generation of managers. This change is accompanied by consolidation among suppliers who merge into national, Nordic and in some instances European groups. And it is accompanied by a change of management from owner-management to professional management.

A similar consolidation has been going on for more than twenty years in the merchant trade. Independent merchants have joined voluntary chains, or have merged into capital chains, creating a highly consolidated distribution system. Presently, the merchant business in Denmark is dominated by three capital chains and one voluntary chain. Apart from these chains, a number of voluntary purchasing organizations exist which serve a small number of independent merchants. In this double consolidation, the structure exposes elements of oligopoly and oligopsy (few sellers and few buyers). It is expected that these tendencies will increase further, due to the present crisis in the industry; small independent suppliers and merchants may be forced into mergers with large suppliers and chains to survive.

The relationship between suppliers and merchants tends to be dominated by a competitive and transactional price-orientation. One of the reasons is to be found in the wide-spread use of tendering in the construction industry, which is partly a result of Common European legislation. Tendering in the construction industry has a spill-over effect on merchant-customer relationships, and supplier-customer relationships. It is difficult for the actors to choose long-term relational exchange instead of short term transactional exchange (Dubois, Gadde 2000). Another reason for the transactional interaction is to be found in the special variety of exclusivity agreements applied in the relationship between merchants and suppliers.

The literature describes B2B distributor-agreements as a trade-off between exclusivity of territory (i.e. suppliers limit the number of distributors in the territory) and exclusivity of brand (i.e. merchants limit the number of competing suppliers) (Fein, Anderson 1997).But in the merchant trade of building materials in Denmark this is not the case. The agreements applied in the cooperation between suppliers and merchants allow suppliers

to sell to all merchants in a district, no matter to which chain they belong, if only the suppliers do not sell directly to the construction companies, builders and private consumers.

In return, the merchants can sell products from multiple suppliers within a product line. This approach creates a competitive atmosphere. Merchants have agreements with a number of suppliers of each line of customized building materials who compete for orders. And suppliers serve a number of merchants in a district who compete for the same orders. Consequently, it is difficult for the parties to develop committed relational interaction. But in spite of this situation, relational exchange characterizes business relations at the local level; originating primarily in personal trust among the individuals involved in actual and concrete interaction.

1.1.3 Changing customer preferences, and the inclusion of the B2C segment in merchant trade

Private end-users are gradually involving themselves more directly in the choice of designs and features of building materials. It has been so for the past two or three decades within the kitchen industry, but apparently it is spreading to windows, doors and floorboards. Moreover, the DIY (Do-It-Yourself) business is expanding. Merchants and suppliers are gradually adapting to these market trends, but in different ways. The majority of timber merchants have steadily expanded their business to include B2C as well as B2B customers. And this has changed the profile of timber-merchants, who tended only to serve professional customers a decade or two ago.

Today, some merchants are actively directing their marketing towards B2C customers through mass distribution of advertisement leaflets and television commercials. They promote themselves as the good partners for DIY by offering handy-man courses and internet based instruction. The main purpose is to get and hold market-shares in the increasing market for building materials to private consumers and semi-professionals. But it comes at a price. The shift from a B2B focus to a combined B2B/ B2C focus is experienced by professional customers as a decrease in the attention to their needs.

Merchants handle this problem in different ways. In the province there is a tendency for merchants to establish craftsmen departments in their outlets. Around the capital and the major provincial towns, some merchants have chosen to specialize instead. Some are still organized as exclusive B2B departments which handle large orders and tenders. Others have been reorganized into B2C life-style studios.

Suppliers are also aware of the increasing importance of promotion and branding. Whereas push strategies have been the default in the marketing departments of many suppliers, pull strategies seem to become a customary supplement to this strategy. It is implemented in two different ways. In relation to professional decision makers in the construction industry, especially architects, the promotion is a matter of offering product-knowledge and solutions. Therefore, it is not uncommon for suppliers to have their own staff of specialized sales-people who visit developers, architects and counselling engineers. The purpose is to offer knowledge and to build relationships. These relationships are a means for the suppliers to achieve competitive advantage by having the standards of their specific makes inscribed in the tendering descriptions.

Whereas the suppliers' servicing of professional customers has been developing for a number of years, the involvement in communication with the B2C segment is a recent initiative among suppliers involved in merchant trade. The branding activities primarily involve life-style advertising, but also include web-based promotion. However, the application of web-activities is difficult for suppliers engaged in merchant trade. Too much direct end-user contact may be interpreted as a violation of the exclusivity agreements, and web-based quotations are difficult to introduce. But it is a communication platform which is under development.

1.1.4 Re-intermediation of the building material industry

The terms dis-intermediation and re-intermediation originally were applied in banking and finance (Allen, Santomero 2001, Merton 1995, Saunders et al. 2001). Dis-intermediation is a reduction in the use of intermediaries between lenders and borrowers. Re-intermediation signifies the re-involvement of banks in non-bank loans. When applied for the description of distribution channels more broadly, dis-intermediation refers to the exclusion of intermediaries, whereas re-intermediation refers to the reorganization of the intermediation and may involve another set of intermediating actors and activities than before.

Presently, the building material industry is under pressure for dis-intermediation and re-intermediation. Three decades ago, building materials were either marketed through merchant chains where customers and suppliers had scarce if any contact, or in direct buyer-seller relations, especially in the local market. But this has gradually changed. A number of distribution channels are being re-intermediated. Kitchens are primarily marketed through independent franchisees or dealers who specialize in a brand, and who are not offering assortments from competing suppliers. Likewise, wooden floors are now

offered by carpet chains, and some producers of windows are offering direct sales to professional as well as private customers through specialized window centres.

The agreements governing these relationships include a higher degree of territory and brand exclusivity than the exclusivity agreements in merchant trade. In consequence, the suppliers and dealers / franchises have a common interest in the promotion of the suppliers' specific brands, and in cooperating for increased market shares. These alternative channels illustrate that the present development is more a matter of re-intermediation, than of dis-intermediation. It is an attempt to arrange intermediation in a different way than the one, offered by the merchants.

This development is fostered by a number of changes in the network for building materials. One reason is the suppliers' strategizing for market position through branding towards the B2C segment, and servicing of professional B2B customers. Such promotion activities gradually close the 'gap' between supply and consumption, and partly erode the merchants' former bridging function in the marketing channel. Another reason is a matter of specialization and customization. The more specialized building materials become, the more there is a need for substantial product knowledge about specific product lines and brands among intermediating actors. And this is a challenge which is difficult to handle for the merchants, due to the scope of their activities.

1.1.5 The present organization of the merchant trade

Currently, 60% of the suppliers of building materials market and distribute their offerings through merchants (Dansk Industri 2007). It is a means for suppliers to get exposure to customers. The same exposure is difficult to achieve, unless you have a large sales-staff, and decide to go for smaller focused segments than the whole construction industry.

The present structure of the building material industry in Denmark has attracted the interest of national authorities. In 2005, the Danish Competition Authorities scrutinized the building material industry. The report concluded that the prices for building materials in Denmark were among the highest in Europe, due to the merchants having obtained a position as gate-keepers. This position was not a result of superior value creation, but of cropped competition, institutionalized by the application of the un-official trade-terms, 'all-or-nothing' (Andersen 2005). These terms imply that suppliers applying alternative or supplementary channels will be excluded as suppliers by the merchants' chains. The conclusion was much debated and refuted by the merchants' chains who argued that the European price-comparisons included in the report did not consider the influence on price of the varying European qualities and standards.

But a debate in the Danish business newspaper 'Boersen' during the winter 2006-07 (Jurhagen, Raastrup 2006a, Jurhagen, Raastrup 2006b, Raastrup 2006a, Raastrup 2006b) indicates that the present organization of the merchant trade is questioned. During this period, the construction business was at the border of a meltdown, due to an extremely high activity level. Prices for building materials increased and delivery times were prolonged. Professional buyers were not satisfied with the present situation, and would like to establish direct relations with the suppliers to lower the prices (Jurhagen, Raastrup 2006a). Suppliers also appreciated the possible positive effect of direct buyer-seller relations on their ability to serve large accounts, but they believed that this would be at the risk of exclusion by merchants (Raastrup 2006b). This belief indicates that the suppliers perceive some sort of 'al-or-nothing' terms to exist, no matter whether they actually exist or not. The merchants also involved themselves in the debate, and claimed that the problem was that the suppliers were non-competitive, and the merchants therefore threatened to expand business abroad for better pricing (Jurhagen, Raastrup 2006b). Even the Ministry of Business and Economy involved itself in the debate and announced that initiatives to stimulate competition were considered (Raastrup 2006a). This debate illustrates a struggle for power and influence, but the assessment of the situation depends widely on the perspective taken.

Moreover, the debate illustrates that some balances in the industry are ambiguous. On the one hand, the Danish merchants have to accept some degree of direct contracting between suppliers and large customers. Especially, because some of these customers are Scandinavian based, and direct contracting is common in Sweden. This creates a spill-over effect in other Scandinavian countries. On the other hand, the suppliers have to realize that there is some sort of trade-off between direct and merchant intermediated sales. Some degree of dual channelling is possible, but it is a fine-tuned balance under the present market structure and conditions.

1.1.6 Triadic channel relationships

It is in this context of merchant intermediated sales that I observed the existence of three party relationships between suppliers of customized building materials, merchants and professional customers. It is neither a fully intermediated system where customers and suppliers have no contact. Nor is it a direct buyer-seller relationship. It is a triadic relationship where suppliers have taken over a number of activities from the merchant, especially in the counselling of customers. This observation points to the fact that channel relationships are organized in networks; not in discrete dyads.

The system is characterized by strong activity links between the customer and the supplier, and weak activity links between the merchant and the two other parties to the triadic relationship. Suppliers are involved in problem-solving related to products and logistics. The merchants still participate in the activities, but they are primarily involved in contacts at the early stage. They handle the paperwork, quote prices take the risk on debtors, and on product guarantees. This organization of the activities contradicts the concept of a traditional wholesaler; an intermediary who is responsible for information and logistics management, transaction securization, insurance and liquidity (Brousseau 2002). These observations inspired my research interest in triadic business relationships.

1.2 The initial research questions

The origin of my research interest lies in the empirical context. Within a few months from the beginning of the project, the two participating suppliers had agreed upon the phrasing of the managerial challenge: "How to prevent value from being lost in the transition of offerings from suppliers to end-users". The phrasing indicates that it is not straight-forward to avoid erosion of value-dimensions in the exchange process, and that value and value creation involve more than delivery.

As described in the former section business is arranged in a three-party constellation of a supplier, a merchant and a customer. Therefore, the first initial question is phrased as follows:

> **How do the actors in a triadic business relationship create value for and with each other?**

The phrasing enables a dual perspective on value creation as a process, and the triadic business relationship as the enabling structure.

Much research has been conducted on value (Payne, Holt 2001), but focus is not on the specific conditions in the three partner relationships of mediated sales. Likewise, channel research is abundant, but primarily dyadic and it tends to focus on the manufacturer-distributor relationship (Frazier 1999, Gadde, Snehota 2001). To my knowledge, no frameworks have been developed specifically for the study of value creation in triadic channel relationships. Consequently, the conceptualization of such a framework is a precondition for this study.

The framework is based on the conceptualization of triadic business relationships as micro-networks. This conceptualization is further discussed in chapters 2 and 5. The three-party constellation is defined as structures composed of three dimensions: the *interaction* (the process), the *interconnections* (the way in which relationships connect and influence each other) and the actors' positions (the number of ties that an actor possesses and the identity of the counterparts). In order to link the triadic structure to value creation, a value dimension must be defined for each of the three structural dimensions; i.e. interaction, interconnection and position. Therefore, a supporting question is phrased:

> **What are the key value dimensions in a triadic structure, composed of a supplier, a merchant and a customer?**

In order to achieve this goal, three further questions guide the initial phase of the research:

1. The question 'how', in the primary research question, directs the attention to the processes involved in the value creating interaction. In order to study these processes, focus is on the activities and functions performed by the involved actors. Therefore the following question is directed towards the activities:

   > **What value creating activities are performed by whom, for whom and with whom?**

2. The above question also points to the division of labour, which may be indicative of triadic structures, but it does not include the value of the constellation of interconnections. This leads to a further question:

   > **How can constellations of interconnections be conceptualized as a value dimension in triadic relationships?**

3. The final supporting question is included in order to define and to conceptualize the value of position as a structural phenomena and the locus of agency

   > **What is the value of position and how does position influence the value creation in triadic business relationships?**

The initial questions set the research process in motion. During the next phase the theoretically founded research questions were phrased. These questions are presented in chapters 3-6.

1.3 The relevance of the thesis

The sparse volume of scholarly studies of triadic business relationships implies the relevance of the study. First of all, the dual focus on process and structure may yield new insights and understandings. This is achieved by the application of two different sets of concepts for the description and study of networks: The interaction based concepts of the Market-as-Networks (MAN) approach originating in the IMP research community (McLoughlin, Horan 2002), and concepts originating in social network analysis, which primarily is a structural approach to networks (Van Den Bulte, Wuyts 2007). Secondly, a triadic approach enables the study of a network perspective on indirect value functions. Direct value functions comprise of the here and now performance related functions in the relationship, and indirect value functions consist of the future network benefits from the interaction in dyadic relationships (Walter, Ritter & Gemünden 2001). Whereas studies of dyadic value creation may yield information on future network effects of value creation, indirect value functions are an integrated part of the triadic value creation, because triadic structures are micro-networks.

The triadic approach has been applied in a doctoral thesis on the changing role of intermediating actors, which is a motivating example (Havila 1996). But conceptual papers on triadic business structures are rare (Ritter 2000, Smith, Laage-Hellman 1992). Thus, there is little research to inspire managers who are involved in the challenges of value creation in triadic business relationships. The links between a triadic structure defined on three dimensions (interaction, interconnections, and positions) and specific value functions related to these dimensions have not been studied and conceptualized before.

Finally, the study may be part of the response to a call among network scholars to substitute the dyadic approach, dominating channel research, with a network approach. It is expected that “even relatively small extensions from channel dyads to very small networks with three to five actors may be enough to learn about such complex issues” (Van Den Bulte, Wuyts 2007 p. 81). The development of a framework for the analysis of value creation in triadic channel relationships is part of a response to this call.

1.4 The structure of the thesis

The structure of the thesis partly reflects the choice of a critical realist perspective, which is discussed in more detail in chapter 2. This choice demands a design which enables inference from theories as well as singular phenomena in a move from an understanding and explication of what is going on, to an attempt to explain why (Lawson 1997). The links

between triadic relationship as a structural mechanism and the conditioning circumstances, events, and experience must be identified.

Thus, the study is based on existing theories, which inspires the pre-conceptualization of the issue of interest. But no single scientific domain or field alone can inform the study of value creation in intermediated triadic business relationships. Therefore this thesis is inspired by various academic domains; i.e. The MAN approach, social network analysis, value studies and channel research. The review of the literature leads to the identification of theoretical research questions, which support the development of the proposed framework. Subsequently, the framework is applied in the description and analysis of qualitative data on four cases. Table 1.I on the following page outlines the overall structure of the thesis

Chapter 1 introduces the study and its context, and chapter 2 discusses the methodological issues in relation to the study.

Chapters 3, 4 and 5 present a network approach to business studies. Two different network perspectives are analyzed: The Social Network Analysis (chapter 3) which analyzes networks as conditioning structures, and the MAN approach (chapter 4) which defines networks as structures emerging from interaction. These two network perspectives are applied for the conceptualization of the dimensions of triadic structures presented in chapter 5. Moreover, they point to a missing link in the existing literature between structure, value potential and the parties' motivation for participation in triadic relationships. The possibility of establishing this link creates the foundation for the research question resulting from the review of network literature.

Chapter 6 presents the review of value studies. The purpose is to establish unanimous indicators of value functions for each of the three elements in triadic structures. It examines the concept of perceived value, value creation and B2B value studies. Based on this body of literature it is possible to offer a tentative answer to the research question resulting from the analysis of triadic micro-networks. The inclusion of channel research in chapter 7 is motivated by a wish to contextualize indicator of the value creating to the specific context of intermediation. It concludes with a discussion of the consequences of a network approach for the understanding of intermediation. Finally, chapter 8 presents a framework for the analysis of value creation in triadic business relationships. The framework connects interaction with direct value functions, interconnection with the value of a pattern of intermediation, and indirect value functions with position.

Chapter 9 which presents the cases is divided into four sections. Each section describes and analyzes a case. The chapter concludes with a cross-case analysis and relates the findings in the cases to the actor characteristics. The cross-case analysis establishes the explanatory quality of the framework, and result in a refinement of the answer to the research questions posed by this study. The final chapter 10 concludes on the findings and presents the contributions.

Chapter 1 Introduction	• Background – the context of the industry • Initial research questions • Relevance of the thesis • Structure of thesis
Chapter 2 Methodology	• Critical realism • Unit and perspective of Analysis • Method • Account of the research process
Chapters 3-5 Theoretical foundation for the conceptualization of triads	3:– Structures condition interaction Social network analysis • Terminology and indicators in social network analysis • Intermediation, cohesion and brokerage 4: Emerging structures – The Markets as networks perspective • Relationships and the interaction model • Networks and the ARA model • Exchange, interdependence, and autonomy 5: Conceptualizing triadic structures • Defining triadic structures • Interaction, interconnection and position • A framework for the analysis of triadic structures
Chapter 6-8 Theoretical foundation for the categorization of value functions	6: Value and value creation • Customer value • Value creation • Value in a B2B context 7: The value of intermediation • Intermediation in channel research • The intermediary's functions and activities • The Markets-as-Networks approach to intermediation 8: Framework for data collection • The link between strata and analysis • Framework for analysis of data
Chapter 9 Case analysis	• Case A • Case B • Case C • Case D • Cross-case analysis
Chapter 10 Contributions and conclusion	• The validity of the study • The relevance of triadic analysis for the understanding of networks • Theoretical contributions • Managerial implications • Implications for further research

Table 1.I – Structure of the thesis

CHAPTER 2: METHODOLOGY

Research within social sciences is not only a widespread domain of disciplines and theories, but also a battlefield of perspectives in terms of philosophies of science. The differences between various perspectives in methodology as well as differences in terminology are much discussed and seemingly of greater interest than the similarities. Consequently, terms and concepts have to be applied with caution.

The term 'paradigm' resonates the Kuhnian view upon science and knowledge as embedded in rather rigid structures. These structures are immune to findings which do not fit into the existing knowledge (Fuglsang, Bitsch Olsen 2004). Changes are rare, and if they occur they are all-absorbing; the paradigm changes. However, 'paradigm' is also applied in a general sense describing "a basic belief system or worldview that guides the investigator" (Guba, Lincoln 1994 p. 107). This worldview is described in terms of ontology, epistemology and methodology (ibid. p. 109), and this is how I use the term paradigm.

Likewise, the terms method and methodology have several meanings and are often applied in a specific or restricted way as synonymous with research techniques solely, not including ontology and epistemology. However, I have chosen the term methodology as the overall heading for this chapter on ontology, epistemology and method. The study takes a critical realist approach and the methodological considerations are biased towards a discussion of the implications of this approach for the production of scholarly knowledge. However, comparisons with other approaches will be made to the extent that they assist the explication of the applied approach.

The choice of methodology is influenced by (Easton 1995)

- the tradition of the research community to which the scholar adheres
- the subject matter
- a personal pre-understanding of the world in terms of values and assumptions

Reviews of IMP research, which have been presented within the latest three decades, show that this community to which I adhere is inclusive. The tradition does not set up methodological preconditions; research within this community is based in various paradigms and multiple methods (Easton, Zolkiewski & Bettany 2002, Gemünden, Ritter & Walter 1997). Dubois and Gadde (2002) propose an approach named 'Systematic Combining' for a case based study of business relationships, which is a common approach among IMP scholars. The inference mode is abduction and the epistemological criterium is credibility:

- appropriate matching of reality and constructs
- sufficient information on the research process to demonstrate logical coherence and learning as a process of search and learning
- communication of selected results

Likewise, the appropriateness of a critical realist approach to the study of B2B relations is supported from within the community (Easton 2002, Easton 1998); it is part of the tradition.

The critical realist approach is also an appropriate choice when considering the subject matter: A study which explores value creation (a process initiated by decisions and actions) in a triadic structure. Agency is not privileged over structures or vice-versa in a critical realist approach; the one depends on the other (Fleetwood 2005). By insisting on the importance of both, the tension between them is resolved, and the important issue is to explore the relationship between the two (Mutch, Delbridge & Ventresca 2006). Finally, I feel at ease with a critical realist approach. For me there is a reality consisting of physical and social structures which constrain and facilitate human action and sense-making. But these structures are not immune to human action and sense-making. So, in this case the choice of paradigm is also a personal one (Gummesson 2000). This chapter explicates critical realist ontology and epistemology (section 2.1), defines the unit of analysis and the chosen perspective for the analysis of triadic business relationship (section 2.2) and examines case-studies based on interviews as a method for producing valid knowledge (section 2.3). The chapter concludes with a description of the research process (section 2.4).

2.1 Critical realism

Critical realism is neither a method nor a theory (Mutch, Delbridge & Ventresca 2006). It is a philosophy of science (Fairclough 2005, Sayer 1992) which acts as philosophical under-labourer of the social sciences (Mutch, Delbridge & Ventresca 2006). Therefore, critical realism is not a cookery book for research design, but an analytic model which assists and strengthens reflection on the fit between data and theory. It is a way “to combine an account of process on the one hand with one of the enabling context on the other, without collapsing the one into the other” (Mutch, Delbridge & Ventresca 2006 p. 622). The term critical has a number of meanings in relation to critical realism. It signifies a critique of

- the taboo on ontology which characterized economic schools at the time when Roy Bhaskar introduced critical realism (Buch-Hansen 2005)

- the artificially closed systems in experiments which are applied in order to get access to and isolate the operation of one causal law, but excluding all others. Such experiments assume that the causal law under study will operate in the same way in the open systems of nature and society outside the experimental setup (ibid.)
- the restrictive view of scientism which centers around the search for regularities and hypothesis testing (Sayer 1992)

But it is also a critique of the reduction of social science to the interpretation of meaning (Sayer 1992), and of the reduction of discourse to a representational role, with no generative properties. This reduction eliminates the capacity of language to reshape human agency, and the structural patterns it generates, reproduces, and elaborates (Reed 2000). Critical realists agree that entities are conceptualized through discourse, but they are not made through discourse (Fleetwood 2005). There is a social world outside our heads which is socially defined through language based distinctions (Tsoukas 2000).

A final aspect of the term critical refers to the potentiality of critical realism to offer critique by questioning and re-conceptualizing the understanding of reality. One of the possible roles for the social sciences is to show why a false belief of a subject matter is generated, and this endows social science with an emancipatory role (Buch-Hansen 2005). If it is possible to expose false beliefs, it follows that it may be possible to expose what generates the false belief. This being so, change is possible.

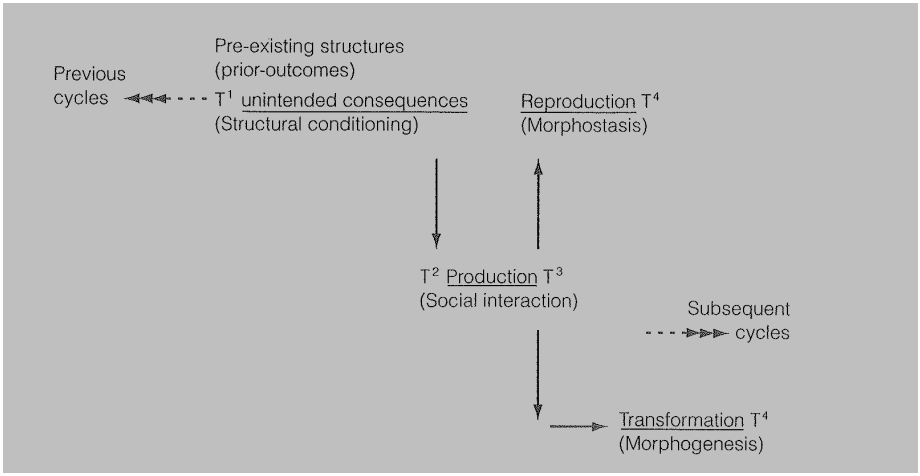


Figure 2.1: The temporal aspect of how structure and interaction influence each other (Archer 1998 p. 376)

Potential change is linked to the ability of human agency either to reproduce or to transform existing structures and practices through action (Fairclough 2005). But the study of potential change makes it necessary to break into the cycle of action and impose an analytical starting point at a certain point in time and space. In this arbitrary point of analysis, structures will pre-exist action and interaction, which may reproduce or transform the pre-existing structure as illustrated above in figure 2.1. And it is construction of a narrative of this situation or event which is the core of a critical realist analysis (Mutch, Delbridge & Ventresca 2006).

2.1.1 Ontology

Critical realists state that knowledge claims (epistemology) cannot exist in a vacuum: the validity of such claims depends on the assumptions of what the world has to be like (ontology) if claims are to be valid. Moreover, the adequacy of knowledge claims must be ascertained in the empirical (Tsoukas 1989). This diversification and stratification of the reality into the domain of the real, the actual and the empirical are core tenets of critical realist ontology. In addition to the observable empirical domain of experience, there is another domain of actual reality in terms of events. But the operation of these two levels is under influence of the powers or mechanisms of entities and structures in the domain of the real.

Table 2.I illustrates the classification of the domains. Reading the table from right to left it illustrates that experience in the empirical domain presupposes the occurrence of events in the actual domain. Events are independent of a researcher's taking notice of these events. But events presuppose the existence of mechanisms in the real domain, which are responsible for the generation of events (Tsoukas 1989). Or reading the table from left to right, the real is the domain of structures and their associated 'causal powers', the actual is the domain of processes and events, and the empirical is what is experienced by social actors (Fairclough 2005).

	Domain of real	Domain of actual	Domain of empirical
Mechanisms	X		
Events	X	X	
Experiences	X	X	X

Tabel 2.I: Classification of the real, the actual and empirical domains (Bhaskar 1978a p. 13)

The analysis rests on the distinction between internally linked or necessary relations on the one hand, and contingent or externally linked relations on the other hand. Internally linked objects, entities or individuals depend in their being on the relationship with the rest of the components in the structure: e.g. slaves, masters and the institutions supporting slavery. Structure is defined as necessarily related objects or practices and the powers that they possess (Sayer 1992). These mechanisms or powers are "something that makes something else happen" (Buch-Hansen 2005 p. 61). They operate as tendencies, but their activation as well as the effect of their activation are not given, but contingent (Tsoukas 1989).

Contingencies consist partly of the powers of other entities in the structure, and partly of the contingent conditions in terms of externally linked relations; i.e. a relation between elements which may influence the two elements involved, but which is not necessary for the two elements to exist. Consequently, mechanisms are irregular. They do not display an automatic or general pattern of acting; their workings depend on the specific conditions in terms of the co-acting of other mechanisms or contingent relations as illustrated below in figure 2.2. And "while the elements of structures are necessarily related, it is contingent whether any structure as a unit, exists" (Sayer 1992 p. 97).

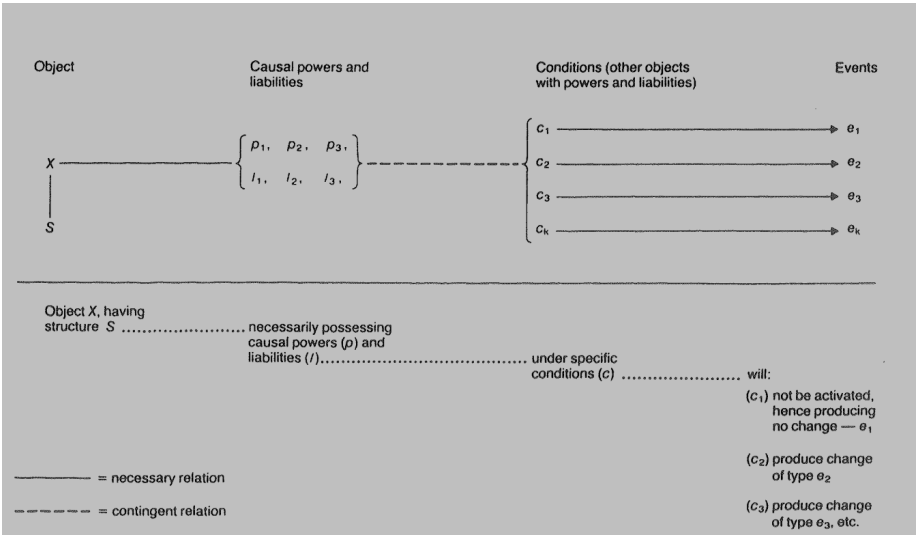


Fig 2.2: The structures of causal explanation (Sayer 1992 p. 109)

Research designed for establishing and generalizing causality in the empirical only touches upon the surface of phenomena and cannot catch this irregularity of forces which are not observable in the empirical. Therefore, the analysis of causality is substituted by causation in a critical realist analysis. The purpose of causation is to analyze how the powers necessarily possessed by objects influence events under the specific conditions of the externally linked (contingent) relations.

However, the domain of the real is not readily observable or deducible. It has to be inferred in a movement of analogy or metaphor from the conception of a phenomenon (the transitive dimension) to the conception of something quite different in terms of a structure or mechanism (the intransitive dimension) (Lawson 1997). This is why Bhaskar's (1978b) explication of realism is also called transcendental.

Transcendental realism implies that neither deduction nor induction is satisfactory or sufficient modes of inference for this type of theory-building. Whereas deduction is the mode of inference which enables a move from a general law-like claim to a particular instance, induction is the mode of inference applied for a move from particular observations to a general claim. None of them are applicable for a move from a number of data to a theory of a mechanism which predisposes the observed phenomena in a specific direction. For that purpose, retroduction is a more appropriate mode of inference allowing the move from surface phenomena to deeper causal structures (Lawson 1997) by inference from theories as well as singular phenomenon. This allows the move from an understanding and explication of what is going on, to an attempt to explain why. This process is achieved through causation and abstraction (see below).

2.1.2 Epistemology

Sayer (1992) defines epistemology in general terms as the theory of knowledge. He focuses on a number of concepts of epistemological importance in a critical realist perspective. One of the fundamental issues is the fallibility of knowledge. In a realist perspective this supports the tenet that the world exists independently of our knowledge of it. Sometimes reality strikes back, and we have to realize that our understanding of the world does not reflect reality. This is only possible because there is a difference between the world and our knowledge of it. If knowledge were purely conceptual this could not happen, and truth would be relative to our conceptual schemes.

Nevertheless, our perception depends on concepts in order to rend observations and experiences intelligible in daily life, as well as in science. The world is understood in terms of, if not determined, by concepts. In that sense our conceptualization is pre-structured

like the material world. Therefore, observation is neither theory-neutral nor theory determined, but theory-laden. In spite of the fact that our conceptual world is pre-structured, and that new concepts are built on old ones, concepts and practices are not static. They move and change in a dynamic process of learning and knowing, of practicing and conceptualizing. In this process the role of theory is to negotiate and modify the relationship between what we sense and how we understand and express this understanding (Sayer 1992), or in other words to re-conceptualize our scientific understanding.

This re-conceptualization is a matter of sorting out the elements of the structure in necessary and contingent relations (abstraction), in order to create the foundation for a causal analysis (causation) of process and change. The difference between the analysis of causality and the analysis of causation is that the former is concerned with the relationship between discrete events, whereas the latter is concerned with the continuous processes; the way in which relations and objects act (Sayer 1992). In other words, causation is a way to make sense of the events in the actual by retroduction; inference from theories as well as singular phenomena.

	Similar events	**Different events**	
Mechanisms (nessecary relations)	Same mechanism	Different Mechanisms	Similar set of Mechanisms
activated by			
Conditions (contingent relations)	Similar conditions	Similar conditions	Dissimilar conditions

Table 2.II The workings of mechanisms and conditions in producing similar and dissimilar events

Whereas causation is concerned with the analysis of process, abstraction is concerned with the analysis of structure. It is a matter of dissolving the concrete whole into its constituent aspects and properties in terms of relations. This identification and description support the conceptualization and identification of the processes by sorting out the necessary

relations, and separating them from the contingent ones. Similarities between events occur due to the influence from the same generative mechanism and similar type of contingencies activating the mechanism. Differences may result either from different mechanisms or result from dissimilar contingencies activating similar sets of mechanisms in different ways (Tsoukas 1989), see table 2.II above.

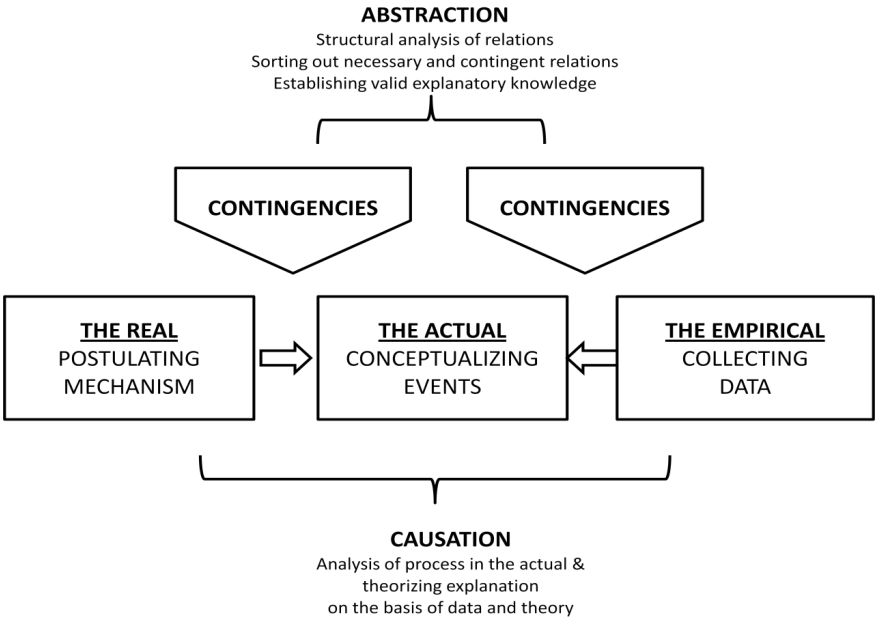


Figure 2.3: The links between strata and analysis in a critical realist epistemology

The definition of structure as the internally related objects and practices directs the attention towards the necessary relations (Sayer 1992), which can give an answer to the question why. But causation rests on abstraction, because the working of mechanisms depends on the conditions, therefore

> "valid explanatory knowledge in this realist epistemology requires the researcher to identify the contingent causal powers that are operating in the particular situations under research and the ways in which they combine and interact in order to create the particular events in the empirical domain" (Easton 1998 p. 79)

Or in other words; abstraction is a matter of sorting out and describing what mechanisms and how they act, given the contingent conditions of when, where and whom of the study, whereas causation is a matter of the why– the theorizing of explanation. The links between the stratified reality and analysis are illustrated in figure 2.3 above.

However, the answer to the question 'why?' is a temporary one, because mechanisms are not characterized by regularity. They only have effect when triggered by contingencies, and the effect differs according to the conditions. This being so, the criteria for judging the validity of a knowledge claim cannot refer to a universal truth, but has to be judged in terms of practical adequacy which means its explanatory quality (Buch-Hansen 2005).

> "To be practically adequate, knowledge must generate expectations about the world and about the results of our actions which are actually realized" (Sayer 1992 p. 69)

Practical adequacy is a tentative approach to the issue of truth, a way to replace or modify the concept of truth and to include the importance of practice (Sayer 1992). However, the concept of a stratified reality has lead critics to conclude that when critical realists are looking for a causality residing in underlying mechanisms, they have to believe in the existence of a universal truth (Dreyer Hansen 2004). This is not the case.Critical realism does not postulate any type of privileged access to truth, but attempts to find ways to formulate understanding (Mutch, Delbridge & Ventresca 2006). Not exclusively of singular phenomena, but of the workings of forces and contingencies. So in spite of the modest critical realist claim on truth, and the difficulties posed by the irregularity of mechanisms, the ambitions are not modest. Sayer (1992) states this ambition as a matter of finding inputs to robust theories which are practically adequate; i.e.

- work in other contexts
- are consistent with other knowledge and practices
- explain the situation under study
- give an account of what produced the situation

These criteria of practical adequacy are the ones to apply when judging the validity of theory in a critical realist approach.

One of the limitations of a critical realist approach is its incapacity for prediction. The irregularity of mechanisms implies that they only have effect when triggered by contingencies, and that the effect differs according to the conditions. Consequently,

> "The result of studies of all but the more durable social structures are therefore likely to be theoretically-informed and informative *narratives* rather than formal analysis of apparently timeless mechanisms" (Sayer 1992 p. 145)

Such narratives can inform us of what an object or mechanism is like, and what it can do. And they can describe the conditions under which the activation of the mechanism was observed. They cannot predict the reoccurrence of the specific combination of a situation in which the mechanism and the triggering conditions are present. But they increase the

> "chances of either removing or changing the mechanism, preventing its activation or suppressing the damaging effect of its exercise" (Sayer 1992 p. 135)

Moreover, a critical realist approach only offers a weak foundation for studies which apply quantitative statistical methods. This is so in spite of the claim that critical realism enables the application of a variety of methods and theories (Tsoukas 1989). The preoccupation with causal explanation of mechanisms and their activation under specific contingent conditions demands a qualitative analysis of relations; abstraction and causation. Therefore, studies of cause-effect relations between discrete events, or co-variance between variables based on quantitative statistical analysis are not easy to sustain within critical realism. Critical realist favours the use of qualitative data. They create a better foundation for abstraction and causation than quantitative statistical analysis of co-variance and cause-effect relations. In consequence a critical realist approach cannot offer generalization from samples to populations or the type of normative prescriptions which an analysis of quantitative data can produce.

2.2 Unit and Perspective of Analysis

The unit of analysis in this study is the constellation of three actors (a supplier, a merchant and a customer) and the relationships between them. It is a triadic structure. Triadic structures are regarded and studied in different ways depending on the perspective applied (Havila 1996).

Sociological studies define three actors who are all having contact as a group; and these groups are named triads. Such triads are used to analyze and obtain empirical verification of phenomena, most often associated with power (Weick, Penner 1966); e.g. coalition formation (Caplow 1956), conflict behaviour versus cooperative behaviour (Hartman, Phillips & Cole 1976), and the importance of personality traits of group members for communication processes and performance (Lampkin 1972). These studies are designed as laboratory experiments in which three persons play a variety of games under various circumstances in terms of initial power, reward structure, etc. This enables the construction of a controlled environment, but at the same time it decreases the influence of local and contextual phenomena.

Social network analysis (SNA) is less restrictive as to the specific structure of relationships and actors in their use of the term triad. A triad is defined as a structure of three actors and their relationships (Wasserman, Faust 1994). This implies that open structures in which two actors are not directly connected, as well as closed triads in which all actors are connected, are categorized as triads. The open and the closed triad are illustrated in figure 2.4 below.

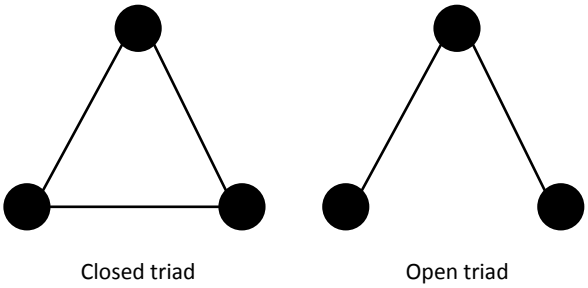


Figure 2.4: A closed and an open triad

Moreover, the unit of analysis in social network analysis differs from the above-mentioned studies of triads as groups. In social network analysis the unit of analysis are clusters or subgroups of multiple actors in larger networks. These clusters can be deconstructed into triadic constellations of three actors and their relationships for specific analytic purposes (e.g. Madhavan, Gnyawali & Jinyu He 2004). The purpose of such deconstruction is to link micro-structural tendencies into macro-structural patterns (Wasserman, Faust 1994).

The predominant approach in studies which apply a Markets-as-Networks (MAN) perspective is to regard triadic constellations as sets of three actors and their relationships; as micro-networks. This perspective is closer to the approach taken by SNA analysts than the approach taken in the above-mentioned sociological studies. Markets are conceptualized as an endless structure without boundaries (Easton 1992) in which every actor can be regarded as an intermediating actor (Gadde, Ford 2008): Mediation is a function, ”which can be said to be an aspect of every actor” (Havila 1996 p.31). However, it is possible to study triadic business relationships as group-like triads (Havila 1996, Havila, Johanson & Thilenius 2004). Constellations in which all three parties have substantial contact with each other are group-like and triadic by nature, and should be studied as such. If there is no direct contact between two of the three parties, the relationships are series-like and should be studied as linked dyads. But the group-approach which focuses on the role of each actor is not the prevailing perspective among MAN scholars (Havila 1996).

The network is an impossible unit of analysis as it is an endless structure. And as the Markets-as-Networks perspective conceptualize networks as structures emerging from dyadic relationships; focus tends to be on the dyad. However, two conceptual studies of triadic business relationships applying a MAN perspective point to the possible advantage of expanding the unit of analysis from the dyad to a triadic level of analysis:

> “Every greater system (the network) can be deconstructed into triads for analytical purposes and network effects can be demonstrated using only a triad” (Ritter 2000, p. 319)

> “If, for example, three member units were chosen (triads) this would offer the twin advantage that they represent the minimum size capable of demonstrating network flows and the role of indirect relationships, while maximizing the potential for simplification” (Smith, Laage-Hellman 1992 p. 40)

This implies that a set of three connected actors, a micro-network, is something more than a set of dyads and it has the potential of exhibiting network effects, which are not visible in the study of dyads. This is the perspective on the three-member unit that I apply. In order to clarify this approach I shall apply the idioms *triadic business relationships* and *triadic structures* to the three-actor constellations that I examine.

2.3 Method

Tsoukas (1989) proposes three steps to guide a critical realist research process.

1. The collection of a set of phenomena / data
2. Sorting out contingent and necessary relations (abstraction)
3. Re-description of components so that their inner constitution is revealed (causation)

Whereas the two last steps were examined in the former section, the present section centers on the data-collection. The objects of research in this thesis are specific, not randomly selected organizations, and therefore it can be defined as a case-study (Tsoukas 1989). The collected data are qualitative data collected through interviews. In the following I will not apply the terms qualitative and quantitative to characterize the research design, but the type of evidence collected (Tsoukas 1989). It is a means of avoiding getting entangled with the varied meanings of qualitative research (Eisenhardt, Graebner 2007). Section 2.2.1 examines case-studies in more detail, and section 2.2.2 discusses interviews as data. At the end of the section, the data collection method for this thesis and the reasoning behind the choice of this method is presented.

2.3.1 Case studies as research design

Critical realism requires a research design which will support the identification of links between mechanisms, events and experience. It is possible to conduct critical realist analysis on the basis of quantitative data. But due to the research tradition, guiding the collection and analysis of quantitative data, the application of this method tend to divert focus away from core features of a critical realist analysis; i.e. abstraction and causation (c.f. Sayer 1992 chapter 6). In comparison, qualitative data enable the analysis of the specific contingent conditions under which the postulated generative mechanisms combine and operate (Tsoukas 1989). Therefore, qualitative data is a more appropriate choice as input for a critical realist analysis.

In addition qualitative data allow a focus on discovery rather than confirmation (Deshpande 1983) and towards the understanding of meaning (Sobh, Perry 2006). Thus, the subject matter is better supported by qualitative than quantitative data. Presently, the conceptualizations of triadic business relationships are rare and the study of channel relationships as value creating networks presently is a matter of discovery rather than confirmation. Finally, the choice of a research design which enables the collection of qualitative data is compatible with the purpose of the IMP research community to which I

adhere, and of which "The goal is primarily description and explanation not prescription" (Easton 1992 p. 7).

The default answer to the collection of qualitative data is a case-study design, but case studies do not necessarily yield qualitative data (Damgaard, Freytag & Darmer 2000, Dubois, Araujo 2004). The term case study covers a number of different research designs and is commonly signifying both a process of inquiry and the results of this process (Stake 2000). Different designs yield different results (Damgaard, Freytag & Darmer 2000, Easton 1995, Johnston, Leach & Liu 2000, Stake 2000), but also reflect different purposes and paradigms. The design differs along a number of dimensions of which the discussion of multiple-cases versus case-studies of one or a few cases, seems to be one of the most ardent (Dyer, Wilkins 1991, Easton 2003, Eisenhardt 1991, Eisenhardt 1989).

The number of cases is important for scientists applying a positivist paradigm, because the number is important for generalization. Therefore, proponents of a multi-case approach are to be found among this group of scholars (Damgaard, Freytag & Darmer 2000). The underlying discussion is a matter of the validity of case-studies. For scholars applying a positivist paradigm there are two possible views on this issue (Tsoukas 1989). If focus is on statistic generalization, case studies have low validity, and are only suitable for the investigation of local context, as explorative studies or pilot studies. If focus is on analytical generalization, case studies are regarded to be a valid experimental design on the condition that multi-case replication logic is applied. Yin (2003) offers two criteria for intentional sampling for multi-case studies; 1) a literal replication; sampling cases for which similar results are expected for predictable reasons 2) theoretical replication; sampling of cases for which contrary results are expected for predictable reasons.

In constrast, Stake (2000), who takes a constructivist approach, favours a single case approach. He argues this on the basis of an underlying difference of purpose between the intrinsic case and the instrumental case. The intrinsic case is one which is interesting in its own right, and the reporting of the case is arranged for the reader to draw his own conclusions. The instrumental case helps the researcher to pursue an external interest and facilitates the understanding of this interest. It is arranged for didactical learning. The generalizations from a number of instrumental cases are arranged as final conclusions by the researcher who presents what has been learned.

A critical realist case study resembles the instrumental case more than the intrinsic case. The researcher presents data from the empirical and the theorizing of mechanisms as the foundation for a description of the events in the actual. It is claimed that a critical realist

approach is the only one which sustains claims of the existence of general knowledge based on case-studies (Easton 1998, Sobh, Perry 2006). Positivists rely on correlation, and therefore a single case is marginal, while constructivists argue that the case study reflects the researcher as much as the object of interest (Easton 1998). In contrast, critical realists can claim that the knowledge achieved from case studies is epistemologically valid to the extent that it (Tsoukas 1989)

- Establishes similarities between events or differences among events
- Establishes mechanisms and contingencies
- Produces theoretical re-descriptions which increasingly capture new layers of reality

This type of knowledge directly informs the issues of a critical realist analysis; structures, powers and contingencies. And for that purpose, one case is enough (Easton 2003).

2.3.2 Interview-data

The interview as a self-reporting method for data collection is much discussed. Behind this discussion there is a concern about

- The data you collect through this method (Gubrium, Holstein 2002)
- The extent to which the techniques and methods applied during the interview influence the data that you collect (Breakwell 1995)
- The analysis of texts (Silverman 2001)
- The reporting of data are further issues of debate(Czarniawska 2002)

These concerns originate in the recognition that it is the researcher's interest which forms the platform for dialogue. But the effect of this recognition for the data collection procedures depends on the approach to the respondent. If the respondent is regarded as a vessel of data, which is already there, it is important to avoid contamination of data due to interviewer influence. If the respondent is regarded as a narrator, the interview must be arranged in a way, which enables the respondent to be the active partner in the construction of the narrative (Gubrium, Holstein 2002).

Paradigms influence how you execute, code, and interpret interviews and create a multiplicity of possible methods for the collection, analysis and interpretation of data. But paradigms also help making the choices. Sayer (1992) claims that studies of social structures are theoretically informed and informative narratives rather than formal analysis of timeless mechanisms; i.e. data cannot speak for themselves, theory is needed and applied to interpret data.

Thus, the data sought in a critical realist approach are the qualitative data about meaning (Sobh, Perry 2006). Meaning is the instrument which supports inference between the empirical experience and the real domain of structures and mechanisms, to the conceptualization of the event in the actual. In this study, the inference between the empirical and the event in the actual rests on the respondents' perception of the value of the triadic constellation of relationships.

Perception, which is a mental process, is not directly accessible. Instead I have asked questions which yield data on *behaviour* in the triadic relationships (the activities, the division of labour). And I have asked question which encourage respondent to express their *attitude* to the other actors, and to *evaluate* the other actors' contribution to the value creation process. By combining these three types of data, I reach an understanding of the meaning; how the actors perceive the value of the triadic constellation of relationships.

The ability to extract meaning can be supported by analysis of semiosis, defined as the intersubjective production of meaning (Fairclough, Jessop & Sayer 2004), but it is not the ability to interpret the text as text, which produces the result. The result rests on the ability to re-contextualize the narratives collected through the interviews and other sources of information into a story of the field (Czarniawska 2002). The construction of the narrative of the situation or event conceptualizes the actual (Mutch, Delbridge & Ventresca 2006).

2.3.3 Data collection and analysis

Four triadic channel relationships have been selected as cases of value creation in three party constellations. They are not sampled for literal or theoretical replication with the purpose of confirming the working of this process for predictable reasons. This is not possible due to the irregularity of mechanisms in a critical realist approach. Instead, the cases are sampled on the basis of the common empirical features. They all involve a supplier, a merchant and a customer, who are all communicating with each other. The respondents are representatives of the supplier, the merchants, and the customer. They are the individuals who are involved in the actual interaction related to value creation in the triad. The cases are sampled in order to learn about value creation in triadic business relationships and to explore this phenomenon. One case may have been enough, but the choice of four cases enables the observation of similarities and differences among four instances of triadic value creation, which facilitates the establishment of mechanisms and contingencies.

The data was collected through semi-structured interviews conducted on the basis of an interview guide (appendix A). The interview guide, which directs the interviews, is constructed with the purpose of extracting data from the respondents. However, the dialogue is conducted in a way which leaves as much room for the respondents as possible in order to encourage them to take the lead in the exploration of the questions raised during the interview. As described above I have collected data on the behaviour in the triadic relationships (the activities, the division of labour). And I have collected data on the respondents' attitude to the other actors, and their evaluation of the other actors' contribution to the value creation process. These data have been combined to reach an understanding of the actors' perception of the value potential of the triadic relationship in which they participate.

Data on the behaviour is collected through the discussion of activities and division of labour. Activities have been organized in a number of value dimensions. Background interviews point to the product as a distinct and separate element of value. Therefore, he interview guide is organized so that the product is introduced as the first value dimension. In this way the dialogue is initiated on the basis of a concept which is familiar to the respondents. Afterwards the other value dimensions are introduced and discussed. In order to find out how the value of each dimension is evaluated relatively to other value dimensions, respondent are asked to prioritize the value dimensions. For the prioritization each value dimension is printed on a separate piece of paper and handed to the respondents in a randomized order. This procedure is applied in order to avoid the indication of any preferred ranking.

Data on the respondent's attitude towards and evaluation of the other actors' contribution are collected through a dialogue on

- the respondents' assessment of the relationships
- the role of the merchant in triadic relationship and
- the respondents' interpretation of the ways in which the relationships influence each other

The discussion of the role of the intermediary is supported by illustrations of three possible roles; a provider for the customer, a distributor for the supplier or a trader (Gadde, Snehota 2001). Likewise, the conceptualization of channel relationships as triadic micro-networks is introduced to the respondents. The dialogue on the structure of channels is discussed with the respondents on the basis of illustrations of channels as chains of dyadic relations, and as triangles. This issue is included in order to shed light on the respondents'

visualization of the triadic relationship. Do they see it as a chain or is their interpretation corresponding with the theoretical conceptualization of the relationship as triadic?

Background interviews have also pointed towards a number of additional issues of importance for the understanding of value creation in the triads:

- Pricing issues related to discounts and profits
- The concept of the proficient timber merchant
- Competition in the industry
- Decision making in the building material industry
- The importance of / influence from merchant chains

These issues are included in the interview guide in order to get data on the atmosphere of the relationships, and on the environment.

At the end of each interview the respondents are asked if further value dimensions influence the value creation process. No respondents indicated so, but an un-anticipated administrative activity occurred during the first customer interview: In some situations the merchants make thorough basic calculation of tenders and quotations for their customers, based on the material that the customers receive from the ordering parties. Consequently, this element of administrative services was included in all further interviews.

2.4 Account of the research process

The research process is driven by the empirical. From the very beginning value and value creation were agreed upon, by the partnering suppliers and me, as the issue of interest. My research process exemplifies that a critical realist approach not offers recipes for research, but propose an analytical model which assists and strengthens reflection on how data and theory fit together. Two parallel activities are taking place: The collection of data and the gradual refinement of the theoretical foundation on which the interpretation and analysis of this data is founded. The final result is the thesis, the inference between the structure of the real and the empirical data, which can support the narrative of the processes in the actual.

<u>Explorative stage</u>

The organization of the suppliers' marketing and distribution activities involves merchants, but also includes the suppliers' substantial involvement in servicing the merchants' customers. This apparent paradox inspired the study. Parties to an exchange are assumed to give and to get constellations of value which differ from each other (Blois 2002). In the

context of my thesis, suppliers are paying commission to intermediaries. This is a *give constellation*, and intuitively it is assumed that the suppliers must *get* something in return e.g. that the merchant perform value creating activities from which the customer can profit. However, the suppliers are also active parties in value creating activities for the customer. Thus, the suppliers' give constellation is apparent both in money (the commission paid to the merchant) and resource investments (the activities performed and relationship building with customers). But the get constellation for the supplier; the value of the intermediated system is less apparent. Therefore, value and value creation are given priority over cost and value appropriation in this study.

The research process began with two long interviews with the project managers in the two participating companies and was followed by several short-term internships. The CEO's signalled that all managers and employees were expected to support my research through dialogue, and I was given full and open access to any information that I would like to get. I profited from this and conducted 26 semi-structured interviews with employees in the two suppliers' companies during the initial stage. (See appendix B for a complete list of interviews).

So, from the very beginning a platform of dialogue was established, and I was offered an abundance of information and interesting perspectives. On several occasions I was invited to present my transitional observations and results. These meeting were opportunities for me to get managers' and practitioners' response. The close dialogue and the initial interviews first of all confirmed the relevance for practitioners of the study. Moreover, they offered first insight into activities and relationships, seen from the suppliers' perspective, which inspired the interview-guide. And finally they gave me the background knowledge for understanding the structure of the industry, which has informed my analysis of contingencies.

Gradually I realized that if I was to understand the value created for customers I had to study their relationships with the suppliers as well as the merchant, as both are interacting with the customers. This phase of the research resulted in two initial research questions which initiated the first literature review on which to found the content of the interview guide for my data collection: How do the actors in a triadic business relationship create value for and with each other? And what are the key value dimensions in a triadic structure, composed of a supplier, a merchant and a customer?

As my approach is a Markets-as-Networks approach I regard three party constellations as micro-networks. The MAN approach conceptualizes networks as structure emerging from

dyadic interaction which can be studied at three levels; actor bonds, resource ties and activity links. Data on activities are relatively simpler to access directly than resources. So activities are an obvious choice for a study of the interaction. However, networks are composed of relationships and actors. The possible influence of the actors' positions on value and value creation is to be included. Therefore, two further initial questions were phrased: What value creating activities are performed by whom, for whom and with whom? And what is the value of position and how does position influence the value creation in triadic business relationships?

First literature review

The purpose of the first literature review was to find out how to define activities. Value studies (chapter 6) offer a number of conceptualizations of relevance for my research. But most importantly for the process was the distinction offered between direct and indirect value functions as related to activities and network access. This became the backbone of the interview guide, which also encourage respondents to describe their relationships with the other respondents. However, studies of B2B value also point to the significance of contextualizing indicators for the specific local context of the study. The three-party constellation includes an intermediating merchant. Consequently, the possibility of contextualizing activities for an intermediated context was evident. Channel research (chapter 7) is an obvious domain for that purpose and offers precise categorization of intermediation activities. And this categorization of activities is applicable for a study which takes a MAN approach in spite of the incompatibility between channel research and the MAN in the conceptualization of channels and intermediaries.

Moreover, I had to consider what type of findings I would be able to sustain, when choosing an interview-based case-research as my method, and the initial steps in forming the methodological foundation of the study were taken. During the process, I also realized that a triadic approach was not common in business studies, and that I would have to find theoretical foundation to sustain this approach.

First round of interviews and first analysis of data:

The good dialogue with the two partnering supplier companies made it easy for me to set up customer interviews. I was assisted in selecting respondents based on criteria that I decided, and the first four customer interview included small and large accounts from both suppliers using merchants from various chains. The sales-personnel made the initial contacts, asking whether the customers would be willing to give interviews. From that point on, the sales-men were excluded from the process. I set up appointments with the

customers and sent them a short memo of who I am, including an account of the organization of the research consortia, and the purpose. The interviews were conducted within a month, and I was welcomed with much interest and open-minded dialogue.

Due to the triadic interaction pattern, I found it interesting if I could get the merchants' and the suppliers' perspective on their relations with the customers that I had interviewed. Owing to the positive reception among customers, I decided to contact them again and ask how they would feel, if I made the same interview with their merchants and suppliers. All of them agreed to this idea. The purpose was not to get the customers' data ascertained, but to get the merchants' perspective on value dimensions, the value creation process and the interaction pattern in the triadic relationships.

I subsequently contacted the merchants, and three out of four accepted my request for interviews. Unfortunately, one of the three was later cancelled due to the merchant's personal circumstances. But two were successfully conducted, and consequently I could close this round of interviews with supplier interviews yielding two complete triadic relationships. This choice is also in accordance with the conceptualization of value as a bi-directional process. A triadic relationship does not reflect the advantages or value potential of the structure for the customer alone. Therefore a study of the value potential of a triadic structure demands the collection of data from all three parties.

During the first analysis of interviews it became clear to me that it was not enough to analyze triadic relationships as sets of three dyads. In order to understand them I had to conceptualize them as triadic structures. This directed my interest towards interconnections; how relationships influence each other and a final initial question was phrased: How can constellations of interconnections be conceptualized as a value dimension in business triads?

<u>Second literature review</u>:

The search for the answer to this question sent me back into the MAN literature and I realized that there was some sort of link between motives for action and the value potential of the structure. And as motives are part of the actors' agency, motives have the potential to form a bridge to perceived interconnections.

The review of the MAN literature pointed to another aspect of the problem in linking structure and value potential. Interconnection is defined as the way in which a relationship influences another relationship. However, relationships are structural phenomena, and structures have no agency. Thus, interconnection defined as a structural phenomenon

seemed ambiguous, and I re-conceptualized interconnection as the actors' perception of structures and dependencies. But the link between the triad as a structure and value creation as a process was still unresolved. The interviews had supported the distinction between direct value functions as related to activities and the indirect as related to market access. But theoretically there were no studies which offered a conceptualization of the value function of interconnections.

Second round of interviews

During the search for the answer to the above theoretical questions, the second round of interviews took place. Due to the fact that only two triads had been completed in the first round, I had decided to make another round of interviews. Not for replication, but in order to get more details on triadic business relationships. This time I chose respondents in the region around the capital. Building activities had been very intense in this region for a period of time, but had more or less come to a stop due to the financial crisis setting in during 2008. And this was an interesting phenomenon to include. The procedure was the same as last time, with the small difference that I could ask the customers, before leaving them, whether they would concede to my interviewing their merchants. The two respondents did, and this time the two merchants also accepted my request for interviews. This round of interviews was finalized with two supplier interviews, and the data on triadic relationships doubled. To some extent information was ascertained, but new data also emerged.

As I was unresolved to the significance of interconnection for value creation, I decided not to change my interview guide. Experience from the first round had shown that I was able to collect rich and detailed information on the basis of the guide. Consequently, I believed that four cases based on the same approach was a better choice than two set of data collected with different methods. However, my attention to the significance of interconnections made me realize that the data about relationships that I collected included elements which related to interconnection. But the conceptualization of the value of interconnections was still missing.

Third literature review

Due to my struggle with triads as networks and the concept of interconnection, I chose to attend a PhD-seminar on social network analysis. It proved to be most instructive, because the literature presented enabled a comparison between an interaction based network approach and a structural approach to networks. This was much rewarding, and the inclusion of the SNA perspective inspired the final step in conceptualizing the relationship

between the process of value creation and the triadic structure. I was able to point out that triadic relationships, which display the same structure, e.g. open triadic structures, can be motivated differently. But SNA does not offer conceptualization of networks which capture this feature of networks. Thus, the problem that I was trying to solve could be re-interpreted as the link between structure, value potential and motivation for participation.

Causation

By combining the insights from my literature reviews and the data it finally became clear to me that there was a link between structure, motivation, value potential and actor perceived interconnections. It gave a new perspective on the literature that I had reviewed and resulted in the phrasing of a number of theoretical research question. These questions resulted in the conceptualization of patterns of intermediation as a core construct which captures that: The combined direct and indirect value potential of the triadic constellation is the phenomenon which motivates the actors to participate. This is the link between motivation for participation, value potential and structure.

During the research process, data had been analyzed, but a comprehensive perspective was missing. The conceptualization of patterns of intermediation changed that. It facilitated the development of a framework which reflects the three elements of the triadic structure. And it defines value functions for each element. These functions have been contextualized for an intermediated context which facilitates the analysis of channel relationships as value creating networks. The application of the framework to the analysis of data confirmed the practical adequacy; i.e. the explanatory quality of the framework. Moreover, it emphasized that the value potential of a structure is not an objective phenomenon. It is the result of a focal actor's evaluation.

CHAPTER 3: STRUCTURES CONDITION INTERACTION

The social network perspective

In this study the three partner constellation of a supplier, a merchant and a customer is conceptualized as three connected relationships, which forms a system; a triadic micro-network. Consequently the study takes a network approach to markets.

Two lines of research offer conceptualizations of markets as networks; Social Network Analysis (SNA) and Markets-as-Networks (MAN). One of the characteristic of a network approach to markets is the idea that exchange relationships are characterized by varying degrees of commitment (Cook, Emerson 1984). Actors are assumed to be autonomous, but interdependent and part of a social network structure. These paradigmatic assumptions apply both to the SNA and the MAN perspective, but they differ in one significant respect: The SNA approach tends to conceptualize markets as structures which condition the interaction process, whereas the MAN approach conceptualizes networks as structures which emerge from interaction processes. Both perspectives are relevant for the understanding of processes (i.e. value creation) in networks. The interaction process is conditioned by the pre-existing structure, and has the potential to preserve or transform this structure (Archer 1998).

The remainder of this chapter analyzes and describes the SNA perspective. Section 3.1 presents core concepts in Social Network analysis. These concepts are applied in section 3.2 for the analysis of the extent to which two structures, brokerage and collaborative cohesion, can inform the understanding of the value potential of structures. The following chapter 4 examines and presents the MAN pe rspective and in chapter 5 both perspectives are applied for the conceptualization of triads.

3.1 Terminology and indicators in Social Network Analysis

Social network analysis is a theory as well as a method. The SNA tradition is concerned with social networks; meaning the structure of ties between individuals, organizations, groups and other collective social units (Van Den Bulte, Wuyts 2007). Social network analysis is based on the paradigmatic assumption of interdependence, but the focus is not on the function of ties in terms of what goes on. SNA analyzes

- How ties relates to the centrality and status of the actors (Knoke, Burt 1983, Podolny 1994),
- How ties form cohesive or structural equivalent subgroups or nets (Burt 1987)
- The extent to which the structure of ties creates autonomy or closure of networks (Burt 1992, Coleman 1988)

These ties, positions and structures constitute the basic tool-kit for the social network analysis of structures.

The technique applied for the analysis is mathematical graph analysis which enables the quantification of position, ties, clusters and networks. The purpose is to capture indications of variation, and how these variations influence network outcome. Social network analysis can handle the study of large networks with a multitude of actors, by measuring the existence or non-existence of ties and their direction. It can include a valorization of ties in terms of a positive or negative valor, but it cannot include qualitative aspects due to the complexity of the mathematics involved in such an endeavour (Wasserman, Faust 1994).

The method of SNA supports:

- The analysis of concepts originating within social network analysis: e.g. the effect of status and position for network entrance (Jensen 2008)
- The analysis of how concepts derived from other scientific domains influence a network: e.g. how legitimacy of a practice influences diffusion (Davis, Greve 1997)

So the method is an instrument for the analysis of structure and change in networks, and it can be applied for the analysis of concepts and theoretical mechanisms from various scientific domains.

3.1.1 Ties

In social network analysis a tie signifies the existence of a relation. Ties are described with the following three characteristics:

- Whether they are reciprocal (bidirectional) or not (unidirectional)
- The degree of symmetry (subordination and super-ordination)
- The strength of the tie

A tie is characterized as reciprocal if it is bidirectional: i.e. that it flows from A to B and from B to A. This is the basic understanding of reciprocity. However, reciprocity can also

exist in a generalized form implying that if A helps B, B can expect help from A, or from other actors affiliated to A (Van Den Bulte, Wuyts 2007).

Reciprocity does not necessarily imply symmetry. A tie is not symmetrical if it is of a kind where one actor is in a position to dominate the other, because super ordination and subordination are not symmetrical kinds of ties (Knoke, Burt 1983). In other words, reciprocity signifies the direction of the tie and symmetry the degree of power exercised in the tie. The symmetry of ties can also refer to the strength of a tie; whether it is equally strong in both directions.

The strength of a tie is defined as a matter of (Granovetter 1973)

- the amount of time invested in a social relation
- the emotional intensity
- intimacy
- the reciprocal services rendered

Granovetter's above definition of ties, which he applies in the analysis of the strength of weak ties, is quoted frequently. Therefore, it is important to keep in mind that this definition is given on set of restricting assumptions.

First of all Granovetter, assumes strong ties to be symmetrical and positive. This assumption implicitly implies that the coordination mechanism in a strong tie is collaborative; the tie is bidirectional and not characterized by the subordination of one the actors.

Secondly, Granovetter assumes that the principles of transitivity and cognitive balance influence the formation of ties. Transitivity refers to situations in which the presence of ties between A-B and A-C also implies the presence of the tie C-B. Therefore, transitivity primarily is assumed to be a function of strong tie; if the ties between A and B and between A and C both are strong, a tie between C and B will develop (Van Den Bulte, Wuyts 2007). Likewise, the theory of cognitive balance predicts that if B and C are aware of each other, the existence of strong ties between A-B and A-C will lead to the development of the tie B-C in order to avoid psychological strain in the situation (Granovetter 1973). Consequently, transitivity and cognitive balance lead to the closure of open triads, and an open triad of two strong ties, often named the forbidden triad, cannot exist (figure 3.1)

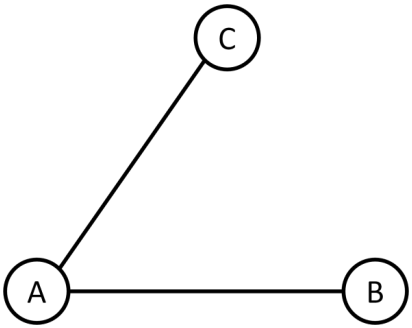


Figure 3.1: The forbidden triad (Granovetter 1973 p. 1362)

Granovetter (1973) applies this line of reasoning to study information advantages in a network, and points to the strength of weak ties for information transfer. Strong ties are assumed to produce further strong ties and the formation of closely knitted subgroups. In these subgroups information is shared easily, due to the strong ties, but produces information redundancy. In comparison, the strength of weak ties is their ability to function as conduits of information between otherwise disconnected actors or subgroups, and only weak ties have this property. They create the indirect linkages between actors and subgroups in a network and offer the opportunity to access non-redundant information which is new to an actor or subgroup.

Due to the assumed positive symmetry in strong ties, Granovetter's (1973) conceptualization of tie strength, and the function of weak and strong ties, must be applied with caution: Especially for the analysis of asymmetrical ties in which the governance mode may include elements of power and competition. But in spite of these restrictions, Granovetter (1973) offers the important insight that weak indirect ties serve another purpose than strong direct ties. Weak ties facilitate the search for information, and strong ties facilitate the transfer and integration of knowledge among actors (Wuyts et al. 2004).

In addition to reciprocity, symmetry and strength, ties are characterized by embeddedness. Embedded ties are concrete, ongoing, multiplex social relations. In a business context the embeddedness of ties refers to the way in which a transaction is

connected to, and enclosed in a social relation (Marsden 1981, Uzzi 1997). In studies of business networks the embeddedness of ties implies that companies are related to and depend on various types of networks (Halinen, Törnroos 1998). Embeddedness is categorized into four different types (Zukin, DiMaggio 1990):

- cognitive embeddedness (regularities of mental processes)
- cultural embeddedness (shared collective understanding)
- structural embeddedness (the pattern of interpersonal relations in which economic exchange takes place)
- political embeddedness (the shaping of economic institutions by the struggle for power)

The structural (social) and the political embeddedness are regarded to be more important than the cognitive and cultural embeddednes for the understanding of the social organization of the economy (ibid p. 18). The social embeddedness of actors implies that business actors are part of larger social structures created through interaction in interpersonal relationships (Granovetter 1985). Gradually, these structures stabilize into routinized linkages among members (Marsden 1981). Being so, embeddedness is an essential feature of networks which points to the duality of networks; they emerge from relations and they enable and constrain relations.

The conceptualization of ties as embedded in social relations is a way to counter both the over- and under-socialized understanding of markets. Markets are neither atomistic, nor absolutely controlled by internalized norms. Human action is a matter of purposive action embedded in concrete ongoing systems of social relations; i.e. the outcome of a structure depends on the agency of actors. Therefore, embedded ties have no inherent positive or negative quality; it is the way they are used which is of importance (Granovetter 1985).

3.1.2 Positions

In SNA the position describes the characteristics of the collection of ties which connect an actor to the network. Positions are described in terms of (Knoke, Burt 1983):

- Centrality (the number of relations – ties assumed symmetric)
- Status (the degree of sub- and superordination – ties assumed asymmetric)
- Prominence (visibility – the combined effect of centrality and status)

These concepts create the foundation for the study of social contagion which examines how actors react when they are exposed to an innovation (adoption), and how an

innovation spreads in a network (diffusion) (Van, Lilien 2001). Diffusion is conditioned by the structure of the network measured as cohesion and structural equivalence (Burt 1987). More important for this study, the concepts cohesion and structural equivalence are also instructive for the analysis of value creation and extraction. The line of reasoning which links position concepts to network value in SNA is complex and involves a number of concepts and definitions. The below figure 3.2 outlines the connection between these concepts and definitions.

SOCIAL CONTAGION
is a matter of

ADOPTION
(Van, Lillien 2001)
Which depends on

DIFFUSION
Which is conditioned by

COHESION	or	**STRUCTURAL EQUIVALENCE**
Similarity of the actors	(Burt 1987)	Equal position in the network
Common norms		Competition
Focus on ties		Focus on network position

These concept relate to the categorization of two network potentials

SOCIAL CAPITAL	(Ahuja 2000)	**BROKERAGE**
(Coleman 1988)	compares	(Burt 1992)
A common good		A favourable position for an actor
Resulting from trusting collaboration		Resulting from structural holes
VALUE OF CLOSURE		**VALUE OF AUTONOMY**

RESULT

TWO DIFFERENT WAYS TO CREATE AND EXTRACT NETWORK VALUE

Figure 3.2: The conceptualization of two different ways to create and extract network value

Contagion by cohesion is based on the assumed similarity of attitude, belief, and behaviour among actors with strong communication ties; actors know each other and are alike. The functioning of contagion by structural equivalence is based on the assumed competition between an ego and his alters. This contagion mechanism depends on the degree to which two actors are positioned similarly in the network. It is not a measure of shared contacts, but a measure of the degree to which two or more actors have the same structure of ties; i.e. that they are positioned similarly in the network.

Consequently, there are two motivations for adoption: Either it is motivated by the common norms of actors who belong to cohesive nets. Or it is motivated by competition between actors who are positioned equivalently in the structure, and engage in mimicking behaviour (Burt 1987). These two perspectives; the cohesive net of a number of actors and the position of an individual actor, are replicated in the concept of social capital and brokerage.

Actors who belong to a cohesive net possess the common good of social capital characterized by many reciprocal obligations / expectations, frequent and open communication and common social norms. Such cohesive groups have the ability to create closure: Everybody knows each other or is closely connected to one another, and this closure breeds trust among the actors (Coleman 1988).

Brokerage is another way to create and extract network value. Brokerage refers to the favourable position of a specific actor who spans structural holes between disconnected actors or clusters. Such a position holds the potential of non-redundant information originating in different parts of the network, and of control opportunities, which may result from the manipulation of the flow of information. It offers the opportunity to create and extract value for a broker. It is an individual asset resulting from relative autonomy (Burt 1992).

Being so, different network structures may create value for a group of actors through collaboration and closure, or create value for a brokering actor through competition and autonomy. Ahuja's (2000) comparison of Coleman's (1988) study of social capital, and Burt's (1992) study of structural holes indicates that direct ties influence the output positively by giving access to information as well as resources. Likewise, indirect ties influence the output positively by giving access to information. There is not a superior network strategy for value creation; the superiority of strategies depends on the network structure.

3.1.3 Structures and agency

As indicated by figure 3.2, the conceptualization of cohesion, social capital and closure is based on the strength of ties. In comparison, the concepts of structural equivalence, brokerage and autonomy combine the strength of ties and the position of actors in the analysis of the network structure; the composite of ties and positions

The analysis of network structures implies a move from clusters or subgroups to a more expanded network. Studies of the small world phenomenon, which is the origins of the popular concept of six degrees of separation, exemplify the problems related to the structural level of network analysis. The scientific origins are to be found in a study by Milgram (1967), who conducted an experiment in which he wanted to examine the number of links between two absolute strangers. A letter, intended for a person unknown to the first level of participants in a postal chain, was to be handed from one person to another, on the condition that they should know each other on a first name basis. It occurred that the average number of links or ties connecting two absolute strangers were six; six degrees of separation.

The results have been disputed due to the ratio of non-completed (116), versus completed (44) chains. However, the small world phenomenon has later been studied in advanced graph analysis (Watts 1999), and it is possible to show that the small world phenomenon occurs under the condition of co-existence of short paths and high clustering. This mathematical model has not been tested empirically. An empirical test would demand data-collection on numerous clusters and networks. Consequently, the data collections problem scales up. This problem explains why the translation from micro to macro level is granted much attention in social network analysis, as a way to form hypotheses about wider networks on the basis of selected subgroups and clusters.

Summing up, social network analysis offers a number of insights of importance for a study taking a network approach:

- Weak ties facilitate the search for information, and strong ties facilitate the transfer and integration of knowledge
- Different network structures offer different opportunities for value creation
- Network structures can be described in terms of the value potential of cohesion (closure) for a group of actors, and of brokerage (autonomy) for a focal actor

- The embeddedness of ties points to the duality of networks; they emerge from relations, and they enable and constrain relations
- Embedded ties have no inherent positive or negative quality; it is the way they are used which is of importance
- The outcome of a structure depends on the agency of actors

In spite of the recognition of agency as a determinant of network outcome, SNA tends to take the network as given, and to approach structure as the determinant of action (Uzzi 1997). However, the relation between structure and agency in network analysis is a circular phenomenon, and the two precondition each other (Van Den Bulte, Wuyts 2007). This mutual constitution of structure and agency is compatible with a critical realist approach which assumes the world to pre-exist any individual actor, but also acknowledges the potential of any actor to influence the present and future structure through conceptualizations and practices (Buch-Hansen 2005, Sayer 1992).

Consequently, the structure in terms of ties and positions sets the stage for action, and the restrictions on the actors by a specific structure can be severe, but structure cannot act on its own. It depends on the actors and their actions. Therefore, a comprehensive network approach has to consider the interplay of structure and agency, and how agency is expressed in actions and activities.

3.2 Intermediation, cohesion and brokerage

The noun intermediation is applied to signify the acting of intermediaries and the actions they take in the organization of trade (Casson 1997, Spulber 1996, Young 1972). These actions include activities related to distribution and marketing. Distribution is a complex and open system of vertical and horizontal integration (Bagozzi 1975) which is better described as a network than a chain (Achrol, Reve & Stern 1983, Håkansson, Snehota 1995b). On account of this, network scholars expect that much can be learned when the dyadic approach which dominates channel research is substituted with triadic analysis: “even relatively small extensions from channel dyads to very small networks with three to five actors may be enough to learn about such complex issues” (Van Den Bulte, Wuyts 2007 p. 81). This section discusses how the network concepts of cohesion and brokerage can inform the study of value creation in intermediated triadic business relationships.

In SNA, the term triad is applied for the description of all possible combinations of three actors and their relationships; not exclusively for the closed group-like triads with mutual strong ties. A closed and an open triad illustrate the smallest possible examples of network structures which are characterized by cohesion and brokerage respectively, on the condition that the ties in the closed triad are strong ties. In triadic business relationships, characterized by strong and embedded ties, the coordination or governance mechanism is expected to include relational or cooperative elements along with competitive elements (Uzzi 1997). In comparison an open triad illustrates the brokerage potential for an actor who spans a structural hole between two otherwise disconnected actors (Burt 1992).

But the motives behind strong embedded ties are not unambiguous (Granovetter 1985). They can be motivated by a desire to reduce competition (collusion), or increase information exchange (Ingram, Roberts 2000). The formation of closed triads can also be motivated by either clustering or countering. Clustering refers to the cooperative motivation for the formation of triads, aiming at combing resources from multiple partners. Clustering refers to a competitive motivation for the formation of triads, aiming at reducing the appropriation of value by another actor in the triad (Madhavan, Gnyawali & Jinyu He 2004).

These studies point to a number of aspects to be observed in the analysis of business relationships in which all three actors have contact. It has to be established whether the ties are strong or weak, symmetric or not, and whether the three ties are similar or different. And if it is possible to establish the motivation for the specific character of each tie, and the specific constellation of ties, it will inform the understanding of a specific triadic constellation. Consequently, the fact that a triad is closed or open is not enough to establish and interpret the value potential of the structure. The character of the ties, the constellation and motives are also important for the interpretation of open triads.

In SNA open triads represents structural holes which offer brokerage potential. Brokerage is based on the phenomenon of the tertius gaudens, which signifies a third element who use his relatively superior position for purely egoistic interests (Simmel 1950). The rationale for the existence of a tertius gaudens is some degree of “mutual strangeness or qualitative dualism” (ibid p. 159). Thus,

> “the favorable position of the tertius gaudens disappears quite generally the moment the two others become a unit” (ibid p. 160)

The tertius is an interesting concept for the analysis of intermediation in supplier-merchant-customer relationships. It implies that when the customer and the supplier know each other, the structural phenomenon of separation (mutual strangeness) which is the condition for the existence of a tertius gaudens, disappears. Thus, a genuine brokerage position can only exist to the extent that the broker can keep the two other actors apart. If not, it is no longer a brokering position, but something else.

However, an open triadic structure can be interpreted differently. A micro-economic approach defines the function of an intermediating actor as cost-economizing; he reduces the number of necessary links needed to connect multiple suppliers and multiple buyers for his connected parties (Gattorna 1978b). The supplier substitutes multiple direct links with a reduced number of indirect links. Intermediation is conceptualized as a cost-economizing coordination of market transactions through price signals (Spulber 1996). The existence of intermediating actors is also interpreted as an indication of the attractiveness of the services they offer for other parties (Bartels 1988). These conceptualizations result in a different understanding of the position of an actor who spans a structural hole. It is not a matter of brokerage, but of bridging the gaps of time, space, quantity and variety between production and consumption (Blois, Shaw & Ennis 2000). This alternative interpretation of an actor, who spans a structural hole in a social structure by playing an active coordinating role, has been conceptualized as the tertius iungens (Obstfeld 2005).

These alternative conceptualizations of the function and position of an intermediating actor, once again indicate that the motivation of actors is significant for the understanding of the value potential of a structure.

The fact that at triadic structure can be described as either open or closed, apparently does not offer sufficient information to understand the value potential of structure. Motivation is a significant element, which must be included. Therefore, the review of the SNA approach point to the following research question:

> **What is the link between triadic structures and the actor's motivation for participation?**

One possible way to examine this question is to study the activities in ties. What is done by whom, and why? But as pointed out, SNA centres on the analysis of structures and how structures influence the outcome of the actors' exercising of agency. SNA has little to say about the activities taking place within the ties. For that purpose the MAN approach offers better tools, and this is the subject of the following chapter.

CHAPTER 4: EMERGING STRUCTURES

The Markets-as-Networks perspective

The Markets-as Networks (MAN) approach and Social Network Analysis (SNA) both assume actors to be interdependent. Actors are linked to each other through relationships which are named actors bond in the MAN network terminology. But SNA and MAN differ in two important respects. First of all, SNA tends to approach structure as the determinant of action (Uzzi 1997). The MAN approach takes the opposite perspective. Networks are conceptualized as structures emerging from interaction in relationships. However, it is acknowledged that at a given point in time the structure pre-exists the actors (Håkansson, Snehota 1995a). The dyadic interaction is constrained and facilitated by the pre-existing structure (Halinen, Salmi & Havila 1999). Secondly, the SNA focuses exclusively on the way that actors are tied and form bonds in terms of centrality, status and prominence. The MAN approach also includes the resource ties and activity links in the understanding of the bonds between actors.

The IMP Group developed the interaction model of relationships (IMP Group 1982) on the basis of studies of long-term business relationships. The model is introduced and discussed in section 4.1. The interaction model focuses on dyads, whereas the ARA model of business networks (Håkansson, Snehota 1995a) expands the perspective from the dyad to the network. The ARA model is the topic of section 4.2 which also examines the foundation for the MAN approach to markets and networks in more details. Finally, section 4.3 discusses the MAN approach to exchange, interdependence of relationships and the autonomy of actors, and how this approach can inform the understanding of the value of triadic business relationships.

4.1 Relationships and the Interaction Model

The IMP approach has its empirical origins in two major studies. One of the inspirations which generated the first IMP study is the observation that buyer-seller relationships in B2B exchanges often are long-lasting (Håkansson, Snehota 2000). Consequently, the first Pan-European IMP study, which began in 1976, focuses on dyadic international buyer-seller relationships between industrial companies. The second IMP study, which commenced in 1986, involved scientists and researchers from Europe, USA, Australia and

Japan, and focuses on the network aspects. These IMP studies of practice in business markets form the foundation of the MAN approach (Håkansson, Snehota 2000).

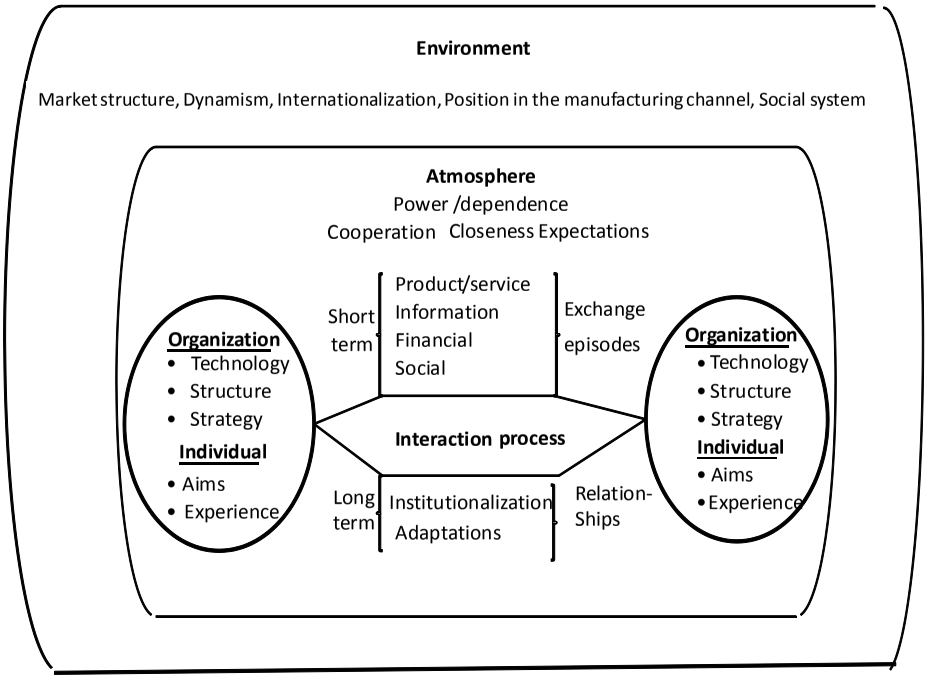
The MAN approach is a reaction against the understanding of markets as characterized by series of discrete transactions among atomistic, homogeneous actors (Turnbull, Ford & Cunningham 1996). The first step in changing the perspective on markets from independence to interdependence is to focus on relationships as building blocks of networks (Ford, Håkansson 2006b). This is accomplished by taking the buyer-seller relationship, not the actor, as the unit of analysis. Demand and supply are assumed to be heterogeneous and coordination is achieved through interaction.

This change of perspective is incompatible with the conceptualization of 1) exchange as series of discrete episodes 2) actors as atomistic and independent 3) markets as segments with homogeneous demand 4) the coordination of activities as a result of competition which clears demand and supply. Therefore, the MAN approach developed as a separate discipline, with a distinctive understanding of markets (Vargo, Lusch 2008).

In the MAN approach, the interaction model (figure 4.1 below) is a core model for the analysis of buyer-seller relationship. The tenet of interdependence of actors is incorporated in the symmetry of the model which illustrates one of the observations underlying the model: That both buyers and sellers are active in the interaction process, which is the instrument of exchange and coordination.

Moreover, actors are defined at two levels: 1) An inter-organizational level in terms of the organizations' strategy, structure and technology. 2) An inter-personal level defined as individual aims and experience. The inclusion of both levels signals that the actor is an organization which is composed by its members. But the interaction process is not exclusively a matter of interpersonal communication. It involves exchange of products, services and payments, as well as information and social exchange (Ford, Håkansson 2006a). These exchanges link episodes into relationships, and support the relationship building in terms of adaptation and institutionalization which demand mutual commitment (Dwyer, Schurr & Oh 1987).

Figure 4.1: The interaction model of buyer seller relationships (IMP Group 1982a)



The interaction is influenced by the atmosphere; power/dependence, cooperation, closeness and expectations. The atmosphere is defined as a group of intervening variables. The characteristic of these variables is that they describe combinations of elements relating to the environment, the organizations involved in the interaction, and the interaction process (IMP Group 1982). A more recent definition of the atmosphere concept interprets it as a hybrid culture; a culture which reflects elements of both actors' cultures, but is different from either actors' culture (Wilson 1995). Both definitions indicate that the atmosphere is not a generalized phenomenon. It is a set of variables which defines the distinct context of a specific relationship. Finally, the interaction model includes the importance of environmental factors. These factors function as a context for interaction; i.e. the actors in the dyad cannot influence these circumstances through their actions. In the interaction model the environment is defined as market structure, dynamism, internationalization, position in the manufacturing channel and social systems.

Relationships are not necessarily cooperative. They are built for different reasons based on different assumptions about markets (Hedaa, Ritter 2005). And they can be characterized by competition, conflict, control, co-existence, collusion, completion as well as cooperation (Easton 1992, McLoughlin, Horan 2002, Wilkinson, Young 1994). Consequently, different relationships offer different possibilities. E.g.: The power-dependence notion implies a situation in which the maintenance of access to alternative sources of valued resources enhances the relative power of an actor. Conversely, commitment increases mutual dependence and equality of power (Cook, Emerson 1984).

But long-term committed relationships are as much a burden as an asset (Håkansson, Snehota 1998). The development of selected committed relationships demands investment of resources which can be irretrievable for alternative use. It takes time and resources, before the relationship result in satisfactory performance, and especially before the value potential of trust and commitment materializes. Therefore, the value potential of a business relationship is uncertain; to initiate new relationships is a risky investment. Costly adaptations by one party may not be reciprocated with offerings of an equivalent value, or yield the expected results. But when the investment in the creation of a committed business relationship has been made, the alternative of exit may be even more costly or risky, even if the committed relationship does not fulfil all the initial expectations. The committed actor must stay in order to retrieve as much value from his irretrievable relationship investment as possible. So if the investment in a relationship does not result in equivalent value, a two-fold problem occurs: A low rate of interest in terms of value from the investment and the loss of the value potential from an alternative investment of the

irretrievable resources. Thus, long-term committed relationships are not inherently good or bad for business.

It takes time and resources to develop long-term relationships; there is a limit to the number of such committed relationships that an organization can sustain. Therefore, the majority of companies will hold a portfolio of relationships of varying strength and commitment (Blois 1998) which includes commercial as well as non-commercial actors (Singh et al. 2005). This being so, the combination of transactional and relational elements varies among relationships (Blois 2002). These combinations and the relationship characteristics can be analyzed within the framework offered by the interaction model. It enables the inclusion of the relational aspect of long-term committed relationships, without ruling out transactional one-off exchanges.

However, the insight offered by the interaction model is not that business relationships are important. This was recognized in research on distribution channels from an early stage (Easton 1992, Wilkinson 2001), and channel research is predominantly dyadic, focusing on the manufacturer-distributor relationship (Frazier 1999, Gadde, Snehota 2001). What the MAN approach points out is that the development and maintenance of lasting relationships is a way to handle the uncertainty arising from changing partners in heterogeneous and complex settings. This uncertainty is prevailing in many B2B markets. Under such conditions, the development of existing relationships can be an attractive or the only existing alternative to finding new suppliers / buyers. If exit is not an option the only viable solution can be to invest further in a change, a development of an existing relationship. The investment is not necessarily smaller than the one needed for exit and initiation of a new relationship. But it is less uncertain.

4.2 Networks and the ARA model

Caution is necessary when claiming a network approach in a study of market phenomena. Networks can signify:

- the way a single organization structures its interface with other actors
- small groups of actors forming strategic networks
- complex intentionally constructed networks involving a multitude of actors exemplified by the Japanese business tradition

(Achrol 1997, Gulati, Nohria & Zaheer 2000, Jarillo 1988, Möller, Svahn 2003, Stabell, Fjeldstad 1998). In this thesis the term network is applied in a more general sense to signify that:

a “generalized connectedness of business relationships implies existence of an aggregated structure, a form of organization that we have chosen to qualify as a network” (Håkansson, Snehota 1995b p. 19)

This is the conceptualization of networks applied in the ARA model of business networks illustrated below in figure 4.2. The acronym ARA refers to actors, resources and activities as the substance layers of business relationship

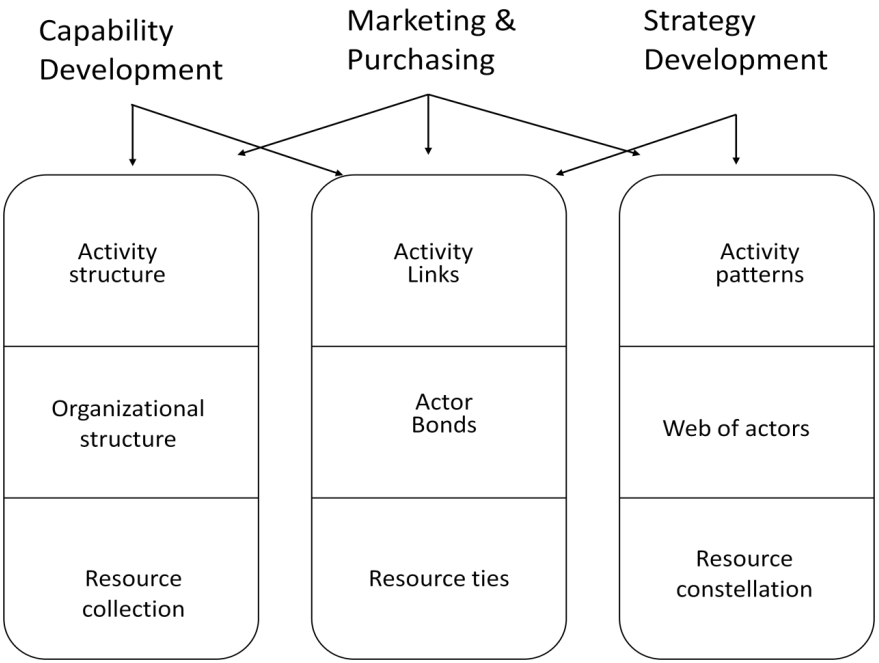


Figure 4.2: The ARA network model (Håkansson & Snehota 1995)

Actors are connected by exchange episodes producing relationships of varying strength, constituting a boundary-less network of direct and indirect relations (Easton 1992). However, the type of networks that IMP scholars study are small, well structured subgroups of identifiable companies (Håkansson, Snehota 1989). Focus is on closely connected actors in committed networks of few actors, not on the study of the general connectedness. This scholarly background is visible in the modelling of networks offered by the ARA network model.

The purpose of the model is to point to a number of issues of importance for the analysis of development effects of relationships, and how to cope with business relationships (Håkansson, Snehota 1995b). So, in spite of the understanding of the networks as general connectedness, the ARA model apparently centres on a limited number of relations through which a focal actor is connected to the network.

The ARA-model illustrates how actors, resources and activities combine into functional and strategic structures via the activity links, actor bonds and resource ties. Three aspects of relationships are illustrated by the model.

1. Capability development: An individual actor in a network depends on the positive and negative effects of his relationships for intra-organizational development (capability development). Advantageous relationships can stimulate productivity, innovativeness and competence development of a focal actor, whereas less advantageous relationships may have prohibitive effects on the capabilities of a focal actor.

2. Marketing and purchasing: The dependence of a focal actor on his relationships is the issue of the marketing and purchasing aspect of the model. It refers to the ability of the actors in a dyad to develop their relationship: To utilize resources and perform activities which none of them would otherwise have been able to accomplish. The marketing and purchasing aspect refers not only to episodic transactions, but also to the long-term potential of the relationship. Actors in a relationship may access the resources of the other party to the relationship, and actors may develop new resources together through resource ties. Such resource ties enable innovation and new activities. Therefore, it is posited that existing relationships are “the most significant resource in what makes a company capable of unique performance” (Håkansson, Snehota 1995b p. 137).

3. Strategy development: Actors are assumed to have more than one relationship. A focal actor depends not only on the individual relationships (the identity of the parties to his relationships), but also on his web of actors. These two aspects define the network position of a focal actor. Strategy development is a matter of monitoring the potential of the existing collection of ties and strategizing for more advantageous network positions offering attractive collections of ties. This is achieved through exit from existing relationships, and initiation of new relationships; i.e. network positioning is a core instrument for strategy development in business networks.

As it is possible to access the resources of other actors through the network, the boundaries of organizations become fuzzy (Easton 1992, Gummesson 1994). The resources needed for specific activities are not exclusively the asset of a focal actor; activities may also depend on the accessibility of other actors' resources (e.g. Dyer, Singh 1998). The legal entity of an organization is not an absolute boundary. This is one of the main points of the MAN approach: That the network of relations enables and constrains the actions of actors, and that actors may be autonomous, but are not independent.

What the ARA model offers compared to the interaction model is a combined simplification and expansion of analysis. The analysis is performed on the basis of the three substance layers of actors, resources and activities. These are replicated as descriptors of the actor, the dyad and the network. This is a simplification compared to the interaction model. But the contents of these layers involve numerous aspects of technology, financial, social, innovative and emotional exchange, which expand the number of possible significant elements. Therefore, the ARA model probably is best suited for the analysis of relationships and processes in small groups; i.e. what goes on in the ties of tightly knitted networks involving a limited number of actors for which it is designed.

The ARA model focuses on the functional contents of the relationships (the resource and activity level) and how this functional element relates to position and positioning (the actor level). (C.f. Johanson, Mattsson 1992 for a discussion of functions as part of positions). It points to the resource and activity potential of relationships as an important part of the value that a relationship adds to the position, and thereby to the strategic platform of an actor. But it comes at a price: The functioning of networks as political organisms defined by power, influence, and trust (Thorelli 1986) is implicit, and the model is too detailed to support the analysis of the value of the position of a specific actor in a wider network structure.

4.3 Exchange, interdependence, and autonomy

The interaction model and the ARA model offer a number of insights of importance for the understanding of what is happening in a tie. This section discusses exchange as a localized phenomenon, and the duality of actor interdependence and actor autonomy.

4.3.1 Exchange as a localized contextual phenomenon

The reciprocal services rendered in a tie are a matter of exchanges, which is a core concept in marketing (Bagozzi 1985, Bagozzi 1975, Pandya 1985). Based on the paradigmatic assumption of interdependence, the interaction model describes exchanges as mutual, or bidirectional activities which involve both actors. The parties to an exchange give and get constellations of value which differ from one another (Blois 2002). These constellations of value include the episodic transactional exchange of products / services, money, information as well as the interpersonal social elements. Over time the parties to an exchange relationship can adapt and institutionalize the services exchanged. Such adaptation and institutionalization signify relational exchange in the interaction model.

Whether a tie is characterized by relational or transactional exchange, partly depends on the environment; dynamism, internationalization, market structure and position in the distribution channel. Close, committed relationships demand high investments of resources, and the number of possible close relationship which an actor can sustain is limited. Therefore, it is more likely that a consolidated market with few buyers and sellers promote relational exchange than a competitive market with many dispersed actors (Easton, Araujo 2003). However, it is important not to confuse relationships and structures in this connection. Relationships may be more or less relational and collaborative, in response to a structure as a way of taking advantage of a specific context. But collaboration or competition is a property of relationships not of systems (Araujo, Mouzas 1997).

As the time invested in a relationship is one of the indicators of tie strength, relationships with high activity levels and frequent interaction should be expected to be strong. But the atmosphere concept of the interaction model indicates that there is no direct link between the activity level, and the strength of the tie in terms of commitment. The atmosphere; power-dependence, cooperation, closeness, and expectations conditions the commitment in a tie. Consequently, a tie which involves frequent exchanges is not automatically a committed bond. Mutuality is a matter of bi-directionality, but it does not indicate symmetry. Mutual ties can be symmetric and display equality of power and dependence, or be asymmetric and display sub- and super-ordination.

The environmental and atmospheric influences on a relationship modify a simplified distinction between a competitive and collaborative coordination mechanism. Competitive markets, power based hierarchies and cooperative relationships may exist in a pure form, but are not necessarily mutually exclusive; i.e. governance modes can include combinations of transaction based, power based or cooperative interaction (Ritter 2007). So, there is no simple one-to-one relation between structure, the configuration of transactional and relational exchange elements, and the applied governance mode. The specific characteristics of an exchange relationship is an expression of the local and contextualized conditions under which the exchange takes place. It is a relative world (Ford, Håkansson 2006a).

4.3.2 Interdependence and autonomy

Neither actors, nor dyads are isolated; they are interrelated and part of a wider network (Håkansson, Snehota 1989). In the ARA model the network structure is analyzed with three distinct, but interrelated perspectives; the actor, resource and activity perspective. The interrelatedness of the perspectives is of importance for the strategizing of a focal actor. In order to cope with relationships, a focal actor must monitor and evaluate a specific dyad in the light of the collection of relationships he has, and the potential offered by an alternative constellation of ties.

Any actor has a limited resource base consisting of his own resource collection, and the resources of other actors which he can access through resource ties. The value of this resource base depends on the value of the activities performed with these resources. This value is assessed as the combined present outcome and future potential of a relationship. Consequently, an actor who considers how to increase the value of his activities through repositioning (finding a new position in the network) must assess the activities he performs (his function or role), his capabilities (resource collection) and the character of his relationship (the actor bonds). All three aspects are elements in an actor's position, and thus of importance for his decision on actions to be taken to preserve a position or to reposition himself (Lutz 2009).

At the same time, the distinction between the actor, the resource and the activity perspective in the ARA model can assist the analysis of the motivational duality for tie formation. There are two distinguishable motives for the formation of closed triads; clustering (resource combination) or countering (value appropriation) (Madhavan, Gnyawali & Jinyu He 2004). This categorization resembles the distinction between cooperative behaviour and strategic cooperativeness in the study of conflict and survival in

triads (Hartman, Phillips & Cole 1976). Both studies point to the possible motivational duality of cooperative behaviour, related either to a functional activity/resource aspect (clustering) or to a strategic actor/position aspect (countering). The distinction and interplay between strategic and functional motives for tie formation are apparent in a number of studies related to network change and strategic positioning, e.g.:

1. The distinction between activity-based connections as network stabilizers and actor-based connections as the source of change in networks (Smith, Laage-Hellman 1992)
2. The distinction between changing activity patterns as adaptation to conditions in the environment and changing activity patterns as actor initiated drivers of change and development processes in distribution channels (Gadde, Hakansson 1992)
3. Interdependence as related to task performance and power as related to the role of members in a channel (Reve, Stern 1979)
4. The distinction between position interrelation as a matter of resource interdependencies in the production system, and position interrelations as a matter of the actors' intentions and interpretations at the network level (Johanson, Mattsson 1992)

These studies of network change and strategic positioning have another common denominator: They all point to the significance of the actors' perceptions, interpretations and actions for the working of a network. Network structures exist as a reality which constrains and facilitates the actions of the involved actors; actors and dyads are interdependent. But networks are not deterministic or self-generating structures. They emerge, stabilize and change as a result of the actors' interpretations of the value potential of the structure, and as a result of the decisions and actions that actors take based on this sense-making. The interpretation of the value potential motivates the decision either to develop existing ties, or to exit from existing ties and create new ones. Thus, the emergence of networks which the MAN approach describes is generated by the interdependent, but also autonomous actors, who take functionally or strategically motivated actions.

Summing up, the interaction model offers concepts for the understanding of the contents of ties as economic exchanges embedded in a social structure. They are mutual, but not necessarily symmetric. They consist of various combinations of episodic transactional exchange and relational exchange. Besides, they depend on the local context, and there is no one-to-one relationship between structure, the configuration of transactional and relational exchange elements, and the applied coordination mechanism and governance mode. The ARA model conceptualizes networks of interrelated actors and dyads on the

basis of three substance layers; actors, resources and activities. These perspectives are interrelated, but distinct. On the one hand the ARA model points to the significance of interdependence for the development of capabilities, for marketing and purchasing, and for strategy development. On the other hand the categorization of actors, resources and activities in three substance layers facilitates a distinction between the structure of interdependent resource ties and activity links and the agency of autonomous actors. This distinction emphasizes that the emergence, stability and change of networks results from the decisions and actions taken by interdependent, but also autonomous actors.

Relationships are not exclusively and necessarily assets and structures may not only facilitate activities. Relationships also entail costs and investments; they are a burden, too, and the structure may constrain activities and value creation. Therefore, the analysis of the content of ties (the activities) can support the understanding of the value potential of a structure. However, activities result from decisions and actions taken by autonomous actors. These decisions and actions can be either functionally motivated (related to resources and activities) or strategically motivated (related to actors and positions). Therefore, motivation apparently is related to the actors' perceptions and interpretations, and guides the decisions and actions which influence the working of the network.

This being so, the review of the literature related to the MAN approach to networks point in the same direction as the review of the SNA literature: The understanding of a structure must include the significance of the actors' motivation for participation. And this motivation apparently is linked to the value potential of a structure. Therefore a further question is phrased:

> **How is the actors' motivation for participation in triadic relationships linked to the value potential of the structure?**

Interpretations and perceptions are elements of the agency of actors. The significance of the agency of actors for the conceptualization of triadic relationships is discussed further in the next chapter.

CHAPTER 5: CONCEPTUALIZING TRIADIC STRUCTURES

The purpose of this chapter is to define the dimensions of triadic structures. This is the first step in the conceptualization of a framework for the analysis of value creation in the supplier-merchant-customer relationships of interest in this study. The chapter is based on the two preceding chapters about the SNA and the MAN approach to networks. Section 5.1 presents and discusses how the SNA the MAN approach define triadic structures. Section 5.2 examines interaction, interconnection and position as three dimensions of triadic structures. Finally, section 5.3 presents the way in which these conceptualizations are applied in a framework for the analysis of triads.

5.1 Defining triadic structures

As pointed out in section 2.2, this study takes the triadic relationship as the unit of analysis and applies a MAN perspective on networks. The SNA approach has been included to shed light on the value potential of a structure. It is possible to combine the two approaches because they share the assumption of interdependence between actors. But the perspectives also differ. The SNA perspective tends to focus on structures as determinants of action, but recognizes that the two precondition each other. In comparison the MAN approach is concerned with interaction in dyads as building block in emerging networks. Focus is on interaction processes, but also takes account of the actors' agency. When combined the two approaches reflect that the triadic relationship emerges from dyadic interaction. But the triadic constellation is also facilitated and constrained by the pre-existing network structure in which it is embedded. The definition and understanding of triadic relationships within the two approaches are discussed in more detail in the following sections 5.1.1 & 5.1.2.

The isolation of triadic relationship represents a spatial separation. However, the triad neither represents the macro level of societies or industries, nor the micro-level of a dyad as the focal unit. It is something between the dyad and the network, and therefore better described as an intermediate level of network analysis. This level has been referred to as the meso-level of network analysis (Mattsson 1997), of which the unit of analysis is the net; a notion which refers to a focal actor and all his relationships (Wilke, Ritter 2006). And this seems to be the best approximation of the level of triadic analysis. The strength of triadic perspective is that it offers maximum potential for simplification of inter-organizational network analysis (Ritter 2000, Smith, Laage-Hellman 1992), and may support generalizations from micro-units to a wider network (Easton, Lundgren 1992).

5.1.1 Social Network Analysis definition of triadic structures

The methodology applied for the analysis of triads[1] in SNA is the triad census which is a set of counts of the different kinds of triadic constellations in an observed network. In social network analysis, a set of three actors is called a triple. A set of three actors and their relationships is called a triad. A triad offers six possible ties as each actor can relate to two other actors, either unilaterally or bilaterally. Each of these six ties may either be present or absent, resulting in 2^6=64 possible states of a triad. The 64 possible states of triads can be reduced to 16 isomorphic types when the labelling of the actors is left out.

This typology of triads is referred to as the MAN labelling (not to be confused with the MAN approach): The number of **M**utual, **A**symmetric and **N**ull dyads in the triad (Wasserman, Faust 1994). Business relationships are expected to be characterized by mutual exchange, therefore studies of business triads are mainly concerned with two specific types; the closed triad with three mutual ties (MAN: 300= 3 mutual, 0 asymmetric, 0 null dyads) and the open triad with two mutual ties (MAN: 201= 2 mutual, 0 asymmetric, 1 null dyad). This type of open and the closed triads in a MAN categorization are illustrated in figure 5.1 below.

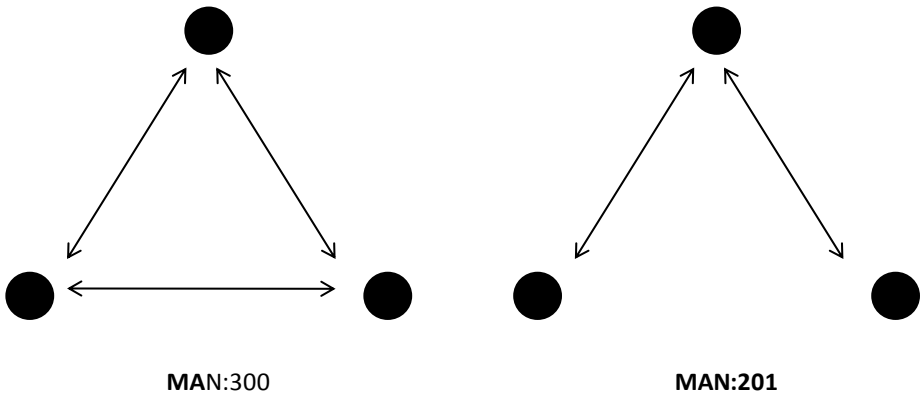


Figure 5.1: The MAN categorization of closed and open triads

[1] As SNA applies the idiom triad in their definition of triadic relationships this is replicated in this section to reflect the terminology applied in this scientific domain

Based on the MAN typology, the triad census can distinguish between and illustrate varieties of triadic patterns. Little attention has been paid to the triad census as an instrument for the analysis of inter-firm networks. But advanced graph analysis of business triads indicates that such analysis can contribute to the understanding of the differing motives behind tie formation in closed business triads (Madhavan, Gnyawali & Jinyu He 2004); see section 4.3.2. Owing to this, the triad census may also have the potential to distinguish between and to analyze the possible differing motives behind open triads. However, graph analysis is founded on the analysis of an expanded set of actors and relationship. Therefore, it is not a relevant method for this study which focuses on qualitative data from a small number of cases.

5.1.2 The Market-as-Networks definition of triadic structures

As pointed out in section 2.2, the predominant approach to triadic relationships in studies which apply the MAN perspective is to regard triadic constellations as a micronetwork; a set of three actors and their relationships. At the same time focus is on dyads as the network unit from which networks emerge. This has resulted in a discussion of the definition of the basic network unit. Is the triadic constellation, the micro-network, the basic unit of network analysis, which offers insights which cannot be achieved in the study of dyads (Choi, Wu 2009a, Choi, Wu 2009b, Ritter 2000, Smith, Laage-Hellman 1992)? Or are triadic relationships exclusively of interest for strategic, managerial analysis, but of no theoretical significance in the theorizing of networks (Dubois 2009)?

The discussion is interesting, because the MAN approach introduces a third element of potential significance for the study of triadic structures: Interconnections. Interconnections refer to contingencies between relationships. How they affect each other. The conceptualization of interconnections as a matter of contingencies is founded on Cook and Emerson's (1978) definition of networks as connected relationships:

> "An exchange network is a set of two or more connected exchange relations. Two exchange relations are connected to the degree that exchange in one relation is contingent upon exchange (or non-exchange) in the other relation" (p. 725)

In the MAN approach studies of interconnection focus on the "specific connections between a company's relationships.....when a given relationship affects or is affected by what is going on in certain other relationships" (Håkansson, Snehota 1995a p. 17). Such studies are concerned with the analysis of the ways in which relationships influence each other, and relate to the surrounding network. Consequently, a framework for the analysis

of triadic structures not only relates to positions and ties as the basic network phenomena. It must also include interconnection as a distinct network phenomenon.

One of the issues related to the introduction of interconnections is the duality of interaction and interconnections. Conceptual papers on business triads point to this duality; whether interconnection is a result of interaction or vice-versa, but they are rare (Ritter 2000, Smith, Laage-Hellman 1992). Studies which apply a triadic MAN perspective are primarily case-studies which collect qualitative data (Andersson, Mattsson 2004, Cunningham, Pyatt 1989, Dubois, Fredriksson 2008, Havila 1996, Holma 2009, Hu, Tsai 2007, Jaaskelainen, Kuivalainen & Saarenketo 2000, Komulainen et al. 2005, Narayandas 2002, Odorici, Corrado 2004, Pardo, Salle 1994, Ronström 2005, Trimarchi 2002, Wu, Choi 2005, Wuyts et al. 2004). They yield rich, localized, and specific empirical data which illustrate that the understanding of the interplay of actors and relationships is enriched, when the unit of analysis is expanded from the dyad to the triad. But they do not offer conceptualizations of the interplay of interaction and interconnection.

Summing up, the SNA definition of triads enables the collection and analysis of quantitative data about networks and triads, based on a categorization of ties as mutual, asymmetric or null. The method results the mapping and analysis of structures of actors and relationships, but it cannot include qualitative aspects, such as the contents of ties in terms of activities. However, advanced graph analysis has been applied in a study of motives behind tie formation. The MAN approach inspires the collection and analysis of qualitative data. When combined with a triadic perspective it results in enrichment of the analysis and increased understanding of the interplay of actors and relationships. Moreover, the MAN approach introduces interconnection as a third element in triadic structures, but offers few conceptualizations of triadic relationships as structures including three elements; interaction, interconnection and position. The conceptualization of triadic relationships as structures which include all three elements is the purpose of the following section.

5.2 Interaction, interconnection and position

This section examines interaction, interconnection and position as the three key constructs to be applied in the conceptualization of a framework for the study of processes in triadic structures. This framework is presented in the following section 5.3.

5.2.1 Interaction

To interact means to act or to have an effect on each other. Consequently, the existence of a tie is an indication of interaction. The study of relationships is a study of interaction. And based on SNA and MAN it is possible to describe relationships in various ways:

- A relationship can be bidirectional (=mutual, the default in business relationships) or unidirectional, symmetric (= equality of power) or not, strong (instrumental for knowledge integration) or weak (instrumental for search of information)
- The content of a relationship is the interaction which takes place; the exchange and development of valuables
- Exchanges consist of varying combinations of relational and transactional exchange, depending on the duration of the relationship. Relational exchange in terms of adaptation and institutionalization demands time
- Relationships can be assets which facilitate innovation and value creation, or a liability which constrains alternative routes of action
- The relationship atmosphere is characterized in terms of power/dependence, cooperation, closeness and expectations
- Relationships can be characterized by conflict, co-existence, cooperation, collusion, or conflict
- The governance mode applied can be transaction based, power based or cooperative or any combination of these modes

These constructs create a rich foundation for the analysis of the processes which take place in the relationship between two actors. Interaction is a process which facilitates the exchange of valuables between two actors in a relationship, and these processes are conditioned by the characteristics of the relationship. The interaction in relationships creates a functional interrelation between actors. Their resources and activities combine into a functional interdependence. Thus, interdependence is related to dyadic interaction.

5.2.2 Interconnection

Interconnection refers to the ways in which relationships affect each other. Based on the analysis of ties, SNA offers structural concepts; structural holes, autonomy and closure which assist the analysis of the outcome of a structure or network. But SNA does not include interconnection as a distinct element of networks. The MAN approach is observant to the existence of interconnections, but the conceptualization of interconnections is not well developed.

The general approach to the study of interconnections is that interaction conditions interconnections. An alternative approach is to argue that interconnection preconditions interaction (Ritter 2000). This thesis takes the approach that interaction and interconnection are mutually constituting constructs. This is detectable in the analysis of the time dimension which is significant for the definition of the two concepts as either the independent or the dependent variable. Interconnection in a specific triad at a given point in time:

- Is affected by prior episodes and relationships preceding the present interaction
- Conditions the present interaction
- Is affected by the present interaction, which potentially may change the future constellation of interconnections

Being so, the inclusion of the time dimension in the discussion illustrates that interaction influences interconnection and vice-versa.

Ritter (2000) describes constellations of interconnections as interconnectedness. He develops a typology which consists of ten different types of interconnectedness applicable for three party constellations which he defines as triads. These types illustrate that “An inter-organizational relationship can hinder, weaken, strengthen or enforce another relationship” (ibid p. 321). The concept is built on three possible effects of interconnection: a positive, a negative or a zero influence. The typology for constellations of three actors and three relationships is of specific interest for this study. Four types of interconnectedness are described for such constellations.

- Unitary neutrality effect – no effect of interconnections
- Initiation effect – one actor has relationship with two others and initiates direct contact between these two actors
- By-pass effect – one of the actors is isolated or left out by two others
- Hierarchy effect – one of the actors is able to exclude another one from direct interaction with the third actor

The application of the term "effect", for the description of various constellations of interconnections, signals that the interconnectedness is not a result of interaction, but influence the context for interaction.

Smith and Laage-Hellman (1992) focus differently. The issue of their study is the transformation patterns resulting from interaction. Their patterns of transformation are easy to identify, and therefore instrumental for an empirical analysis. The typology consists of the following patterns:

- Avoidance } two versions of by-pass
- Flanking
- Combination
- Bridging
- Displacement
- Separation } two versions of separation
- Blocking

Figure 5.2: Categorization of transformation patterns (Smith, Laage-Hellman 1992)

Avoidance and flanking are two versions of the by-passing of middlemen, whereas combination and bridging are two versions of bridging activities performed by a middleman (the tertius iungens). Displacement refers to a situation in which one actor substitutes another one in the tie to a third partner. Finally, separation and blocking are concepts which describe how a direct relationship between two parties can be substituted by a brokering relationship (the tertius gaudens).

Smith and Laage-Hellman (1992) and Ritter (2000) differ in two substantial ways: Their applicability to closed triadic structures, and their conceptualization of the interplay of interconnection and interaction. Ritter (2000) offers typologies for the interconnectedness of two relationships, illustrated by an open triadic structure and for the interconnectedness of three relationships illustrated by a closed triadic structure. In comparison the concepts offered by Smith and Laage-Hellman (1992) all relate to varieties of open triadic structures. They illustrate transitional steps and offer a terminology for the description of the closure of open triadic structures and the change of direct ties into indirect ties. Moreover, Ritter (2000) approaches the study by focusing on the ways in which interconnection influences interaction, whereas Smith and Laage-Hellman (1992) approach the study from the opposite perspective: that interaction results in interconnection.

Interconnections describe something acting between relationships; the effect of one or more relationship on other relationships. Constellations of interconnection create various patterns of interconnectedness. These patterns are influenced by former interaction and influence future interaction. The two phenomena are separate and distinct, but mutually constitute each other. However, neither Ritter (2000), nor Smith and Laage-Hellman (1992) explains how interconnections can have the described effect. The conceptualization of interconnections as a matter of the ways in which relations affect each other implicitly indicates that ties have agency, which is not the case. They may be interdependent, due to activity links and resource ties, but ties have no agency, only actors have. Agency is a matter of intent, purpose, motives, interpretations and actions.

The phrasing in Ritter (2000) and Smith and Laage-Hellman (1992) points to the importance of the motivation for a specific constellation of interconnections. Specific constellations of interconnections have effects; e.g. initiation effects, or by-pass effects, implying that somebody initiates something or by-pass someone. And the application of terms like avoidance and flanking indicates that someone has intent of escaping the involvement of an actor. The interconnectedness of a structure is a result of motivated action. Interconnections are not structural phenomena. They represent the actors'

interpretation of constellations of interconnection and their resulting motivated actions. Interconnectedness resides in the minds of the actors; it is an actor perceived phenomenon.

5.2.3 Positions

The position has a double function. It is the connector of objective interrelations. SNA offers specific constructs for the analysis of objective interrelations in a structure, i.e. centrality, status, and prominence, see section 3.1.2; i.e. The MAN perspective is contextual and localized and focus on resource ties and activity links, which originate in interaction processes (the industrial logic), but it also includes the identity of the partners. At the same time, the position is of subjective nature. Actors, their intentions and interpretations are situated in the position (Johanson, Mattsson 1992). It is the locus of agency.

The duality of position can be spelled out in more details by distinguishing between position and role (Anderson et al. 1998). 1) Position embraces the expected activities 2) Role describes actors' intentions, their sense-making of a present situation, and how they want to change it. The actors' interpretations of their own and the other actors' positions and roles are primary determinants of their subsequent activities. In order to understand activities, the sense-making must be analyzed.

This implies that the activities we can observe and the emerging structures are results of the combined objective and subjective dimension of position. On the one hand, the position determines the potential resource access offered by a collection of ties (the objective dimension). The resources access facilitates and constrains the activities of a focal actor. On the other hand, position is the locus of the actor and his agency. Interaction processes depend on how the actors perceive and make sense of the network, and how they enact their sense-making in action (Melin 1989). In other words: The interaction process materializes the sense-making.

This sense-making is referred to as the network theory (Johanson, Mattsson 1992), or network pictures (Henneberg, Mouzas & Naudé 2006). Network pictures are significant for strategic action. Strategic action is constrained and facilitated by the market structure and strategic actions by others. The ability to perceive these actions, and subsequently interpret them and react on them, depends on the network horizon; i.e. an organization's evaluation of the relevance of close and more distant change processes for its own actions (Andersson, Mattsson 2004). This being so, network position is the structural element which links exchange and value creating activities in relationships with the actors'

strategizing. And network positioning is the process which merges strategizing and value creation into one process; it is a matter of creating an advantageous platform to reap future value potentials. Therefore, network positioning is of crucial strategic significance, but it is not a key construct in the strategy literature (Baraldi et al. 2007).

This double nature of position as 1) the point of connection between objective resource and activity interdependencies, and 2) the centre for subjective sense-making and motivation is a key element for the understanding of network dynamics and must be included in a framework for the analysis of triadic relationships.

Summing up, it is possible to distinguish between three dimensions of triadic structures; interaction, interconnections and positions. Interaction is a well researched phenomenon and a number of well-defined constructs are available for the description. Position is also a well defined dimension of networks. SNA offers generalized constructs for the description of positions, whereas the MAN approach offers a dual perspective which includes objective structural interrelations of resources and activities, but also point to the position as the locus of agency. Interconnections are not well researched, and the present conceptualizations focus on the effects of interconnections, not how they can have the described effect. As relationships have no agency they cannot influence and affect each other directly. Consequently, interconnections are an actor perceived phenomenon. In order to understand a constellation of interconnections, we must analyze the motivation for the actors' participation.

The analysis of the dimensions of triadic structures, interconnections, and interconnectedness in particular leads to the following research question:

> **How to conceptualize actor perceived interconnections in a way which reflect the significance of actor motivation for the understanding of the value potential of a triadic relationship?**

This phrasing synthesizes the two questions resulting from the review of the SNA and the MAN approach to business networks.

5.3 A framework for the analysis of triadic structures

The triangle is the basic structure applied in the modelling of the framework for the analysis of triadic structures (figure 5.3 on the following page). The framework includes a functional dimension of triads (interaction process), a structural dimension of triads

(perceived structural interconnection) and the actor dimension, which connects relationships and exercises agency (position).

The straight lines which create the outer frame of the triangle represent the dyadic interactions between intentional actors. The strength of the ties between the actors can be illustrated by the width of the lines. In business triads, ties are assumed to be mutual, but ties which are not mutual can be indicated by the removal of the arrow in one end of the line. Open triadic structures are illustrated by the removal of one of the straight lines. Interconnections are plotted as curved lines in the triangle and can be further refined by adding value (0/-/+). The circles represent the position of actors.

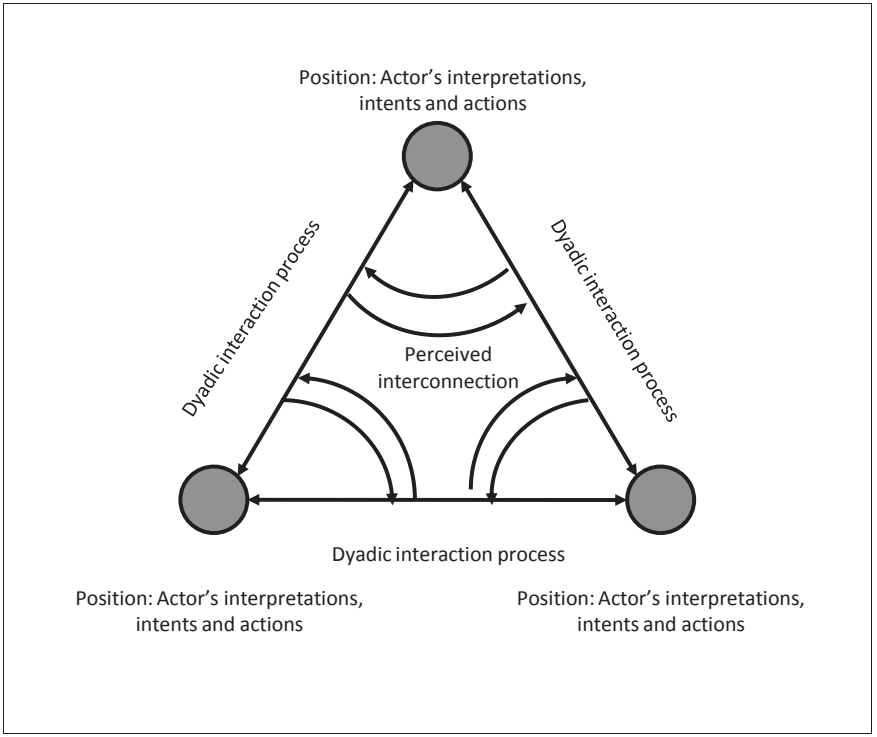


Figure 5.3:The basic structure of a triadic network

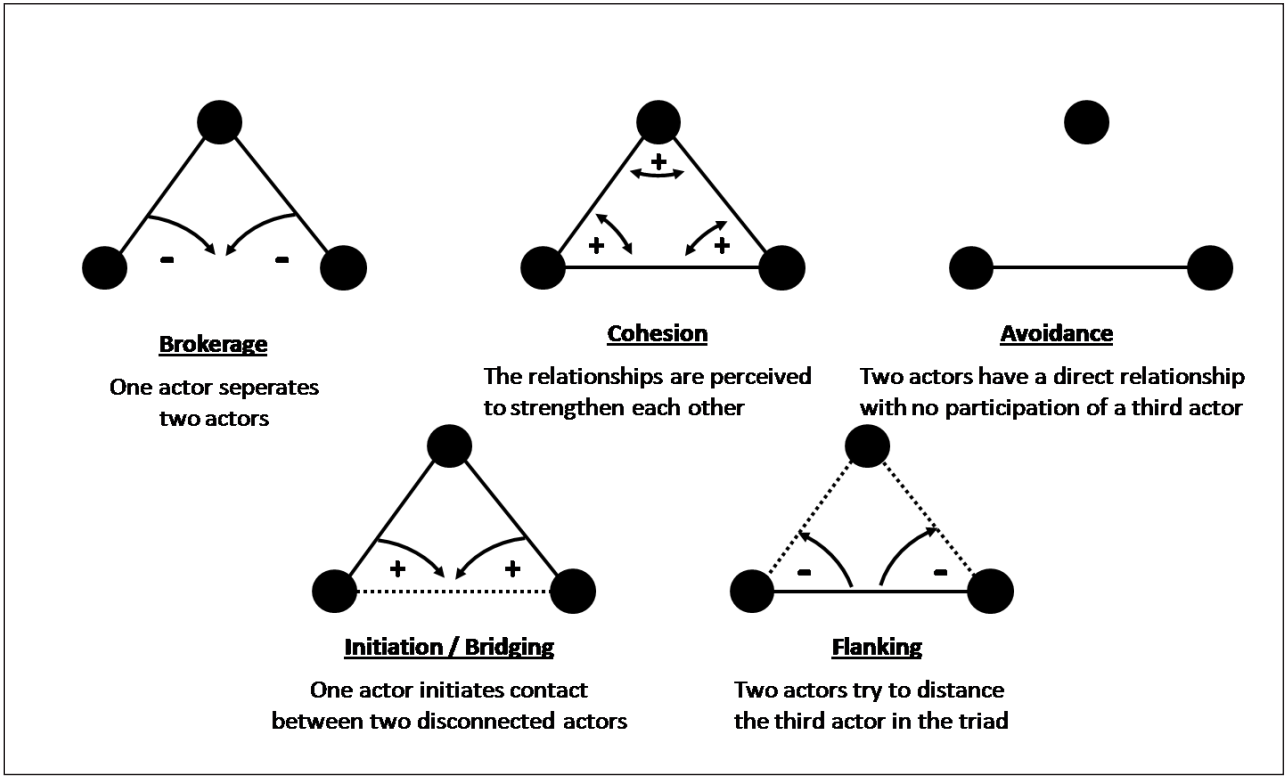
Triadic structures are intriguing phenomena. Positions and ties combine into a network; a structural phenomenon. At the same time they differ because positions are the property of actors; the only element which possesses agency. So the position and the tie represent interplay of structure and agency. Moreover, the content of ties is interaction, a process. These processes depend on actions (agency); thus, the triad also illustrates interplay of process and agency. Finally, the activities performed in ties influence the actors' perception of the interconnections between relationships; interplay of process and perceived structural interconnection. The arguments tend to be circular. However, structure cannot act on its own, although structure facilitates and constrains action. This is a core tenet of the above framework.

The framework is general; i.e. it can be applied for the study of various processes in different types of three actor relationships. It is applicable for open triadic as well as closed triadic constellations. It can be applied for other constellations, e.g. two suppliers and a buyer, and for other processes, e.g. innovation. The issue under study will influence how the framework is contextualized for a specific local context. As pointed out in section 5.2.1 numerous detailed constructs are available for the description and categorization of interaction in relationships. And section 3.2.1 offers a SNA categorization for the description of positions. But the inclusion of interconnections in the framework demands a way to categorize different constellations of interconnections.

On the basis of the semantic meaning of intermediation and the definition of interconnections, I conceptualize constellations of interconnections as patterns of intermediation. An intermediary is somebody or *something* acting between others (Oxford English Dictionary), and what an intermediary do, is intermediation. Interconnections are also acting between something; actors and their relationships. Thus, constellations of interconnections illustrate various patterns of intermediation. Figure 5.4 on the following page illustrates five basic patterns of intermediation in a continuum which may include a number of other patterns. The five patterns are defined as:

- Brokerage
- Initiation / bridging
- Mutually strengthening (cohesion)
- Flanking
- Avoidance

Figure 5.4 : Patterns of intermediation as indicators of interconnections



The brokerage pattern corresponds to Ritter's (2000) hierarchy effect and resembles the separation and blocking concept in Smith and Laage-Hellman's (1992) conceptualization. The initiation pattern reproduces Ritter's (2000) initiation effect, and the combination and bridging patterns in Smith and Laage-Hellman's (1992) conceptualization. The mutual strengthening is a variation of the initiation effect which describes collaborative cohesion between all three relationships. Flanking is a variation of Ritter's (2000) by-pass effect and Smith and Laage-Hellman's (1992) flanking construct. Finally, avoidance is a replication of Smith and Laage-Hellman's (1992) concept. Displacement has been excluded from the continuum as the inclusion of a fourth actor transgresses the limits of a triadic structure, defined as three actors and their relationships. The patterns of intermediation are general, and can be applied for various constellations of three actors indiscriminate of their identity and the processes which take place among them.

As pointed out in section 5.2.2, interconnection as an actor perceived phenomenon reflects the actors' agency, and consequently their motivation, too. This is captured in the patterns of intermediation, which categorize different constellations of interconnections, which are differently motivated. But the link between their motivated action and how these actions facilitate access to the value potential of the triadic structure is not explicit. The conceptualization of a continuum of patterns of intermediation only offers a partial answer to the question: How can actor perceived interconnections be conceptualized in a way which reflect the significance of actor motivation for the understanding of value potential of a triadic relationship? Consequently, the second part of this question must be further refined and phrased as follows:

> **What is the link between the value potential of a triadic relationship and the actors' motivation for participation?**

CHAPTER 6: VALUE AND VALUE CREATION

This chapter and the following chapter 7 examine conceptualizations of value and value creation of relevance for a study of B2B value creation. The purpose is to be able to define value functions for each of the three elements of triadic analysis: Interaction, interconnection, and position and to specify indicators of these functions. These functions and indicators are used to set up a framework for the analysis of value creation in business triads which is presented in chapter 8.

Value is claimed to be the most addressed topic in B2B marketing (Komulainen et al. 2005). Research on value and value creation is multi-faceted and diverse (de Chernatony, Harris & Riley 2000, Payne, Holt 2001), but it is also fragmented, and the distinction between different types of value is blurred (Payne, Holt 2001). One of the primary characteristic of B2B studies of value is the focus on value as a mutual creation process, and the consequent relational aspects of value creation (Vargo, Lusch 2008). However, the evaluation process which attributes value to objects, persons and actions (Jackendoff 2006), is a relative, abstract, mental construct (Dolfsma 1997). Therefore, business conceptualization of customer perceived value (e.g. Ravald, Grönroos 1996) cannot be dismantled from values and value systems.

The analysis of customer value in section 6.1 illustrates the links between business concepts of value, personal values, value systems and evaluation. Section 6.2 examines value as a creation process, and section 6.3 centres specifically on conceptualizations of B2B value. Section 6.3 points out that the value of an offering lies in the specific constellation of valuable elements. Consequently, value studies must be grounded in the specific localized context. The purpose of the following chapter 7 which examines intermediation functions is to specify indicators of activities of significance for value creation in the context of intermediated triadic business relationships.

6.1 Customer value

This section departs from the concept of customer value which is a core concept in value studies. Customer value is applied both to signify the value of a customer for a firm (Palmatier 2008), and the value of an offering as perceived and evaluated by a customer (Woodruff 1997). The latter perspective is the one applied in this section. This choice is grounded in the empirical context which inspired the study (see section 2.4).

Woodruff's (1997) much cited definition of customer value illustrates the complexity of customer value:

> "Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations" (p. 142)

Defined this way, customer value includes elements of perceived value (the trade-off between price and quality), as well as desired values (related to attributes, use consequences and possession value). At the same time, it refers to values through the concept of evaluation. It embraces the full spectre of an individual's value system from the centrally held values to the peripheral dimension of product attribute evaluation (Vinson, Scott & Lamont 1977). The purpose of the chapter is to make a distinction between these elements and relate them to customer value. Figure 6.1 below presents an overview of the section.

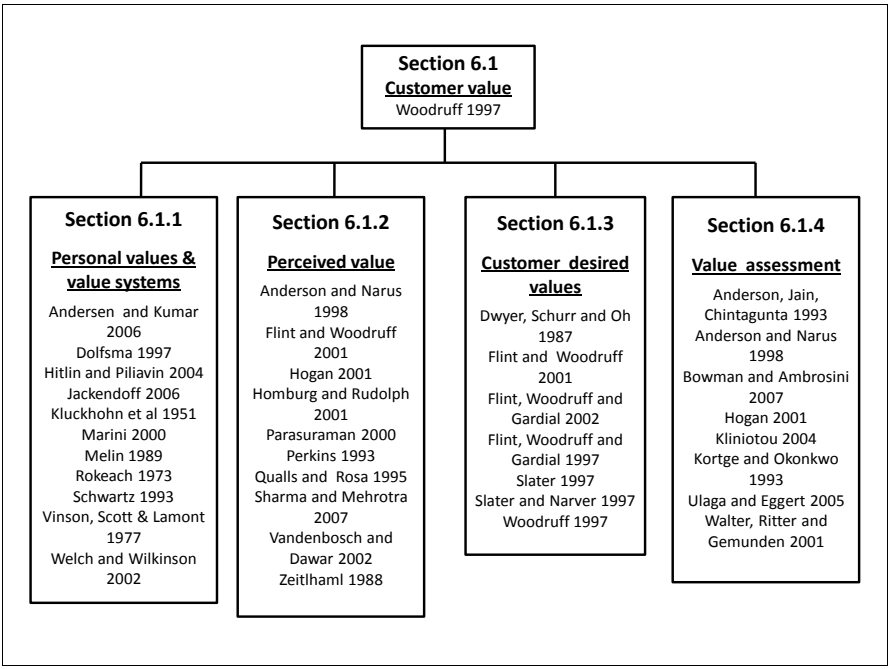


Figure 6.1: The relations between the concept of customer value and other value conceptualizations

6.1.1 Personal values and value systems

Value is conceptualized differently in anthropology, sociology and psychology. These disciplines centre respectively on life styles and culture, ideologies and customs, and attitudes and personal motives. These dimensions can all be categorized as personal values (Vinson, Scott & Lamont 1977). A starting point for a study of B2B value creation is to distinguish between personal values and business related conceptualizations of value.

In their review of research on values Hitlin and Piliavin (2004) map out various conceptualizations of values originating in culture studies, sociology and psychology and point to two different approaches to personal values. One emphasizes action (Kluckhohn, et al 1951), the other focuses on meaning (Rokeach 1973). Moreover, personal values include both cognitive and affective elements (Marini 2000). Personal values are relatively stable across the life course after being shaped through late adolescence, but they are not static. They may change gradually over time, under the influence of life conditions, education and experience (Hitlin, Piliavin 2004).

Personal values constitute the basis of the value system which is applied for evaluation. Evaluation operates as an abstract internal calculation system; the process by which value is attributed to objects, persons and actions (Jackendoff 2006). Values form the foundation of the value system. They are socially instituted, and under influence of normative pressure from the social environment. This has two consequences: 1) Evaluation is a relative mental and social construct (Dolfsma 1997). 2) It is difficult to dismantle personal values from marketing conceptualizations of value. Evaluation in a business setting is affected by personal values as evaluation at all levels is done by individuals. This evaluation is neither absolute nor objective.

At the organizational level, the personal value system of individuals is not the only foundation for evaluation, however. Organizations have schemas; systems of ideas and values which guide action on the basis of sense-making. Organizational schemas are coupled through interaction to a configuration of schema which is an expression of the logics prevailing in a network or industry (Welch, Wilkinson 2002). These patterns, logics or cultures which guide sense-making and behaviour are built in a bottom-up process of communication among the individuals in an organization. At the inter-organizational level this sense-making is enacted in terms of behaviour, actions and decisions (Melin 1989).

The important implications for this study are that:

- evaluation operates at the level of individuals, institutions and entire societies (Schwartz 1993)
- evaluation is guided by value systems founded on values (Jackendoff 2006)
- values have both cognitive and affective dimensions (Marini 2000) of importance for understanding value in a business context (Andersen, Kumar 2006)

6.1.2 Perceived value

Customer value is closely linked to the concept of perceived value. Perceived value is more than just a matter of extrinsic, physical and measurable attributes, it also refers to abstract intrinsic attributes. It is defined as a trade-off between give and get components; price and quality (Zeithaml 1988)

Studies of customer satisfaction which are closely linked to perceived value through the common concept of quality illustrate the multi-dimensionality of quality as an aggregate of product and service-related factors (e.g. Homburg, Rudolph 2001, Perkins 1993, Qualls, Rosa 1995).

In addition perceived value is influenced by

- expectations (Flint, Woodruff 2001)
- comparison with alternatives (Sharma, Mehrotra 2007)
- the life-cycle net benefits (Parasuraman 2000)
- the customer evaluation of the supplier's offering in terms of cost versus risk (Vandenbosch, Dawar 2002)

This implies that value is a perceived future and therefore insecure outcome, but the insecurity is reduced if the actors have experience with each other and the assignment (Hogan 2001). Being so, customer perceived value can include not only the transactional aspects of product and service, but also the relational elements of exchange. But it demands that the definition of give and get components is conceptualized to support the inclusion of relational elements as part of the quality received.

6.1.3 Customer desired values

The concept of desired values is not as abstract or centrally held as personal values, but it is more than just attributes. It also includes 'the consequences, positive and negative, monetary and non-monetary that the customer wants to have happen' (Flint, Woodruff 2001 p. 323). In research on customer desired value changes, desired values and perceived value successfully have been separated without getting entangled with the difficulties of exploring the field of personal values (Flint, Woodruff 2001, Flint, Woodruff & Gardial 2002, Flint, Woodruff & Gardial 1997, Woodruff 1997).

These studies focus on the difference between:

- customer perceived value as a trade-off between all relevant benefits and sacrifices not only price and quality
- desired values as the accomplishment of a desired purpose in a specific use situation with the help of a product or service

Desired values are under influence of the customer's internal and external context, and therefore include an affective dimension, too. Changes in customer desired value can be a result of emotional tension. This tension can be offset by changing the offering in a way which solves the problem that causes the feeling of tension. This is achieved by changing the constellation of benefits and sacrifices (Flint, Woodruff & Gardial 2002). The essential contribution from the studies of customer desired value changes is twofold. They illustrate that personal values, desired values and perceived value are part of an overall individual value system and they designate ways to counter changes in customer desired value.

The ability to fulfil customer desired values demands that the supplier is in dialogue with and knows the customer; otherwise such changes are difficult to register. To be market orientation a firm must be able to deliver superior customer value, and in order to be able to do so, it is necessary to know what the customer desires, and this requires dialogue. This is how strategic advantage is created. (Slater 1997, Slater, Narver 1994, Woodruff 1997). But in these studies the dialogue tends to be conceived of as a necessary tool to diagnose desired values. It does not include the personal, non-economic satisfaction derived by the participants from social exchange (Dwyer, Schurr & Oh 1987).

6.1.4 Value assessment

One of the challenges related to the concept of value is how to assess value in a business context. There are two ways to counter this challenge:

1. To attempt a recalculation of a mental, abstract and relative construct in monetary units. This is the daily challenge faced by business practitioners, and the subject of scholarly analysis, too (Anderson, Jain & Chintagunta 1993, Anderson, Narus 1998, Hogan 2001)
2. To apply a non-monetary classification

The non-monetary approach is applicable for theoretical analysis of value and value creation. But a non-monetary approach depends on a conceptualization of value which facilitates this approach. This is evident when comparing two different definitions of value applied in scholarly studies of value assessment:

1. Value as a trade-off between benefits and sacrifices on the one hand and price on the other hand;
   Value=net benefits-price (Anderson,Jain, Chintagunta 1993)

2. Value as one of two separate elements of a market offering
   Market offering=value-price (Anderson, Narus 1998)

Definitions which conceptualize value as a trade-off between net benefits and price are difficult to apply for non-monetary value assessment, because value is a composite of two elements, of which one is expressed in monetary terms, and the other needs recalculation for the equation to be applicable. Moreover, this definition does not reflect the full potential of a product or service, but the differential between the monetary worth and the price, which is an expression of the incentive to buy (Anderson, Jain & Chintagunta 1993).

These problems are overcome when value is defined as one of two separate elements in a market offering. This definition of value offers several insights:

- Value can refer to the total potential of the offering, not only the differential value in monetary terms
- It is not possible to increase the value by lowering the price, as these two elements are separate dimensions of the market offering
- The monetary value/price ratio is the incentive of the offering
- Comparison with competitors is not just a matter of price, but a matter of the value/ price ratio.

Thus Anderson and Narus' (1998) definition of market offerings, developed for the monetary assessment of market offerings, facilitates a non-monetary approach to value. The definition of the market offering as a trade-off between value and price transforms value from a composite construct to a basic construct. Value can be recalculated in monetary terms, but does not demand such recalculation. And this is how value is approached in many studies of value which apply various relative non-monetary scales to assess value (e.g. Kliniotou 2004, Ulaga, Eggert 2005, Walter, Ritter & Gemünden 2001).

The definition of value as part of a market offering simplifies scholarly studies, as the monetary recalculation is optional, but not necessary. In contrast, it adds complexity to managerial value assessment. In order to be able to calculate the market offering in monetary terms, a supplier has to be able to explicate not only the cost he incurs, but also the potential of his offering in monetary terms for a specific customer. This precondition points toward the importance of relationships; in this case as a basis for achieving access to information, which allows such calculations. Under the right circumstances such calculations may result in the inclusion of the monetary value of the supplier's intangible resource input which is otherwise difficult to assess (Bowman, Ambrosini 2007). Such calculations can support the pricing of offerings. If a price is to be perceived as fair by both parties to an exchange, it has to reflect not only the cost incurred by the supplier, but also the potential value of the offering for a specific customer, and balance these two dimensions of price (Kortge, Okonkwo 1993).

Summing up, customer value is a complex construct which:

- Is guided by value systems founded on values which include cognitive and affective dimensions
- Includes elements which are difficult to recalculate in monetary terms
- Depends on the customer's perception and evaluation
- Relates the attributes of an offering to the consequences in use situations as element of customer desired values

The review of the literature related to the construct offers a number of insights of relevance for a study of B2B value. Value refers to the total potential of an offering, not to the differential between a calculated monetary worth and the price. Evaluation is the process which attributes value to objects, persons and actions. In business this process is not based on personal values alone, but on organizational ideas and values, too. But evaluation is an abstract internal calculation system which is difficult to access and study

directly. Therefore, a study of business value must seek other indirect ways to access information on value.

One way is to focus on the product and services included in the offering, and the activities performed as indicators of value. They are performed because they are attributed some sort of value. Activities are performed as part of the interaction process, and therefore have the potential to inform our understanding of the value of interaction. And as interaction and interconnection mutually constitute each other, focus on activities may have a spill-over effect which can support the conceptualization of the value function related to intermediation patterns.

Studies of perceived value indicate another or supplementary solution. Perceived value is a trade-off between the give and get constellations related to all intrinsic and extrinsic benefits and sacrifices. But as pointed out in the definition of customer desired value the evaluation also depends on the extent to which the trade-off results in the accomplishment of a desired purpose. This result is not necessarily a matter of instant gratification alone, but may materialize over time. Therefore, value is an insecure, future outcome, of which the uncertainty is reduced if the parties to the exchange know each other: In other words, if they have established a relationship. The existence of relationships matters for the value which a customer perceives. Relationships are an integrated part of the interaction and therefore can inform the value of interaction. And once again there may be a spill-over effect to the conception of a value function of interconnection.

In a MAN perspective relationships result from repeated episodic exchanges over time. As this study is not longitudinal there is no way to study relationships as continuous processes. However, it is possible to ask respondents to describe and asses their relationships with the other parties to the triadic relationship. In this way it is possible to get data approximations on the value attributed to relationships. When information of activities (behaviour) and descriptions and assessments of relationship are combined they support the understanding of how the actors perceive the value of the triadic constellation of relationships. The significance of activities and relationships for the understanding of value is also an issue in the following sections, which unfold these subjects further.

6.2 Value creation

Studies of value creation focus on value as the result of a process involving at least two parties. This change of focus from value as output to value as a creation process is one of the tenets of the recently developed service dominant logic (S-D logic) (Vargo, Lusch 2008, Vargo, Lusch 2004). The approach proposes a shift of focus in the conceptualization of exchange from products and services to processes. One of the consequences of shifting focus from output to process is the realization that value creating processes are not unidirectional.

This bi-directional process is a core feature of the interaction model which points towards co-operation, adaptation and institutionalization as indicators of mutual value creation. It redirects the attention from the offering as evaluated by the customer, to the interaction as a value creating process. This process consists of exchanges of which some are discrete and transactional, while others are relational and founded on a continuous interaction (Blois 2002). Therefore, value cannot be a 'pre-fabricated package of resources and features that is ready to be exchanged' (Grönroos 1997 p. 413).

To regard value creation as a mutual process also redirects the centre of attention from the output of products and services towards the input of competences or knowledge (Vargo, Lusch 2004). Knowledge is an important part of what is exchanged during the dynamic creation process. These processes from which products and services emerge consist of activities to which the buyer and the seller bring their independent contributions. In the execution of these activities, the joint contribution to value is created (Bolton et al. 2004, Normann, Ramírez 1993). In future-oriented co-operations of high relational complexity, the buyer's value creation depends more on the supplier's problem-solving and network capabilities than his ability to deliver products and services (Hedaa, Ritter 2005, Möller 2006, Ritter, Gemünden 2003).

When the value element of the perceived value equation no longer depends exclusively on an output, but on a process, too, it has implications for the understanding of the offering. It involves the activities of multiple actors, and therefore the offering may be regarded as the "boundary where actors come together to co-produce value" (Normann, Ramírez 1994 p. 54). Under these circumstances it is claimed that value is not added, but re-invented (Normann, Ramírez 1993). However, an offering is of no value if the customer does not decide to involve himself and take advantage of it, by investing the resources and activities needed. Value is not served readymade; the customer has to extract the potential value of

the offering, and create value for himself (Frels, Shervani & Srivastava 2003, Hearn, Pace 2006, Normann, Ramírez 1993).

This is why the concept of offering is rephrased to a proposition (Cova, Salle 2008). The partners bring their potential to create value to the network; not a preconceived value. It is the joint process which alters propositions to valuable offerings. Therefore, it is possible to see both parties to the interaction as actors making propositions to each other. Both the buyer and the seller offer a combination of price and value. The change from an output to a process orientation of value studies also entails a change in the understanding of mutuality or bi-directionality of business exchange. It is more than a unidirectional delivery of value in exchange for unidirectional payment. Both parties are involved in the creation of value and receive an output of value. And they depend on their nets or networks for the necessary inputs to the joint creation of value (Cova, Salle 2008).

However, not all relationship are close and committed, and an actor may decide only to engage in a few such relations and take a more distanced and transactional approach to others (Bolton et al. 2004), depending on the circumstances and context of the relationship (Grönroos 1997, Wilson 1995). Thus, the bi-directional joint value co-creation is a possibility, a potential and raison d'être in collaborative relationships (Anderson 1995), but not necessarily a norm in all exchanges.

When value is conceptualized as a bidirectional process it has a number of consequences. The significance of activities for the understanding of the value creation process is one; activities are indicators of the process. Another consequence is that both parties to an exchange extract value, and that the give and get constellations both parties include elements of money and value. Money and value is given and received. This has significant bearings on any study of value creation. Even if focus is on the value for a customer, there is a constant undercurrent which goes in the opposite direction. Thus, a triadic relationship does not reflect the advantages or value potential of the structure for the customer alone. It is an expression of the combined interests of the involved parties. The structure is a negotiated or emerging phenomenon, which reflects that all parties must find that the value potential of the structure offers sufficient gratification or satisfaction: That there is no better alternative for any of the involved parties in spite of possible costs or burdens. Otherwise, the structure cannot persevere. Therefore a study of the value potential of interaction, interconnection and position in a triadic structure demands the collection of data from all three parties.

6.3 Value in a B2B context

Interaction in relationships is a key element in the B2B conceptualization of value. This section centres on two elements of B2B value studies; customer perceived value (section 6.3.1) and value dimensions (section 6.3.2).

6.3.1 Customer perceived value in B2B studies

In B2B value studies the key concept is customer perceived value. The concept is defined and researched in terms of benefits and sacrifices (e.g. Lapierre 2000, Menon, Homburg & Beutin 2005, Ulaga, Chacour 2001, Wilson, Jantrania 1994). Ravald and Grönroos (1996) offer a generalized definition of customer perceived value:

$$\text{Customer perceived value} = \frac{\text{Perceived benefits}}{\text{Perceived sacrifices}}$$

Figure 6.2 Customer perceived value defined as the benefits/sacrifice ratio (Ravald, Grönroos 1996 p. 21)

The generalized approach in figure 6.2 counters the problem of monetary recalculation of value, discussed in section 6.1.4, and facilitates a theoretical analysis of value. Compared to the definition of customer value this construct apparently is simpler. However, the underlying B2B value dimensions examined in the following section illustrate that this is not the case.

A definition of customer perceived value as the ratio of perceived benefits and sacrifices is very inclusive. It can include all possible elements that a customer judges as either beneficial or sacrificial, including the desired outcome. The evaluation depends on values and value systems, personal as well as organizational. In that respect, customer perceived value is comparable with customer value discussed in section 6.1. But B2B value studies include and discuss the relational aspect of value in much more details. One of the significant relational issues in a B2B context is switching costs. Switching costs are related to the heterogeneity of supply and demand which requires investments in adaptation and institutionalization often by customers as well as suppliers. Thus, investments in one relationship may be irretrievable and without value in other relationships (section 4.1).

Ravald and Grönroos (1996) explains how episodes and relationships relate to benefits and sacrifices. Episodes refer to specific offerings or deliveries. Relationships refer to the bond which develops between two organizations, over time. Episodes accumulate in relationships and influence whether a specific relationship is regarded to be a net benefit or net sacrifice. Gradually, the relationship becomes the context for episodes. When customer perceived value is specified as a combined construct, including episodes as well as relationship, it incorporates both a short term, transactional and a long term relational perspective, which often is missed in value assessments (Dwyer, Schurr & Oh 1987). The significance of the long term relational perspective is evident in studies of B2B value dimension which is the subject of the following section.

6.3.2 B2B value dimensions

B2B value studies are concerned with the analysis of antecedents and drivers of value; the influence of various value dimensions on perceived benefits and sacrifices. The underlying agenda is the analysis of the relative importance of the transaction-based and the relational aspects of value. This is illustrated by the categories applied in four different studies of B2B value dimensions:

- The products, the relationship and the supplier characteristics (Menon 2005)
- The product, services and relationships (Lapierre 2000)
- Relationship dimensions versus performance dimensions of value (Ulaga, Eggert 2006a)
- Direct performance related value versus future indirect network value (Walter, Ritter & Gemünden 2001, Walter et al. 2003)

Although the studies apply different categorizations, they are similar in one respect. They all focus on direct buyer-seller relationships. And they point to a number of significant aspects for the understanding of value in a B2B context.

First of all, value in a B2B context includes further aspects of value, besides the immediate net benefit of exchange. The costs related to the acquisition phase before exchange, and the operations costs after exchange are just as important for perceived costs as the price (Menon 2005). Likewise, the benefits related to sourcing and operations are just as important as the core benefits of a product (Ulaga, Eggert 2006b). These studies illustrate the significance of the relational aspect of exchange; institutionalization of routines and procedures, as well as adaptation of product and services reduce acquisition and operations costs and increase the benefits.

Secondly, the significance of satisfaction, trust and commitment in studies of relational B2B value is evident. Customer satisfaction is concerned with quality as an aggregate of product and service related factors (e.g. Homburg, Rudolph 2001, Perkins 1993, Qualls, Rosa 1995), whereas trust and commitment are elements of relational value (Wilson 1995). This difference points to a distinction between satisfaction as a performance related value dimension, and trust and commitment as indicators of the quality of the relationship (Ulaga, Eggert 2006a).

A third aspect of B2B value dimensions relates to the fact that buyer-seller relationships are embedded in wider networks. Interaction has an immediate and a more long term value effect in the relationship, but also influences an actor's relationship portfolio and the wider network (Ford, McDowell 1999). The difference between the actual relationship specific effects, and the future network effects has been conceptualized as the direct and indirect functions of relationships (Walter, Ritter & Gemünden 2001, Walter et al. 2003). The dimensions differ slightly, depending on whether they describe a supplier's or a buyer's perspective. Seen from the point of view of a supplier the dimensions of the constructs are:

- Direct functions: Profit, volume & safeguard
- Indirect functions: Innovation, market, scout and access

Whereas the same constructs seen from a buyer's point of view are:

- Direct function: Cost reduction, quality, volume, safeguard
- Indirect functions: Innovation development, market, scout and social support

In spite of the slightly different conceptualizations, the basic distinction between the here and now performance related functions in the relationship, and the future network oriented functions of the relationship is apparent. This categorization expands the value concept to include the existence of other actors than two partners in a dyad, and includes the importance of how a specific relationship facilitates or hinders the partners' ability to access and profit from the value potential of a network structure. This is of particular importance when the level of analysis is moved from the dyadic level to the triadic micro-network, as in this thesis.

Finally, the studies indicate the necessity of grounding value studies in a localized and specific context. Lapierre (2000) concludes that relationship drivers are more important for customer perceived value in the information, communication and entertainment sector, than in distribution. This result points to the importance of relational value dimensions in

future orientated and complex business settings (Möller 2006). And it reflects the idea that a merchant's need to provide assortment from competing suppliers limits the degree to which trusting and committed relationships can develop in distribution (Frazier 1999, Frazier, Rody 1991, Stern, Weitz 1997, Weitz, Jap 2000). Lapierre's (2000) results illustrate that the value of a proposition may not lie in an overall high value, but in the ability to offer a specific constellation of value dimensions. Therefore, a model of the value of offerings has to refer to the actual context in order to reflect the specific combinations of situational factors which are assumed to be of importance (Wilson 1995).

Ulaga (2003) illustrates how to achieve contextualization of value drivers. Instead of setting off from a generalized set of correlating and interchangeable value dimension, a set of specific and localized value dimensions is developed for the purpose. With a bottom-up formative approach to the modelling of value constructs, based on grounded research, he develops eight value drivers. These drivers cover the spectre defined as product, service and relationship value drivers in Lapierre's (2000) study, but the dimensions are organized differently, and without specifying a benefit and a sacrifice level. More important, they are specified in a way which facilitates actual comparison between different constellations of value drivers offered by suppliers. The relativity of value emerges as an important issue to keep in mind in studies of B2B value dimensions.

Taken together, these studies point to the following fields of importance for B2B value studies:

- Benefits and costs accrue in the process from first contacts between a buyer and a supplier during acquisition, to the final integration of the offering in the buyer's operations
- The distinction between performance related satisfaction and relational trust and commitment
- The distinction between the present outcome of a relationship (direct value) and the future network outcome of a relationship (indirect value)
- The importance of developing or adjusting a set of value dimensions for the analysis of a specific local context

A final aspect of B2B value is the link between strategy and value creation (Normann, Ramírez 1993). Relationships and knowledge are two important inputs for value creation (Kothandaraman, Wilson 2001, Normann, Ramírez 1993), and relationships include strategic as well as economic and behavioural dimensions (Wilson, Jantrania 1994). The ability to offer superior performance in relationships with specific customers creates

strategic advantages, but in order to achieve this, the continuous learning about customers is important (Slater 1997, Slater, Narver 1994).

However, studies of value dimensions and value creation tend not to incorporate the derived effect of interdependence, which implies that value creation processes involve multiple actors (Normann, Ramírez 1994). A specific constellation of actors and relationships both facilitates and constrains the value creation in a web of actors. An actor with a position which enables him to access valuable resources contributes with an asset which is important for the value creating potential of a web of actors. Studies of strategic alliances, which focus on the flow of information and the resulting learning and capability development, implicitly acknowledge the value of position (e.g. Awuah 2008, Bond, Houston & Tang 2008, Eng 2005, Gulati 1998). And the crucial importance of third parties for the success of dyadic alliances is recognized (Gebrekidan, Awuah 2002). But the strategic value for an actor of being linked with parties who occupy favourable network positions is not well researched. The most promising bridge between value studies and strategy seems to be the concept of indirect value, described in section 6.3.7. It points to the strategic advantage not in, but of relationships in terms of access to other actors and their valuable resources. Thus, the value of position is strategic, and consequently, network positioning is a powerful strategic instrument (Baraldi et al. 2007).

Based on these studies it is possible to distinguish between direct and indirect value functions and relate them to position and interaction respectively. The value of position is related to the value of network access. This value is conceptualized as the indirect value function; the future network effects of relationships. Network positioning as a related phenomenon is a matter of achieving advantageous actor bonds which create a favourable position for reaping these future network effects. It is a strategically motivated action. Thus, it is possible to create a link between position and the indirect value function of which the network access is an indicator.

The value of interaction is related to the present outcome of relationships; the performance which create satisfaction due to profit / cost-economizing, volume, quality and safeguarding of demand / supply. This is the outcome of interaction in the relationship. These benefits as well as sacrifices accrue from acquisition, exchange and operations. This implies that some of the experienced value may materialize in the future, but this is not equivalent to future network effects. Although the perceived value evolves over time it does not imply future network access. Thus, investments in relationship which cannot offer significant future network effects are functionally motivated. It is a matter of

creating value from the cooperative combination of resources and the resulting activities. Thus, interaction is related to the direct value function of which activities are indicators.

The question is how to categorize relationships. Relationships are an integrated element of interaction in the relationship. At the same time they constitute the basis for a collection of ties linked in positions and related to future network effects. Thus, to categorize relationship as part of either the direct or the indirect value function is an undue simplification. And to categorize them as elements of both the direct and indirect value function blurs the analysis of data. But the context of triadic relationships for which these value functions are developed and defined offers a third solution. Intermediation patterns are expressions of how actors perceive interconnections among relationships and motivate their participation in a triadic structure. Thus, relationships and patterns of intermediation are closely linked, and therefore I define the value function of interconnection as the intermediation patterns for which relationships are indicators. This implies that *the combined direct and indirect value potential in a triadic constellation is what motivates the actors to participate. This is the link between motivation for participation, the value potential and the structure.*

CHAPTER 7: THE VALUE OF INTERMEDIATION

The preceding section on B2B value studies pointed to the significance of contextualization of value studies, because value is not an absolute, but a relative construct. One way to achieve this contextualization is to define activities of relevance for the specific context. Channel research focus on the activities between production and final consumption. These activities and the actors which perform them constitute the marketing and distribution channels (e.g. Alderson, Martin 1965, Blois, Shaw & Ennis 2000, Gadde 1994). Therefore, research on intermediation offered by channel research may support the conceptualization of the activities of relevance for the context of triadic supplier-merchant-customer relationships.

The basic semantic meaning of the terms intermediary and middleman signifies something or somebody acting between others (Oxford English Dictionary). Likewise, the noun intermediation is applied to signify the acting of intermediaries and the actions they take (Young 1972) in the organization of trade (Casson 1997, Spulber 1996). As processes and activities are the instruments for value creation (Normann, Ramírez 1994, Vargo, Lusch 2008), this acting of the intermediary is relevant for the study of intermediated business triads.

However, there are some problems in combining channel research and a network approach. Channel research is primarily dyadic and manufacturer oriented (Frazier 1999, Gadde, Snehota 2001, Gulati, Nohria & Zaheer 2000), and tends to be dominated by a marketing management perspective (Gripsrud 2004). Consequently, channel research is not immediately compatible with a network approach to channel issues and intermediation (e.g. Gadde, Ford 2008). If intermediation is a possible aspect of all actors, it is difficult to define one of the actors as the intermediary. The purpose of this chapter is to find ways to combine channel research and network studies, in spite of incompatibilities. Consequently, focus is on intermediation activities as elements in the interaction between the parties to a triadic relationship; not on intermediaries. Section 7.1 introduces how intermediation is approached in channel research. The section lays the foundation for section 7.2 which examines the value creating functions performed by intermediaries. Finally section 7.3 discusses the implications of a network approach for the understanding of intermediation.

7.1 Intermediation in channel research

The terms marketing channels, distribution channels, and business networks are applied interchangeably, signifying some or all value creating activities in the range from production to consumption, including the intermediation of marketing and distribution (Wilkinson 2001). This section discusses a channel approach to intermediation. Focus is on three subjects which illustrate some of the core issues in a channel perspective on intermediation:

- Intermediation in the channel as cost-economizing or value creation
- The holistic versus the dyadic managerial approach to intermediation in the channel
- The significance of dependence and power versus interdependence and cooperation in channels

In his discussion of the emergence of marketing as a separate scientific domain, Bartels (1988) offers an account of the origins of the conceptualization of intermediaries' functions as cost-economizing. In the 19th century, economists disagreed whether services that did not alter the physical product contributed to wealth or not. There was no clear concept of marketing as a productive activity which could justify marketing activities and their contribution to economic production. On the contrary, the popular impression was that the middleman added cost instead of value.

After 1900 new concepts of value were needed to explain the growing distributive activity. One of the first steps in the development of concepts for distribution research was the identification of time, place and possession utilities as three activities for which distributive services were directly responsible. These utilities are still applied in conceptualizations of the channel and the intermediary (Blois, Shaw & Ennis 2000). They are valuable services offered by intermediaries. However, the empirical inductive reasoning, dominating marketing in the beginning of the 20th century, lead scholars to justify the distributive services not as a collection of value creating services, but as a single one; cost-economizing. This conceptualization has been very influential in channel research.

It is possible to distinguish between six different schools of thought in channel research (Gattorna 1978b). Some of these schools focus on the micro perspective of a firm, others on the macro perspective of an industry, or a social macro-perspective (Mallen 1976). However, the micro-economic school tends to dominate and influence other schools of thought (Gattorna 1978a).

The cost-economizing perspective assumes competition to be the coordination mechanisms in channels. Competition between independent actors will cause the structure of the channel to evolve towards greater efficiency in performance (Merton 1995). It is a result of the intermediary's posting of a bid and an ask price which clears the market (Cosimano 1996) .This cost-economizing activity is a key tenet, too, in the conceptualization of intermediation as the coordination and organization of trade (Casson 1997, Spulber 1996).

Cost-economizing is also an important element in the work of Alderson (e.g. Alderson, Martin 1965) who is regarded as one of the most influential scholars in the development of marketing thinking in the 20th century (Gadde, Ford 2008, Wilkinson 2001). But his primary contribution is to conceptualize channels as functional and behavioral marketing and distribution systems. His holistic approach influenced marketing in the first half of the 20th Century, but was gradually replaced by a dyadic managerial approach (Gripsrud 2004). The managerial approach takes a much more narrow view on the channel as a contractual system that management operates to achieve its goals (Rosenbloom 2004).

The managerial approach conceptualizes the channel as a manageable system, headed by a channel captain who determines the roles of the players (Ferber, McVey 1960). This authority to distribute roles is assumed to create dependence on the captain. In spite of little evidence that power and dependence are related constructs (Gaski 1984), power and conflict are assumed to be a function of dependence, and the application of channel power to be a response to inter-organizational conflict (Stern, Reve 1980). The preoccupation with dependence, power and conflict has a limiting effect because it centers attention on sick channels, characterized by the exercise of power, and ignores the many healthy cooperative relationships in the marketing channels (Young, Wilkinson 1989). Consequently, intermediation tends to be related to conflicting and adversarial behavior.

A change of perspective from dependent to interdependent organizations demands that focus is changed from the single actor onto the processes that bind actors together in ongoing relationships (Webster 1992). To acknowledge the existence of interdependence also implies that power is not a unilateral, but a bilateral construct, although power is not necessarily symmetric (Antia, Frazier 2001). And the bilateral power concept is difficult to handle in channel research which predominantly is based on discrete exchanges (Heide 1994).

Yet, channel research has changed within the last three decades of the 20th Century, and focus has shifted from power and conflict, to cooperation, trust and commitment

(Johanson, Silver 2003). This change is accompanied by a change of focus from single actors to the study of dyads, reflecting the recognition that actors in the channel are not independent or unilaterally dependent, but interdependent. The move from confrontation to cooperation in research and managerial practices is explained as a reaction to the increasing demand for coordination. This is a result of specialization and postponement (Gadde 2000).

Summing up, intermediation has been conceptualized as the offering of valuable services, but the conceptualization of intermediation as cost-economizing dominates. Power and conflict have dominated channel research, but interdependence in committed relationships has taken over the centre of attention. This enables the conceptualization of cooperative as well as conflicting and power based channel relationships. Thus, channel research can include transactional as well as relational aspects of exchange and value creation. But channel research has not taken the full impact of interdependence among actors and developed a network approach. In spite of the fact that channel research has a long tradition for holistic functional and behavioral schools of thought, this task is solved by network scientists.

7.2 The intermediary's functions and activities

The possible roles of intermediaries and the functions they undertake are core issues in channel research. The intermediary can be conceptualized on the basis of type (defined in terms of the risk he takes), his role (defined in terms of who he serves) and his function (the activities he performs). In channel research it is common to distinguish between three types of middlemen (Mallen 1976):

- the merchant who takes and negotiate title
- the agent who does not take title, but negotiate title
- the (facilitating) intermediary who neither takes title nor negotiate title

The above categorization is based on the risk that an intermediating actor takes in the performance of his role.

But the semantics in this domain are not consistent or unambiguous. The above definition of an intermediary as a non-title taking and non negotiating middleman does not correspond well with the basic semantic meaning; somebody or something acting between others. I apply the term intermediary in this general sense, unless otherwise indicated. And in the description of the empirical data the term merchant is applied to signify the specific type of middleman in the building material industry, who negotiates and takes title, but

not necessarily possession of the goods he trades. The codified translation from Danish to English of this type of middleman is (timber) merchant (Vinterberg, Bodelsen 1966). However, practitioners apply the term wholesaler, when translating the Danish term to English.

7.2.1 The role of the intermediary

There are three different roles that a middleman can play: The distributor for a manufacturer, the provider for a buyer, or a trader (Gadde, Snehota 2001). Nevertheless, channel research tends to see the intermediary as a hired hand in a chain or channel constructed by the manufacturer who acts as a channel captain (Ferber, McVey 1960). And channel efficiency is defined from the point of view of the manufacturer (Bergen, Dutta & Walker Jr. 1992, Johnson, Umesh 2002, Mookherjee, Tsumagari 2004).

The manufacturer's perspective is most clearly developed in agency theory in which a principal depends on an agent to undertake actions on the principal's behalf. The manufacturer is regarded as the principal and the dominant party in the relationship (Antia, Frazier 2001). The results for the principal are regarded to depend heavily on the search and selection procedure, and the crafting of contracts with the right balance of incentives, resulting in high commitment from the agent (Abratt, Pitt 1989, Bergen, Dutta & Walker Jr. 1992, Cai, Cont 2004).

This assumed domination entails that it could be questioned whether the agent is an independent middleman with a purposeful intent to act as an intermediary between two or more other actors, or should be regarded as an extension of the principal's organization. The latter view would probably be accommodated by many suppliers and disputed by many intermediaries, because their understandings of the intermediary's role differ. This lack of shared meaning or perception is a potential source of conflict (Hanmer-lloyd 1996).

The intermediary as a provider is not a well-researched issue in channel research in spite of the fact that:

- The intermediary is the focus of a large group of buyers for whom he buys (Ferber, McVey 1960)
- Growing retail power is recognized (Blois, Reynolds 2000)
- Intermediaries who do not solve customer problems are of no use to the seller (Anderson, Anderson 2002)

This has been explained as a result of: 1) the prevailing logic of production in mainstream marketing, which cannot facilitate a provider approach to intermediation (Vargo, Lusch

2004), 2) the incompatibility between the focus on effectiveness in a provider approach, and the preoccupation in channel research with efficiency in terms of monetary measurements (Gadde, Snehota 2001).

Likewise, the conceptualization of the intermediary as an integrator/ coordinator (Obstfeld 2005), or service provider for both manufacturers and users is rare in channel research (see Kirkup, Anderson 1987 for an exception). However, in a number of studies of value adding resellers in the ICT industry (Cunningham, Pyatt 1989, Jaaskelainen, Kuivalainen & Saarenketo 2000), and in some studies of international trade intermediaries (Ellis 2006, Fung, Chen & Yip 2007, Peng, York 2001), the coordinating role is recognized, due to a network approach to intermediation.

A further aspect of coordination is presented in two studies of quality markets which are based on a social network approach (Karpik 2000, Odorici, Corrado 2004). These studies conceptualize intermediaries as actors who offer symbolic classification. This classification creates a platform which serves suppliers' and customers' communication about, and evaluation of heterogeneous and intangible features of quality markets. Such markets are exemplified by 'Le guide rouge Michelin' and wine magazines. Thus, a network approach seems more compatible with the conceptualization of the intermediary as a coordinator who serves the supplier as well as the customer; i.e. an intermediary may play a role which includes elements of the role as distributor and provider at the same time.

7.2.2 The intermediary's activities

Studies of intermediary activities center on three functions:

1. Logistics (Alderson, Martin 1965)
2. Information (Balderston 1958)
3. Risk (Bucklin 1965)

This section describes these three functions and includes a discussion of the effect of bundling and de-bundling of intermediary activities into separate specialized functions.

Logistics

In channel research logistics is usually defined as a matter of physical distribution and includes four activities; sorting, packing, transport, storing (Brousseau 2002). Of these four elements it is possible to isolate the sorting which creates sets and assortments (Alderson, Martin 1965), as a decision activity. In contrast to the three other activities which demand some sort of physical resources, decision activities only demands human resources

(Hulthén, Gadde 2007). The understanding of sorting as a decision activity inspires reflection on the categorization of sorting as logistics.

The term sorting is applied to signify the designation of speculative inventories of assorted goods. This designation is assumed to be executed by a group of actors who are neither producer nor consumers, and who also handle packing, transport and storing (Brousseau 2002). The question is whether this linkage between decision activities and physical distribution is relevant in a net characterized by postponement where middlemen may negotiate and take title to the goods, but not necessarily physical possession. This is the typical organization of the logistics for customized goods which are delivered directly from manufacturer to customer. Consequently, storing is not an activity handled by middlemen, and often transportation and packing activities are handled by other actors, too. However, postponement does not mean that storing is no longer needed. But the inventories needed change and are handled by other actors, for example manufacturers and transporters (cf. Hulthén, Gadde 2007).

The increased complexity of distribution and logistics in postponement results from the fact that the sorting decision is made by the customer, and not by the manufacturer. The sorting decision and mode has profound consequences for the other logistic activities, and cannot be separated from logistics and categorized as an information activity. But it is related to the information activities in terms of knowledge about suppliers, customers and products, and the ability to offer coordinative services.

Information

It is noteworthy that studies of logistics and information have not been integrated into a more comprehensive approach until lately (Bucklin, Ramaswamy & Majumdar 1996). This study concludes that if the customers' need for logistics and information services both increase, then the organization of these services has to be handled in two separate channels. If so, it will result in a demand for increased communication and information exchange to ensure the coordination of activities. This coordination and information exchange is related to the role of intermediary as an information specialist.

The information function of intermediaries includes the search and match activities related to intermediation as a cost economizing method of connecting disparate groups of actors. Search and match activities embrace the establishment of contacts, negotiation of transactions and generation of information needed for exchange decisions (Balderston 1958). And the optimal number of links in a channel as a cost-economizing structure is a

core issue in channel research on the information function of intermediaries (Balderston 1958, Baligh, Richartz 1964).

Another aspect relates to the quality and precision of the available information which is not necessarily facilitated by long chains of communication. Long chains involve a risk of loss and distortion of data (Bucklin, Ramaswamy & Majumdar 1996). Moreover, a customer's combined need for information search and knowledge integration also influences a customer's preferred pattern of intermediation. A high need for knowledge integration creates a demand for direct supplier-customer communication facilitated by strong supplier-merchant bonds. In contrast, customers prefer an intermediary to offer a selection of more distant supplier-intermediary relationships when information search is the primary service demanded from the intermediary (Wuyts et al. 2004). For that purpose, the intermediary's ability to combine information acquired in one relationship to the problem solving and value creation in another one (Araujo, Minetti 2007) is relevant.

The information function of intermediaries is based on the assumption that less than full information is available for the actors in a market; i.e. information asymmetries prevail. Information asymmetries create a need for a system for contact and communication (Baligh, Richartz 1964), and intermediaries facilitate trade by handling these asymmetries (Allen, Santomero 2001). The purpose of the system is to reduce uncertainty, and it is composed of intermediating actors functioning as information sellers. They offer efficiency in collecting, disseminating and using information; information is an economic good (Etgar, Zusman 1982). This implies that intermediaries depend on information asymmetries for their existence.

The intermediary's ability to handle asymmetries is a common initial incentive for both customers and suppliers in international markets to contract with intermediating actors. However, an intermediary who is successful in establishing good contacts and new markets may undermine his own success. He reduces information asymmetries and creates the foundation for direct buyer-seller relationship (Ellis 2006). The opposite conceptualization of intermediaries also exists; that they are creators of information asymmetries (Popp 2000). In such cases intermediaries act as tertius gaudens, the third element who use his relatively superior position for purely egoistic interests (see section 3.2).

The conceptualization of intermediaries as information specialists is the foundation of studies of dis-intermediation and re-intermediation of marketing channels, resulting from the advent of the internet. The terms dis-intermediation and re-intermediation originally were applied in banking and finance (Allen, Santomero 2001, Merton 1995, Saunders et al.

2001). Dis-intermediation is a reduction in the use of intermediaries between lenders and borrowers. Re-intermediation signifies the re-involvement of banks in non-bank loans. When applied for the description of distribution channels more broadly, dis-intermediation refers to the exclusion of intermediaries, whereas re-intermediation refers to the reorganization of the intermediation, and may involve another set of intermediating actors and activities than before.

It is claimed that due to cost-considerations channels will be partly electronically re-intermediated as a way to substitute more costly human intermediaries with cheaper electronic ones (e.g. Sen, King 2003). Studies of electronic intermediaries discuss information intermediation as a matter of

- structure (Dikaiakos 2004)
- service and business models (Liu 2004)
- trust (Barnhart 1997)

This being so, they resemble pre-internet studies of marketing channels. At the same time there is a general consensus that the advent of the internet and e-commerce does not make human intermediaries superfluous (Allen, Santomero 2001). But their functions will change towards

- definition of problems, and judgment of information (Ehrlich, Cash 1999)
- alignment of search processes with user interest enabling increased comprehensiveness of information collected (Jinkook, Jinsook 2005)
- safeguarding/ securization on deliveries, offering anonymity to buyers, and customization (Anderson, Anderson 2002, Brousseau 2002)

However, the possible existence of a continuum of intermediation patterns for various information purposes is not considered. Studies of dis- and re-intermediation basically operate with two possible structures; indirect relationships between customers and suppliers (brokerage/initiation) or direct buyer-seller relationships (avoidance)(see section 5.3).

Risk

Postponement and speculation are often discussed in terms of the organization of physical flows and sorting decisions, but it is as much a matter of risk. Bucklin (1965) claims that if postponement characterizes a channel, and middlemen are not taking the risk of holding

speculative inventories, “there may be little economic justification for a title holding intermediary to enter the channel” (ibid p. 29).

But the risk on inventories is not the only aspect of risk. The availability to customers offered by an inventory holding actor in product markets is similar to the concept of immediacy in the studies of financial intermediation which concerns the availability of money and payments; i.e. liquidity (Spulber 1996). This liquidity is offered by actors intermediating between buyers and sellers, and who are willing to take the risk on debtors and thereby facilitate immediacy of payment (Brousseau 2002).

Likewise, the guarantees versus risk on qualities (Anderson, Anderson 2002), and the monitoring of contract-fulfilment (Spulber 1996) are important in a B2B context. These risks are transferred to title holding intermediating actors, no matter whether the goods in question ever set foot on the premises of the intermediating actor. So the risk element is important and comprehensive, and cannot be dismissed as irrelevant on the grounds that a channel or net is characterized by postponement, and not by speculation. Observance of the risk factor may be even more important, if postponement reigns, as the various types of risks related to transport, debt, and quality become more dispersed.

The importance of the risk-element is evident in the definition of the all-inclusive title taking intermediary. He is handling a broad range of coordination activities categorized as (Brousseau 2002):

- Information management
- Logistics management
- Transaction securization
- Insurance and liquidity

These activities include

A. Reduced search costs for both buyers and sellers through matching
B. Immediacy by holding inventories
C. Availability of liquidity in terms of intermediating actors being ready to sell and buy
D. Importance of guaranteeing and monitoring of agreements.

B, C and D all include an element of risk. B refers to the risk on inventories in a system characterized by speculation. C & D both refer to risks which the intermediary takes indifferent of the prevalence of speculation or postponement. C refers to the risk on debtors that suppliers transfer to intermediaries. When the supplier has delivered to the merchant, he will be paid. Likewise, a supplier of customized goods is guaranteed payment

when the customer has confirmed the order, even if the customer is unable to receive and pay for delivery when the agreed time of delivery occurs. Moreover, C can also include the credit facilities which intermediaries of this type offer to their customers. This being so, availability facilitates the acquisition and direct exchange. D is related to operations after exchange. For example it includes situations in which a product does not comply with specifications, in the case of faulty deliveries, etc. In such situations the intermediary takes the responsibility, and handles complaints and problem solving on behalf of or together with the customer.

It is claimed that the bundling of these activities is a precondition for offering these services at a lower price (Brousseau 2002). Thus, it seems that the understanding of intermediation as cost-economizing market making is founded on a specific type of intermediary; the all-inclusive title-taking distributor.

But as pointed out by Bucklin, Ramaswamy and Majumdar (1996) the customers' increased need for logistics as well as information services has to be handled in two separate channels. This situation occurs when markets are characterized by postponement, as a result of customization and specialization. Specialized functions demand the un-bundling of the all-inclusive distributors' activities (Gadde 2000) and entails high levels of communication in order to integrate and coordinate activities (Gadde, Mattsson 2005).

The risk function is one of these activities, and as pointed out in the above description of studies of dis-intermediation, safeguarding and securization on deliveries are expected to be a field of future activities for intermediaries (Anderson, Anderson 2002, Brousseau 2002). Consequently, the un-bundling of activities may increase the significance and value of the risk function offered by intermediaries.

7.3 The Markets-as-Networks approach to intermediation

Four aspects distinguish a network approach to distribution (Gadde, Ford 2008):

1. It supports the analysis of distribution as a contextual phenomenon in which the accessible resources are combined into customized solutions
2. It re-conceptualizes intermediation as a matter of interaction among a multitude of actors instead of exchange between two actors – consequently everybody intermediates between others
3. It is applicable for the analysis of distribution as a differentiated phenomenon including postponement and specialization as well as speculation and mass-production

4. It redefines the understanding of indirect channels as a matter of coordinated interaction between a number of actors, not a matter of the participation of a title-holding actor

This implies that the channel as a generalized and uniform phenomenon has to give way to the conceptualization of a channel as a differentiated structure of an enacted business environment. Thus, a network approach offers an alternative understanding of marketing and distribution channels, but also entails a re-conceptualization of a number of issues related to the understanding of intermediation and channels. These include:

- The change of focus from a logic of production to a logic of use
- The separation of the flows of materials and information
- The inclusion of a parallel horizontal perspective on distribution along with the sequential vertical perspective of channel research
- Functional shiftability
- Channel management

From a logic of production to a logic of use

In network literature this change has been studied as a change of distribution moving away from speculation towards postponement, enabled by technology which makes economies of production less dependent on large scale manufacturing (Gadde 2004). Channel arrangements are no longer defined by technology of production (factory output), but by the technology of use (end-user inputs) (Hulthén, Gadde 2007). The logic of individualization substitutes the logic of aggregation. This shift defines the difference between traditional channels and evolving networks (Gadde 2004), and requires a change from managing individual functions to the integration and coordination of activities in business processes.

Separation of the flows of materials and information

The focus on business processes is accompanied by a combined pressure to cut costs and improve customer service, resulting in a differentiation of the distribution system. This differentiation creates a separation of the flow of information, and the flow of materials (Gadde 2000). The separation between these two flows implies that it is possible to analyze and organize distribution as two processes: One related to the logistics which demands physical resources, and another related to the information and decision aspect of sorting which demands human resources (Hulthén, Gadde 2007). The separation into two flows creates a growing need for coordination. This is why actors in channels of

distribution and marketing may profit from long-lasting relationships characterized by trust, cooperation and commitment (Nevin 1995)

The inclusion of horizontal as well as vertical aspect of channels

The need for coordination also depends on the degree of standardization. Standardization and specialization have adverse effects on the structure of distribution nets. Standardization is supported by the sourcing of similar activities from various parallel actors who offer the same type of capabilities. Specialization is facilitated by quite the opposite; sourcing of closely complementary activities offered by sequentially related actors with dissimilar capabilities. In a network context these effects are studied as vertical sequential, versus horizontal parallel processes (Dubois, Gadde & Mattsson 1999). The inclusion of both the sequential and parallel perspective enables another understanding of efficiency in complex systems (Gadde, Mattsson 2005). Efficiency may be achieved either by dissolving or creating closely complementary activities. This network dynamic is a matter of a trade-off between flexibility and adaptability versus adaptation and stability (Andersson 1992). Adaptation demands tightening between the vertical elements of the system, whereas adaptability demands loosening between the vertical elements of the system.

Functional shiftability

Institutionalization and adaptation are part of the relational exchange among actors, which creates heterogeneity of demand and supply. This heterogeneity is an indicator of commitments among actors, which implies that one actor cannot substitute another one immediately. In a competitive market model such commitments are interpreted as market imperfections, because they limit shiftability of functions among actors, and reduce competition. In a market model based on relations and interdependence, various degrees of commitment among actors indicate that parties are linked into a network structure (Cook, Emerson 1984). Such structures formed by relations, of which some are long-lasting and very committed, do not give in to a pressure for functional reorganization in a short-time perspective, but rather constrain change (Halinen, Salmi & Havila 1999). This is why the idea that marketing channels emerge exclusively as the result of functional shiftability (Blois, Shaw & Ennis 2000), is difficult to combine with a network approach.

Channel management

Due to interdependence, business development does not take place in a setting of independent actors in a market created by externalities, but in a structure created by interaction among interdependent actors (Ford, Håkansson 2006b). The idea that a company can develop and implement a channel strategy independent of other actors becomes obsolete. In this structure an advantageous strategic position no longer refers to the product, but to the position of an actor in a network (Gadde, Hakansson 1992). The network is a result of and the platform for the actors' strategizing for advantageous network positions (Johanson, Mattsson 1992), not a result of the channel captain's operation of an external contractual organization independent of other actors.

The above studies illustrate how the re-conceptualization of a number of issues related to the understanding of intermediation and channels create inclusiveness in a MAN approach to intermediation. In consequence, a network approach can support the analysis and description of complex contextual and differentiated channel relationships. A net around a distributor offering assortment is an example of a contextual phenomenon which can be analyzed as a specific network constellation: The example on which much channel research is built. In a network approach the existence of a net of loosely coupled relationships simply indicates that this specific net of actors is characterized by high adaptability and flexibility. But it does not imply that all channel relationships are organized like this.

The network approach substitutes generalization of channel phenomena with contextualization. In spite of these differences, the conceptualization of intermediary activities originating in channel research is immediately applicable in a network approach. Logistics, information and risk are also core elements in the conceptualization of intermediary activities in a network approach and they can support the contextualization of activities in a micro-network. However, the application of these functions in a network perspective is based on the assumption that these functions are not necessarily bundled, but can be distributed among the parties to the triadic network. And each actor might only perform some of the activities related to a function.

Summing up, channel research offers conceptualizations of intermediation activities applicable for the contextualization of the direct value function of intermediation. And the conceptualization of various intermediary roles illustrates towards whom the actors direct their activities. The significant contribution of the MAN approach to channels is the conceptualization of channels as differentiated phenomena. Two types of efficiencies are observable in channel relationships: One is the value of closure, resulting from adaptation

and institutionalization. The other is autonomy related to the shiftability of functions, which demands high adaptability and flexibility. Autonomy and closure can exist in various degrees, depending on the desired efficiencies. Moreover, the differentiation of channels and the recognition of the efficiency of closure as well as autonomy indicate that a continuum of intermediation patterns can exist. The distinction between direct and indirect channels is an insufficient categorization.

CHAPTER 8: FRAMEWORK FOR DATA ANALYSIS

This chapter develops a framework for analysis of data on value creation in triadic business relationships. Section 8.1 describes how the elements of this specific study relate to the links between strata and analysis. Section 8.2 explains and presents the framework.

8.1 The links between strata and analysis

The analysis of the specific phenomenon of value creation in triadic business relationships is based on a critical realist approach. The purpose of the analysis is to conceptualize value creation as an event in the actual. This conceptualization is based on theory on networks, intermediation and value creation as well as the collected data. The event of value creation is described on three dimensions; the direct value function, the indirect value function and the pattern of intermediation. These value functions link the triad as the mechanism in the real, composed of three necessarily related elements (interaction, interconnection, position), with indicators of value creation in the empirical. These links are further developed in the following section.

Studies of networks and value creation enable the identification of two sets of contingencies which influence the working of the triadic mechanism. The first is the network context. The triadic constellation is a spatial separation of a net of three actors in a wider network. The network context influences the triadic structure, partly through the objective resource and activity interdependencies (i.e. network structure), partly through the parties' sense-making of the network (i.e. their network vision / pictures).

The second is the actors' values and value systems. Value is a relative, mental and abstract construct. Therefore, the perceived value of the value creation process in the triadic relationship is influenced by values and value systems at a personal, organizational and network level. Figure 8.1 on the following page resumes the issues of this thesis and relates them to a critical realist analysis.

The observed event is the result of the working of the triadic structure (the mechanism) in four observed cases in the specific network context of the Danish Building Material Industry. Moreover, the event is influenced by the actors' perception and evaluation of the value potential of the constellation, which motivate their actions. The actors' perceptions and evaluations cannot be accessed directly. But data on activities and on the actors' descriptions and evaluations of relationships offer an approximation.

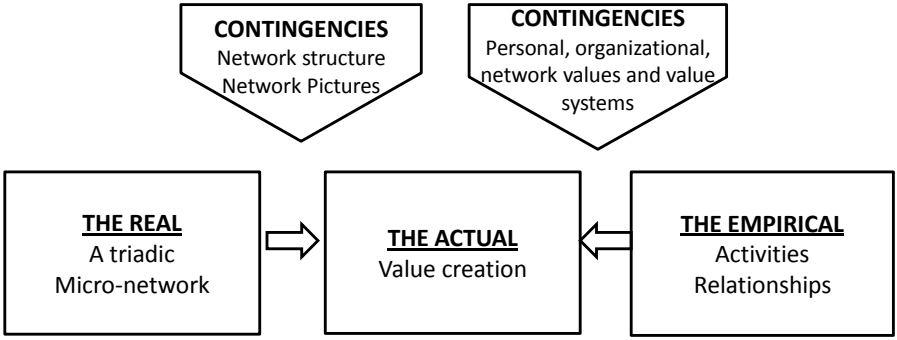


Figure 8.1: Relating the applied concepts to a critical realist approach

The conceptualization of the three value functions for the description of the event in the actual, and the link between the mechanism and the three value functions are of general character. It is a conceptualization of how value creation relates to the triadic micro-network (the mechanism). But the indicators are contextual and so are the contingencies. Therefore, the framework presented in the following section must be contextualized for the specific situation under study, if applied for other purposes.

8.2 Framework for analysis of data

This section operationalizes the links between data and concepts. The purpose of the framework is to link interaction, interconnection and position, value functions and data. The section is organized in three parts which describe and define how interaction, interconnection and position are observed in the empirical.

Interaction

The basic structure of triadic networks (fig. 5.3) defines a tie as a matter of interaction. The interaction model (fig. 4.1) describes interaction as a process which includes episodes and relationships. But as pointed out in chapter 6, relationships are not an unambiguous indicator of interaction. Relationships are an element of position and interconnection, too. But activities are an unambiguous indicator of interaction. Neither interconnection, not position is a matter of activities. Moreover, activities are the foundation for profit/ cost-reduction, volume, quality and safeguarding which signifies the direct value function. Thus,

it is possible to link interaction as a dimension in the triadic structure, the direct value function, and activities as indicators.

When a dyadic approach is substituted by a triadic perspective intermediation becomes an issue, as everybody is assumed to intermediate between everybody in a network. In consequence, the intermediation activities must be included as indicators of value creation in triadic structures. Channel research defines these function or activities as logistics, information and risk. These three types of activities are chosen as indicators of the direct value function.

Two further indicators, the product and administrative services, are included as indicators of the activities which create value. These indicators are selected on the basis of background interviews with members of the two involved suppliers' organizations, and with a number of respondents with extensive knowledge about the building material industry. The background interviews all point to the product, defined as price, quality and time of delivery as the most important argument in the marketing of building materials; these elements are regarded as primary indicators of the value of the offering. Moreover, the background interviews point to the merchants' administrative support to the customers as an additional valuable activity. The inclusion of these two indicators facilitates a further contextualization of the relevant activities on which to collect data.

Interconnection

The starting point for the categorization of indicators of interconnection is that the triadic relationships under study are a channel relationship. Such channel relationships have been described in terms of degree and variation of the patterns of interconnection (Smith, Laage-Hellman 1992). Moreover, interconnection in triadic structures with three actors and three ties (a closed triadic structure) has been described in terms of neutrality, initiation, by-pass and hierarchy effects which can hinder, weaken, strengthen and enforce another relationship (Ritter 2000).

In chapter 5 these studies are combined to construct five patterns of intermediation as indicators of interconnection:

- Brokerage
- Initiation / bridging
- Mutually strengthening (cohesion)
- Flanking
- Avoidance

These patterns can describe a constellation of interconnections irrespective of the specific identity of the involved actors, and they illustrate various value potentials. They are applicable for any constellation of three connected actors, and conform to the network tenet that everybody intermediates between everybody. In this study these patterns are defined as the value function of the actor perceived interconnections.

Relationships are a dimension of interaction, interconnection and position. But as described in the preceding section on interaction, activities are an unambiguous indicator of interaction, and market access is an unambiguous indicator of positions (see the following section on position). Consequently, it is possible to define data on relationships as the indicators of interconnection. This creates a link between interconnection, pattern of intermediation and relationships. In order to capture the patterns of intermediation, the following relationship indicators have been selected: The actors' assessment of the relationships, the intermediary's role, and perceived interconnection between relationships. These indicators are applied to collect data on the respondents' perception of the pattern of intermediation, and the ways in which this pattern is connected to the perceived value potential of a structure in terms of direct and indirect value functions.

Position

In the description of the basic structure of triadic networks (fig. 5.3), it is pointed out that positions have two dimensions. It links the objective resource and activity interdependencies, and it is the platform for strategizing. The link between position and indirect value functions is founded on Johanson and Mattson's (1992) limited definition of position; the exchange relationships of an actor, and the identities of the counterparts in those relationships in terms of their relationships to other actors. This identity of the counterparts is of importance for the potential network access they offer.

Thus, the indirect value of position refers to the way in which the positions of the actors influence the linkages between the triad on the one hand, and the surrounding network of actors and resources on the other hand. This is a property of positions, which neither interaction nor interconnection offers. It is an unambiguous indicator of the position. As described in chapter 6 this access related to the indirect value function is indicated by market access, scouting and innovation possibilities. These dimensions of the indirect value function are chosen as an indicator of indirect value function related to position.

In contrast to the direct value functions which have been conceptualized for the specific constellation of a supplier, a merchant and a customer, the indirect value functions are applied without contextualization. But as pointed out in chapter 5, positions indicate

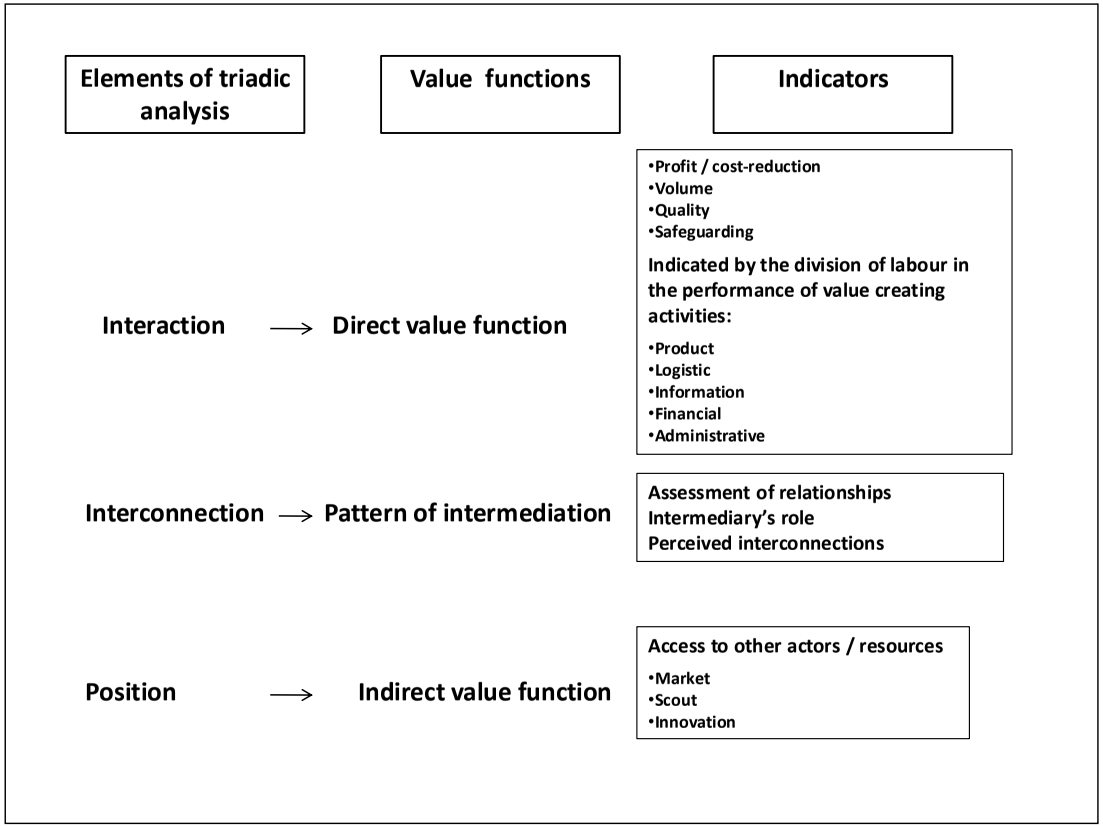
strategic platforms, and network positioning is the way that actors in a network attempt to create advantageous strategic platform. This strategizing is exercised in network positioning; the establishment of new relationships, the ending of existing relationships and the development of existing relationships. Consequently, the change in the actors' collection of ties over time is an indicator of this strategizing. However, this study is not longitudinal, but a study of the value creation in a number of existing triadic relationships at the point in time, when the data collection takes place. Thus, the indirect value is indicated by the market, scout and innovation potential of the actual positions, alone. It does not include the related indirect value of developing the portfolio of relationships.

Summing up, existing studies of triadic structures and of value creation offers conceptualizations of the links between interaction, the direct value function and activities. And they offer conceptualizations of the links between position, the indirect value function and market access. The pattern of intermediation developed in this thesis offers a conceptualization of the link between interconnection and relationships. However, relationships are elements of interaction (the direct value function) and position (the indirect value function), too. Consequently, the pattern of intermediation offers the prospect of synthesizing the indirect and the direct value function into a combined construct.

Reviews of literature presented in chapters 3-6 and the research questions resulting from these reviews, point to this combined construct, the pattern of intermediation as a core construct. When a dyadic perspective is substituted with a triadic, it is not the individual dyads, but the value potential of triadic relationship as a whole which motivates the actors to participate. And this value potential is a composite of the direct value function of the interaction in the relationships and the indirect value function of the positions. This is expressed in the pattern of intermediation, which is the core concept of the framework of analysis in figure 8.2 on the following page.

In the following chapter 9 this framework is applied for the analysis of data collected on four triadic business relationships in the Danish Building Material Industry.

Figure 8.2: Framework for analysis of triadic value creation



CHAPTER 9: CASE ANALYSIS

This chapter is divided into four sections; A, B, C, D which describe and analyze one case each. Each case consists of a triadic channel relationship. The respondents are the three persons who have actual and direct communication with each other in orders for customized goods. The interview data reflect the respondents' perceptions, interpretations and evaluations of the inter-organizational relationships.

All interviews are tape-recorded. Quotes are translated from Danish and convey the original statements as precisely as possible. However, the original statements are oral and often colloquial language, and therefore a re-phrasing has been necessary to express the intention of the original Danish statement in the translated English version. The references at the end of the quotes refer to the paging of transcriptions (Case A+B), and to the timing of the tapes on which the interviews are recorded (Case C+D).

The cases are intentionally sampled. The four triads are characterized by a specific activity pattern. The activity links between the supplier and the customer are strong, whereas the activity links are weak between the merchant and the customer, as well as between the merchant and the supplier. No attempts are made to explain this activity pattern as a stage in a development process between fully intermediated systems (brokerage / bridging), and fully dis-intermediated systems (avoidance). The descriptions and analysis of data exclusively focus on the links between the interaction, the constellation of interconnections and the actors' positions at a given moment.

The cases are described and analyzed on the basis of the framework of analysis presented in the preceding chapter 8 and include three sections each. The case description is organized in four parts including one case each. Each part is ordered in three sections according to the framework in figure 8.2 and structured as follows:

1 Interaction = direct value functions
   - Price, quality, and time of delivery
   - Value dimensions in creating customer value
   - The value of the customer to the merchant and the supplier
   - The value of the merchant to the supplier, and of the supplier to the merchant

2 Interconnection – the pattern of intermediation

- The actors' perception of the triadic relationships
- Analysis of the embeddedness of ties
- The constellation of the interconnections interpreted as a pattern of intermediation

The description of the embeddedness of ties in the second part of the case description captures the fact that the separation between off-the-shelf items and customized goods is difficult to uphold. The merchant-supplier relationship and the merchant-customer relationship in customized goods are embedded in an ongoing social and economic structure which involves other exchanges. The significance of this structure is described and analyzed as embedded ties.

3 Position = indirect value functions

This part of the description and analysis takes the supplier as the focal actor. It centres on the supplier's interpretation of network opportunities and constrains, and how he perceives the indirect value of the positions held by the parties to the triad. Based on the supplier's perception of positions and supported by the preceding sections, the pattern of intermediation in the triad is re-examined. The section closes with a short summary of the findings.

The analysis of position takes the supplier as the focal actor, and re-interprets the value of the triadic constellation in the light of the supplier's perception and interpretation of the network context. At the end of each case the findings are summarized.

The cases show that the patterns of intermediation differ between the cases in spite of the fact that the patterns of activities are relatively similar. Triad A illustrates a pattern of initiation, and Triad B & C illustrate a pattern of flanking. Case D illustrates a pattern of intermediation in which the merchant's attempt to preserve a brokerage position and the supplier's attempt of flanking co-exist. These patterns are not immediately visible on the basis of the analysis of value creating interaction and perceived interconnection. They emerge when the importance of indirect value functions in terms of the supplier's positional considerations are included in the analysis.

The final section 9.E presents a cross-case analysis which lays the foundation for the assessment of the applicability of the applied framework for analysis of value creation in

triadic business relationships. The significance of actor attributes and of the network context for the varying patterns of intermediation is discussed, and the findings from the case analysis of relevance for future research are presented.

9A: CASE A

Case A is handling minor orders of customized goods from the involved supplier (Supplier A) to the involved customer, (Customer A) through their intermediary; the merchant (Merchant A).

Supplier A is part of a Scandinavian group with the ambition to become one of the three leading suppliers within the product category that this company offers. The company has no stocked standard assortment. All products are customized and produced in an industrialized single-piece production system. Presently, the Danish branch has organized a multi-channel system for various segments. One of these channels is a merchant intermediated channel. This channel is the platform for the supplier's offerings to minor builders placing order not exceeding approx. 25.000 Euros each. Moreover, sales to B2C customers are organized through this channel. The supplier is represented by a sales representative with more than 20 years of experience in the business.

Merchant A, who is a member of a voluntary merchant chain, is a provincial outlet with 40 employees, and includes both a B2B department (60% of annual turn-over), and a B2C outlet (40% of annual turn-over). The respondent, who is representing Merchant A, is an employee with 40 years of experience in the trade.

Customer A is a minor builder with five employees. He has a contract on the renewal of outlets for a chain of B2C stores in the Northern part of Denmark, and another contract with a supplier of building materials for whom he mounts kitchens. These two contracts represent an important share of the builder's activities which primarily are composed of contracts for payment on an hourly basis. Less than 20% of his activities originate in tenders and 50% of his activities relate to repairs and construction of private estates. The builder is represented by the owner who established his company 20 years ago.

9A.1 Interaction: Direct value functions

Price, quality and time of delivery

Customer A explains that all three criteria are important and the priority varies from one situation to another. But quality is the most important criteria, and to the extent that there is a trade-off, it is between quality and time of delivery:

> "It changes, it changes very much. But of course quality is the most important, and then time of delivery. Yes, that is it" (Supplier A: p.9)

Supplier A prioritizes differently, because he believes that he is competing with suppliers who offer a similar quality. Therefore, he is of the opinion that time of delivery and price are the important criteria, but they are influenced by seasonal fluctuations. From late spring until late autumn, time of delivery is perceived to be a stronger argument than price. In the remaining part of the year price becomes a more important argument, due to seasonal over-capacity in the industry:

> "My experience is that there are some waves. Before the summer-holidays and Christmas, nobody is concerned with the price. It only matters for the customers to get their orders before the holidays. Price is not important. But when Christmas is over, and the suppliers' order books are a bit empty, price becomes interesting" (Supplier A: p.26)

In comparison, Merchant A believes that the price is the most important criteria for the customer:

> "But essentially the price is the most important criteria" (Merchant A: p. 7)

So, the respondents are not in agreement as to the relative importance of the three criteria for the customer's decision making. However, time of delivery is not exclusively related to the arrival of the final product at the building site. Supplier A explains that fast reaction during acquisition is import, too:

> "There are quotations and order print-outs. The faster you can offer these, the more satisfactory it is" (Supplier A: p. 29)

Fast quotations and order confirmations are important for the merchant; when the order confirmation is received, the merchant can inform the customer and close the case. From that point on, the communication normally involves only the supplier and the customer.

Value dimensions in creating customer value

The respondents were asked to prioritize the five dimensions of value categorized as direct value functions (1= most important, 5= the less important). Customer A's and Merchant A's prioritizations are shown below in table 9A.I. The respondents were free to prioritize all, none or just some of the dimensions. Supplier A refrained from a prioritization. The interview also included a discussion of the value dimensions. This discussion is the foundation for the interpretation of the respondents' understanding of the value creation in the triadic relationship.

	Product	Logistics	Finance	Knowledge	Adm. support
Customer A	1	3	4	5	2
Merchant A	2	3		4	1

Table 9A.I: CASE A: Respondents' priority of value creating activities

Customer A and Merchant A are in relative agreement on the importance of the value dimensions in the merchant sale of customized goods. The product, the administrative support, and the logistics have the highest priorities. Customer A and Merchant A also agree that the product, in terms of functionalities and design, is the supplier's responsibility. This is supported by Supplier A who acknowledges that he takes the prime responsibility for the product quality:

> "The product; that is my responsibility" (Supplier A: p. 61)

The merchant's administrative support is of high value to the customer. In this case, administrative support specifically refers to support for calculations, offered to Customer A by Merchant A. Moreover, it includes assistance in measurements on the building site as the basis for quotations:

> "Sometimes, when we are really busy, I drop the drawings at the merchant's. Then they have an estimating and costing clerk, and he estimates the quantities" (Customer A: p. 15)

> "They help me in a good way. Somebody come along from the merchant's to the building site and assist me in measuring. I think it is a good service that they provide. It is often much nicer to be the two of us. Of course he is there to sell. And it is me who take the measures, it is my responsibility. But he is there to make notes, he writes it all down together with me, and he says: "Now you have to remember this and that"" (Customer A: p. 14)

These services are not standard, but granted to selected customers whom Merchant A regards as loyal:

> "These are the ones I trust, we call them gold-customers" (Merchant A: p.18)

However, Supplier A also assists Customer A in measurements; this element of the administrative support is a shared activity.

The logistics are handled by Supplier A who delivers directly to the customer's building site. Merchant A is not involved because the risk of damage, when storing at the merchant's, is perceived by the supplier to be too high. This does not apply specifically to Merchant A, but is regarded to be a general problem. But in the very rare situation, where a customer cannot receive delivery on the agreed date, the supplier must solve the problem and find alternative logistic solutions, in terms of intermittent storage. In such cases the merchant is involved:

> "We prefer not to use the merchant's store-house; because it happens that a truck hits the consignment and destroys it" (Supplier A: p. 57)

> "If a customer calls and says: "Listen I am in deep shit, we cannot receive delivery on Friday", then I cannot just drop the consignment in the ditch. Precisely in such incidents, the problem is solved by the merchant as our partner, and the consignment is intermittently stored in his warehouse, but it happens very rarely" (Supplier A: p. 60)

It is noteworthy that the finance dimension in terms of risk on debtors, liquidity and risk on product guaranties is not prioritized at all by Merchant A, and has a low priority for Customer A. However, it may be that this prioritizing reflects the fact that the interview took place in a period when banks were willing to give business customers extended credits, and payment failures were rare. Consequently, the value of the liquidity offered by merchants was less valued by the customer. In addition, Merchant A explains that he reduces his risk on product guaranties in his selection of suppliers:

> "We only use supplier which our chain regard to be well-established and sound. We do not involve ourselves with hagglers or wheeler-dealers" (Merchant A: p. 16)

The low prioritizing of product-knowledge reveals that neither Merchant A nor Customer A regard this to be of importance in merchant intermediated sales; not that it is an unimportant element of value creation. But it seems that both parties have become accustomed to a situation in which this activity cannot be handled by merchants. Customer A gets his knowledge from suppliers who offer various seminars, and from courses organized by trade-related organizations:

> "There are refresher courses, constantly. And we join all the time. And when something new happens we are invited by the suppliers for seminars. They are very active" (Customer A: p. 13)

Supplier A tells that generally merchants cannot be relied on to inform customers on product details, or to be able to solve problems related to product specifications, special mountings, or special demands. This is the supplier's obligation:

> "We often have the contact both with the merchant and the customer, in order to be sure that everything works out fine. I have to say that little by little it seems as if the merchants' knowledge is falling apart; they do not know enough" (Supplier A: p. 13)

Summing up, Supplier A is responsible for two of the value dimensions, which Customer A and Merchant A believe to be most important; i.e. the product and the logistics. He also offers product knowledge, which the customer assesses to be important. Merchant A is responsible for the administrative service, primarily in terms of calculation support. Moreover, Merchant A and Supplier A sometimes assist Customer A in taking building-site measurements; an activity which Customer A links to calculation as an administrative service offered by Merchant A. However, background interviews have shown that in the case of customized building materials handled in Case A, the calculation is in fact carried out by the back-office of Supplier A. This is an important activity and the resources involved in the execution of this activity are considerable. This is indicated by the fact that Supplier A has established a calculation department in the Baltic countries, to reduce the costs involved in performing these services.

The value of the customer to the merchant and the supplier

The above descriptions all refer to the ways in which Merchant A and Supplier A cooperate in creating value for the customer. The value of Customer A to the two other actors partly emerges in the discussion of relationships. The value of the customer to the merchant relates to the aspects of volume and profit. According to Merchant A, the earnings of a merchant are a result of the combined income from profit on customers, and discount schemes offered by the suppliers. Merchant A explains that the profit on customers is decreasing due to competition among merchants:

> "There have always been low-profit articles; this means articles where we only live on the suppliers' annual bonus. But it is, it has become more, and more – more and more groups of articles are added, because the merchants fight each other and undercut the prices simply to get some turn-over" (Merchant A: p. 13)

This being so, the suppliers' discounts and annual bonus to merchants constitute an important source of income for the merchants. Background interviews show that the level of these discounts, and how they relate to volume, is a core issue in the annual negotiations of agreements between merchant chains and suppliers.

Supplier A understands the triadic activity pattern differently; for him the chance to create customer preference is a core issue. For two reasons: Firstly, because customer preferences are a means to reduce the effect of competition from other manufacturers who supply the merchants; it is a way to safeguard volume and profit. Secondly, preferences create the foundation for a long-term relationship which has the capacity to reduce costs due to institutionalization and adaptation. This is a mutual benefit for suppliers and customers, but only Supplier A mentions and explains this aspect of the supplier-customer relationship. His approach is based on his own experience as a carpenter:

> ”You know – I was a carpenter's apprentice. In that workshop the master carpenter preferred product X. Therefore, I got to know this product, I got familiar with it. It was not necessarily the best, but you were familiar with it, you knew it. And you knew how they handled complaints. It is a matter of habits, familiarity, and certainty. You know that it is handled like this” (Supplier A: p. 33)

Summing up, Supplier A sees safeguarding through relationship building as the means to the end; volume and profit, whereas Merchant A sees cost-economizing for customers as the means to reach the same goal.

The value of the merchant to the supplier, and of the supplier to the merchant

Merchant A only acknowledges the value of the supplier's cost-efficiency, and he does not find relational aspects of supplier relationships relevant, neither for himself, nor for his customers:

> “The supplier is a source of income; it is as simple as that. You take the order and find those who are best and cheapest. And the customer is indifferent to the identity of the supplier” (Merchant A: p. 22)

As to his own contribution to the supplier-merchant relationship, Merchant A sees it as a matter of volume, cost-efficiency in customer contacts, and guarantee on debtors. Supplier A agrees that merchants are important in attracting customers. He expresses the importance of this value dimension like this:

> "The merchant store is a sugar jar that the customers buzz around, and a small number of merchants are campaigning for new customers" (Supplier A: p. 62)

But in general, he does not perceive of the merchant as an active partner in sales:

> "Merchants are not active in creating sales" (Supplier A: p. 28)

However, Supplier A points to guarantee on debtors as an important element of the value that the merchant offers the supplier.

The below table 9A.II is a summation of the respondents' perception of their input to, and output from the value creation process. When comparing the cells two by two in the vertical and horizontal dimensions, some interesting insights are achieved.

The merchant sees the supplier as a means of income, and likewise sees his outcome of the customer relationship as a matter of volume on which a profit can be made. He does not recognize the supplier as a party who invests resources in the servicing of the merchant's customers with logistics, calculations and product knowledge. But combined with the product, these services are the origins of the value creation on which the merchant gains his revenue. The supplier is more observant to the services rendered to him by the merchant, in terms of facilitating customer contacts and consequently business volume. But it is also obvious that for the supplier the safeguarding of the business through preference-building relationship to the customer is a core issue in the value that he achieves from the business.

	To Supplier	To Merchant	To Customer
Supplier perceives to give (the input)		Profit Customer service	Product Logistics Knowledge Calculations Measurements
Supplier is perceived to give (the output)		Volume Profit	Product Logistics Knowledge
Merchant perceives to give (input)	Volume Cost-efficiency in customer contact Guarantee on debtors		Good prices Calculations Measurements
Merchant is perceived to give (output)	Customer contacts Liquidity to customers Guarantee on debtors		Calculations Measurements Liquidity
Customer perceives to give (input)	(Not explicitly expressed) Volume Profit	Profit	
Customer is perceived to give (output)	Safeguarding resulting in Volume Profit	Volume Profit	

Table 9A.II CASE A: The respondents' perception of the parties' value input to and value output from the activities

The details of the value creating activity patterns are explicated in Customer A's perception of what he is offered, and Supplier A's and Merchant A's perception of their involvement in these activities (fourth column). As indicated by the table, Supplier A sees himself as the actor who contributes to the majority of the activities, but Customer A does not realize that in this specific relationship the calculations are an activity executed by the supplier. Merchant A believes himself to be a cost-reducer, but the customer does not believe so; on the contrary, the involvement of the merchant is regarded as a cost-drain in customized goods. Customer A says:

> "It would be an advantage if you could skip one link in the chain. Then you would have a more competitive situation and be able to sell at a lower price" (Customer A: p. 8)

Thus, the respondents are not in agreement of what is valuable, and the respondents' perception and interpretation of the division of labour in value creating activities in the triadic relationship are not similar. Moreover, the table illustrates that a large share of the activities is taking place in the relationship between Supplier A and Customer A. Important aspects of the traditional intermediary activities, in terms of logistics and information (product-knowledge), have shifted to the supplier, and now constitute the base of the supplier-customer relationship, not the merchant-customer relationship.

9A.2 Interconnection: Pattern of intermediation

The actor's perception of the triadic relationships

All three respondents experience the relationships to be interpersonal, not inter-organizational. In the triad, Supplier A is the respondent who is most observant and expressive as to the possible effects of personal relationships for business opportunities:

> "I think that a lot of people don't understand the business, because they don't realize how much personal relationships mean" (Supplier A: p. 19)

Customer A claims that within certain geographical limitations merchant sales follow the person; i.e. if a sales person at the merchant's changes position to another merchant's there is a high probability that his customers will follow him to his new employer. This is what Customer A himself has done:

> "Originally I was a customer in the outlet where Merchant A is employed. Then I moved to a merchant in Town X, then I came to a merchant in Town Y. It is actually the man I follow, with whom I move around a bit. Now he has started on his own in Town Z, and it is a little too far away. So now I have returned to Merchant A's store again" (Customer A: p. 5)

Merchant A confirms that customer relationships at the merchant's are personal. If for some reason he is off duty, he informs his customers in advance and refers them to a colleague who is responsible during his absence:

> "When we are on holidays we refer our customers to a colleague. I call my customers and tell them that I am on holidays in this period, and tell them whom to contact. Then my customer knows whom of my colleagues I have informed of his case, and thereby who to get in touch with" (Merchant A: p.24)

Supplier A explains that a customer relationship sometimes is very rapidly established:

> "The other day a builder called me and asked if I could come and help him making some measurements for an order with difficult angles. And of course I helped him and got the order, although he probably had asked somebody else, too. And it did not take long before this new customer's merchant called me with another order for him. It is because, he got my card and experienced that I took an interest in solving his problems" (Customer A: p. 44)

On the basis of the personal relationship, the supplier's sales representative achieves an insight into the customer's routines and preferences. Likewise, the customer learns about and gets used to the supplier's handling of orders, and gradually the acquisition costs of both the supplier and the customer decrease. A parallel development takes place between the supplier and the merchant and between the merchant and the customer. Supplier A believes these mechanisms to be important for the understanding of the customer's and the merchant's preferences; they are a matter of relations which facilitate the interaction between the parties involved:

> "You know, first time a builder approaches a merchant, he is directed toward a person, who becomes his regular contact. And if he is good, the customer stays. The percentages that the merchant earns mean nothing, because if the builder has a contact-person, who understands what he says and is able to deliver what he wants, then the builder is satisfied. And if the merchant says, try this supplier, and the builder gets a good experience, then he builder will continue to use that supplier. So we have two points of access. Either to give the customer a good experience, or to give the merchant a good experience, which makes him recommend us to the customers" (Supplier A: p. 30)

Thus, a supplier has two points of access for relationship building; his merchant and his customer relationships. The merchant can initiate a process which may result in a customer being willing to try out an alternative supplier than his preferred one. Therefore, the merchant-customer relationship is important. Likewise, a customer who has preference for a specific supplier may educate the merchant. The interaction with the customer's preferred supplier entails that the merchant gets used to the supplier's routines as a side-effect of servicing the customer.

The respondents' interpretation of the role of the merchant and the intermediation pattern differs. Merchant A sees himself as the customer's provider, and perceives the relationship with the customer to be cooperative:

> "I believe we are providers for our customers; we are their partners in purchasing" (Merchant A: p. 19)

In contrast to this understanding, Customer A perceives Merchant A to be a cost-draining barrier standing between Supplier A and himself. But ideally, Customer A sees the merchant as the customer's provider:

> "I would like to regard him as my right hand, but I do not think that he is" (Customer A: p. 18)

Generally speaking, Supplier A perceives merchants to act as the customers' providers in B2B exchanges; whereas he sees merchants as the suppliers' distributors in B2C exchanges:

> "For builders the merchant acts as provider, whereas he plays the role as our distributor, when the customer is a private end-user" (Supplier A: p. 70)

The interpretation of the pattern of intermediation as a chain like (open triadic structure) or triadic also differs among the respondents. Both Customer A and Supplier A visualize the pattern of intermediation in Triad A as triadic. In comparison, Merchant A considers such triadic arrangements to be rare and visualizes Triad A as a chain of dyads; an open triadic structure. Supplier A sees triadic intermediation patterns to be an ideal for merchant intermediated sales, which he believes to depend on open communication between the involved actors.

Thus, the respondents do not demonstrate high degrees of mutual understanding of the triadic relationships. They do not agree on the importance of their dyadic relationships, the role of the merchant, or whether the pattern of intermediation is triadic or chain-like. But they agree on one aspect of relationships. They perceive them to be personal, and these personal relationships are the building blocks on which the interaction is built. This being so, Supplier A's platform for relationship building depends on:

- His ability to create customer preferences
- His ability to service the merchant and create a merchant relationship, which becomes an incentive for the merchant to promote the supplier to his other customers
- The ability of the merchant to create a good customer relationship

Consequently, Supplier A believes merchant-supplier and customer-supplier relationships to be very important, whereas Merchant A, as mentioned above, ignores the importance of merchant-supplier relationships.

Analysis of the embeddedness of relationships

Although the interviews specifically focus on the B2B exchange of customized goods in Case A, it is evident that the understanding of the triadic actor constellation has to include the fact that

1. Customer A also gets his supply of assortment goods from Merchant A

2. Merchant A is involved in Supplier A's B2C sales.

The embeddedness of exchanges of customized goods influences Case A. Whereas Customer A has some reservations as to Merchant A's role in customized goods; he is satisfied with his offerings in assortment goods. He points out that the availability of stocked assortments is a very important element in his business relationship with Merchant A. Likewise, Supplier A explains that merchants in general offer a very important

platform for suppliers' contacts with private customers who come to the merchant in order to be informed about and to order building materials for repairs and renewals.

Some of Supplier A's B2C customers belong to the DIY segment. They come to the merchant for quotations on materials. In such cases, the merchants' preferences influence their guidance of customers towards one or another supplier of building materials. Thus, the supplier-merchant relationship created in the servicing of B2B customers may influence the supplier's potential of having a share of the B2C DIY sales:

> "When a DIY customer comes to the merchant and says:"I need some building materials" and these building materials are customized, then the merchant will direct the customer towards a supplier with whom the supplier is familiar" (Supplier A: p. 34)

Other B2C customers are not DIY customers, but belong to a segment of private end-users who involve themselves in the decision making in building materials. In such cases the merchant will also direct the customers towards a couple of suppliers with whom he has good relationships, and who can fulfil the customers' demands. However, in this part of the B2C segment, customers increasingly tend to contact suppliers directly, based on the supplier's internet presence and presentations. The supplier handles such situations by making contact to a merchant that the customer chooses:

> "Today the internet, mails and all these facilities means that private end-user sometimes have been on the internet and found our homepage and clicked. Then the name and the mail-address of the salesman pops-up, and the customer sends a mail. And suddenly, you have access to the end-user. Then you have to work your way backwards and find out, who is the builder, and who is the merchant, but it is a detail, which it is possible to solve" (Supplier A: p. 15)

The involvement of a merchant is a means to conform to the demands in the exclusivity agreements in merchant sales of building materials. In principle, the merchant should take over from this point, but due to the merchants' general lack of product knowledge, the supplier is often involved in the servicing of B2C customers, too. From background interviews, it appears that this is a profitable resource investment for the supplier who often is able to close an above-average high-quality and high-price deal when he handles the case himself.

Summing up, the activities in Case A are concentrated in the relationship between the customer and the supplier. Customer A and Supplier A tend to see Merchant A as a cost-drain. However, they both accept the present organization of the relationships, but for different reasons. The customers satisfaction with the merchant in assortment goods is so high that it off-sets his dissatisfaction with the merchant's involvement in customized goods. For the supplier the future potential access to new B2B customers and B2C customers, which the merchant offers, is so valuable that he accepts the present state. He is willing to pay Merchant A a commission, and at the same time perform most of the activities from acquisition to operation. The embeddedness of relationships as perceived by Customer A and Supplier A are mapped in figure 9A.1 below.

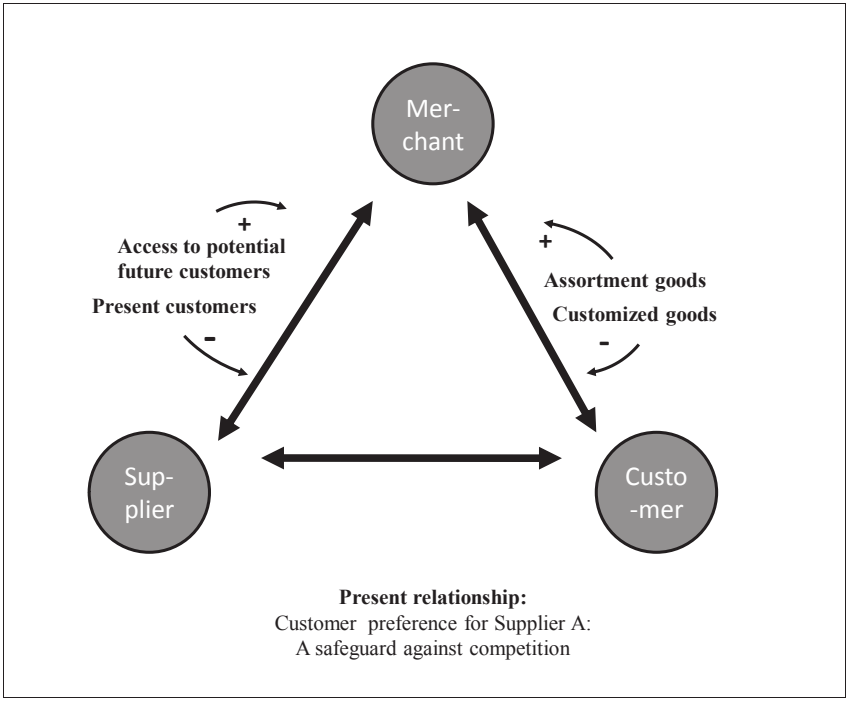


Figure 9A.1: CASE A: The mapping of Supplier A's and Customer A's perception of the embeddedness of exchange relationships

The constellation of interconnections interpreted as a pattern of intermediation

When the embeddedness of the ties in the triadic relationship is included in the interpretation of the pattern of intermediation, it tends to display a pattern of cooperative cohesion characterized by positive interconnections (see figure 9A.2 below).

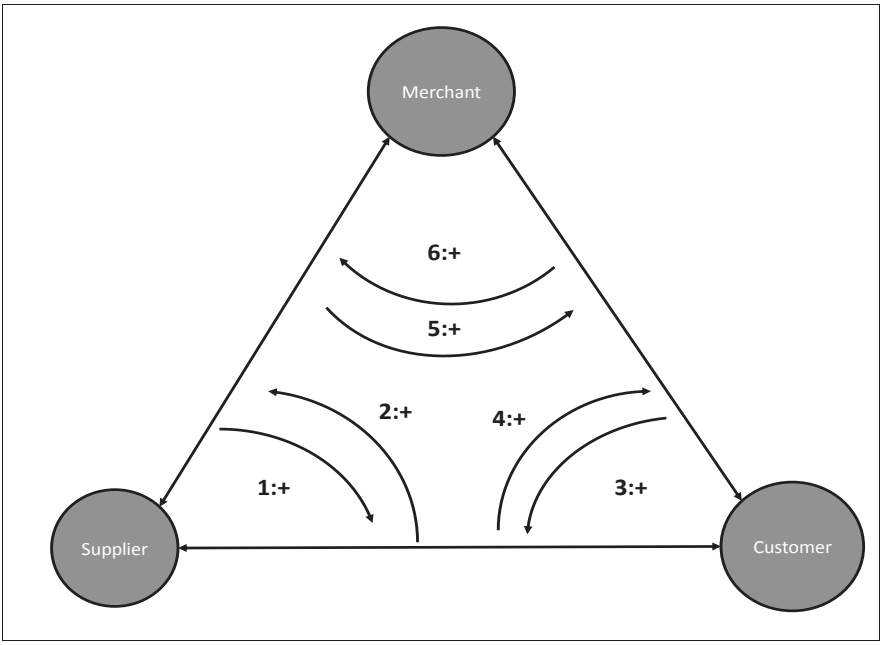


Figure 9A.2: CASE A: Constellation of triadic interconnection as a pattern of cohesive cooperation

As long as Supplier A has exclusivity agreement with merchant chains, the merchant-supplier relationship is a condition for the supplier-customer relationship (1:+). To the extent that Customer A is satisfied with his relationship with Supplier A, the supplier-

customer relationship influences the supplier-merchant relationship positively. It may encourage the merchant to do further business with Supplier A (2:+). Due to exclusivity agreements, the merchant-customer relationship is a precondition for, and facilitates the supplier-customer relationship in this constellation (3:+). The better Supplier A performs, the more the supplier-customer relationship will support the composite merchant-customer relationship. A high performing supplier is a better choice than a low performing alternative, in spite of Customer A's perception of Merchant A as a cost drain in customized goods (4:+). The fact that Supplier A is handling vital value creating activities for the customer implies that the Supplier-Merchant relationship supports the Merchant-Customer relationship (5:+). Finally, Supplier A is of the opinion that good merchant-customer relationships also influence merchant-supplier relationships positively (6:+).

The apparent collaborative cohesion depends on Customer A's evaluation of the arrangement. The present constellation in Case A will break up, if Customer A decides that a direct buyer-seller relationship is more profitable for the purchase of customized goods of the type handled in this case. If so, Customer A's relationship with Supplier A will disappear; i.e. the triadic relationship changes from a closed triadic structure with positive interconnections into an open triadic structure with no interconnection:

- Merchant A will no longer have business relations with Customer A relating to offerings from Supplier A
- Merchant A and Supplier A will no longer have mutual activities relating to Customer A, only to other customers and
- Supplier A loses the access to Customer A

Thus the data point to the fragility of Case A; the present pattern of intermediation is stable, but fragile.

9A.3 Position: Indirect value functions

This section takes Supplier A as the focal actor and analyzes the interplay of interaction (direct value functions) and interconnection (pattern of intermediation) as a result of Supplier A's positional considerations (the indirect value function).

Supplier A is employed by a Danish division of a Scandinavian group. Based on background interviews with the CEO and the sales director of this organization it is possible to describe the organization of sales in the Danish division as multi-channelling: The supplier offers alternative brands in direct channels, both for minor builders and for actors in the

construction industry who are involved in projects based on tenders. The role of the department involved in the triadic relationship in Case A is to reap the benefits of maximizing access points to minor professional customers, who prefer or accept merchant intermediated exchange, and to private customers. The cost is that this channel is not efficient for sales to large projects:

> "Often it is the profit for the merchants, which means that we cannot win the tender" (Supplier A: p.11)

The relationship between B2C customers and the construction industry is fundamental in Supplier A's interpretation of the positional advantages of the pattern of intermediation displayed in Case A. The products offered by Supplier A do not exist in many varieties, but the combination of a limited number designs, and a limited number of functionalities, have to be adapted to a specific geometry. This has to be exactly right for the product to fit into a new construction or a renewal project. This is a core activity in the supplier's servicing of and problem-solving with the customer. This is not quite simple, and therefore many private end-users choose to involve professional builders in the mounting of the supplier's product. This creates a specific type of interdependence between the activities performed by builders in the construction industry and the building material industry. Supplier A's description points to the existence of a complex B2B-B2C-B2B sequence. The pattern is illustrated in the below figure A 9.3. The reasoning goes as follows:

If a merchant has a positive experience with Supplier A, his propensity to recommend him to private customers increases.

- On the conditions that
    - the private customer chooses to follow Merchant A's recommendation of Supplier A's offering and
    - the customer engages a builder with no former experience with Supplier A's products and
    - the builder gets a superior experience with Supplier A, compared to his existing preferred supplier
- Then a window of opportunity opens and a future potential B2B relationship is founded

Behind this pattern lies the fact that the building materials in this case have a life-cycle of app. 20 years. In consequence, the chance of a B2C re-buy is small, whereas professional builders use this type of products on a regular basis. Therefore, the chance of getting new B2B customers on the basis of B2C purchases has to be considered.

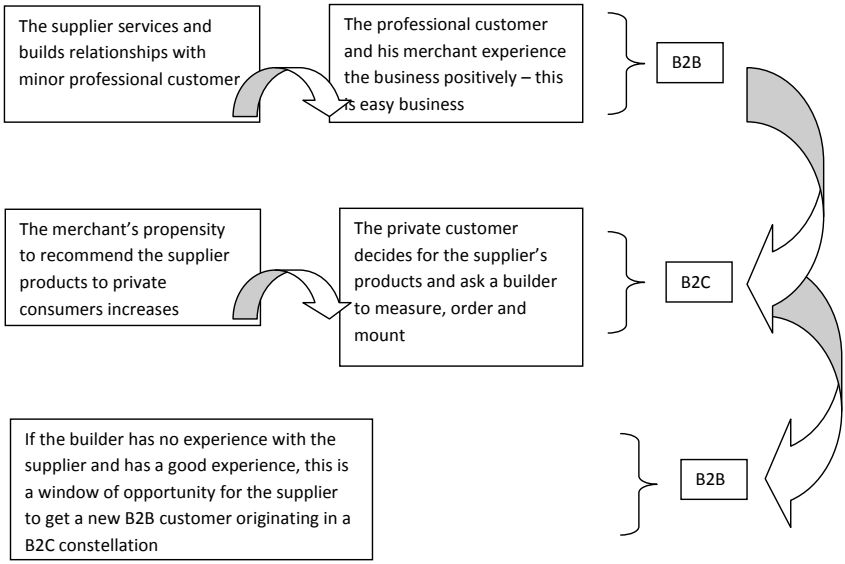


Figure 9A.3: A B2B-B2C-B2B sequence in the building material industry

The modelling of this sequence changes the understanding of the pattern of intermediation in Case A. From Supplier A's point of view, the interesting element in the existing pattern of intermediation is not purely a matter of supporting Customer A's preference, and his continued choice of Supplier A's merchant intermediated channel for customized goods. Supplier A believes that his relationship with Merchant A is a vehicle to establish new relationships (an indirect value function). Thus, the present pattern of intermediation may look like cooperative cohesion, but the inclusion of the supplier's perspective indicates that alternatively it can be interpreted as a complex pattern of initiation (see figure 9A.4 below). In this connection, the position of the merchant as the "sugar jar" is crucial. He acts as the gateway to private customers, and these private customers offer the potential of new B2B relationships.

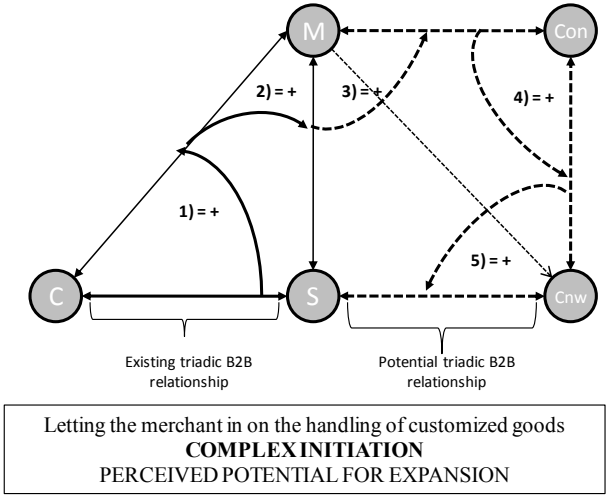


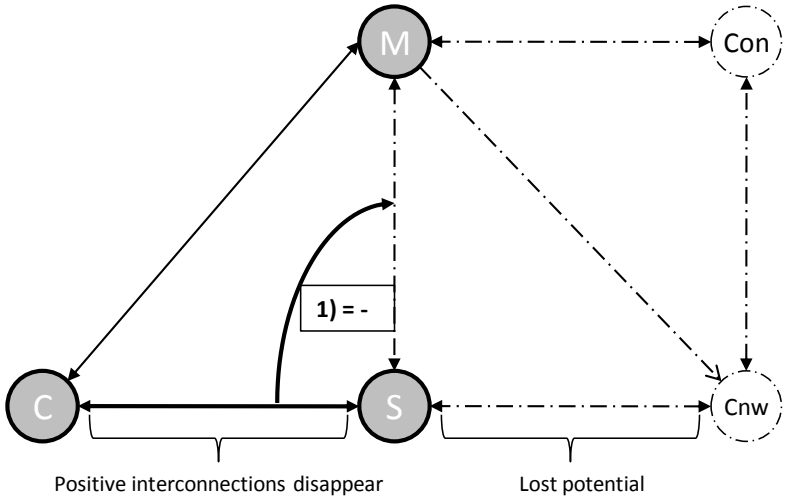
Figure 9A.4: Case A: Supplier's perception of present pattern of intermediation as initiation

Figure A9. 5 illustrates that:

1) =+: The supplier (S) invests in high performance for customers in existing triadic B2B relationships. This influences the relationship between the customer (C) and the merchant (M) positively. The supplier handles the problems and satisfies the merchant's customers
2) =+:The supplier's performance in the customer-supplier relationship, which strengthen the customer-merchant relationship, spills over and supports the merchant-supplier relationship.
3) =+ Consequently, the merchant's propensity to recommend the supplier to a private end-user (Con) increases
4) =+: The private end-user may involve a builder (Cnw) with no prior knowledge of the Supplier A's offering and introduce him to Supplier A
5) =+: If this builder (Cnw) has a positive experience, the potential of a new triadic B2B relationship is present

Supplier A is safeguarding his present B2B relationships (direct value function). But at the same time, he is achieving possible future market access (indirect value function) through the merchant. This becomes even more evident when the supplier's perception of the

possible alternative; avoidance is considered (see figure 9A.5 below). If Supplier A (=S) offers direct sales to Customer A (=C), the consequences are perceived to be dramatic. Merchant A (=M) will no longer consider Supplier A for other present or potential future customers, neither in B2C or B2B. He will be excluded (1= -). Thus, the inclusion of the supplier's perspective on the investment in and on the outcome of the present pattern of intermediation points to the importance of his position vis-à-vis the merchant in the analysis of triadic relationship.



Leaving the merchant out of the handling of customized goods
AVOIDANCE
LOST POTENTIAL FOR EXPANSION

Figure 9A.5: Case A: Supplier's perception of the consequences of avoidance

Concluding comments on the analysis of Case A

The analysis of interaction and interconnection in Case A produces a pattern of intermediation which resembles cooperative cohesion. It depends on Customer A's willingness to continue his purchases of customized goods through Merchant A. If he chooses a direct channel, the relationship between Supplier A and Customer A vanishes and the triadic relationship dissolves. Thus, for Supplier A there are two options in this situation: 1) Either to go on servicing Customer A at a performance level which satisfies Customer A and off-sets the higher price paid in merchant intermediated systems. 2) Or to offer a direct channel to Customer A. He chooses the first option.

He does so, because this approach offers the best possibilities to combine:

1. The strategic advantage of safeguarding present customer relationships through relationship building and
2. The strategic advantage of initiation to future customers, offered by the merchant

It is a matter of balancing direct and indirect value functions. The inclusion of Supplier A's positional considerations results in a re-interpretation of the pattern of intermediation in Case A. The observed pattern of activities (the interaction aspect) is supporting a perceived pattern of complex initiation (the interconnection aspect). This pattern combines the chance to preserve present relationship with future network potential in a complex B2B-B2C-B2B sequence.

9B: CASE B

The case involves a major European supplier of building materials. The Danish division has organized its sales in two separate departments. One for off-the-shelf assortment goods offered to B2B merchant departments, their B2C outlets, and DIY stores. The other for customized offerings, and this is the department involved in triadic relationship in Case B. The respondent representing the supplier (Supplier B) has more than 20 years of experience from various positions in the building material industry, and has been employed by the supplier for 10 years.

The merchant is a privately owned organization, which has a small number of outlets of which the one involved in Case B centers on B2B activities (90% of turnover). The organization has 135 employees of whom 50% are employed by the department which is involved in Case B. This outlet has a specialized B2B project department with 5 employees, which is the unit participating in Case B. The merchant is not part of the dominating voluntary and capital merchant chains, but is a member of a purchase group which organizes the supplies for 10 timber-merchants. The respondent (Merchant B) has a long experience in the trade and has been employed in his present position for five years.

The customer is ranking among the 25 largest builders in Denmark specialized in wooden constructions and the mounting of wooden building materials. The organization has 60 employees of whom 7 are staff. The company is specialized in B2B projects based on tenders, and only has a very small share of its turnover from B2C activities related to construction and renewal of private estates. The company is one of the supplier's largest single customers. The respondent (Customer B) is a carpenter with long experience in the trade. He is the managing director of the company and has been so for a decade.

The triadic relationship is handling substantial and complex orders of customized building materials. However, Merchant B is also supplying Customer B with assortment goods, and Merchant B's organization is marketing Supplier B's assortment goods.

9B.1 Interaction: Direct value functions

Price, quality and time of delivery

All three parties to this triadic relationship agree that price is important, but not necessarily the most essential criteria. Merchant B expects that his suppliers quote acceptable prices, and his suppliers know that this is a precondition for business. Therefore, Merchant B focuses much more on quality and logistics. The logistics are

important, because delays are costly to the customer. The more so, in this specific case, because the articles exchanged often are the last elements to be mounted before a construction is completed. This implies that the builders have no alternative activities, to which they can attend, if deliveries are delayed or incorrect. This is confirmed by Customer B who states that:

> ”Many builders believe that price always is the most important. But I think that a higher price is okay, if I know that it works instead of getting faulty deliveries” (Customer B: p. 26)

Likewise, Merchant B points out that the lowest price is not necessarily the right price. He explains:

> “We do not offer the lowest price for tenders. Especially in tenders, the specifications on which the suppliers quote may be incomplete, and then 20% of what the builder needs is missing in the quotation. So it is important that we are not at the bottom with the price. But of course the price must not be too high, because then our customer will not win this project. So it is a bit of a game to quote realistic, good prices. Because if our customer wins the tender, the first thing he says is: “I hope you have not been to cheap in this case”. Because if you can find something afterwards, then it is his way to get covered what is forgotten. If there are additional costs at the building site or whatever it could be. It means that the good purchases he can make after the fixed price is given; that is his earnings with which he can cover unforeseen expenses, because there always are such expenses for our customer. And that is the type of concerns that I also centre on” (Merchant B: p. 21)

So, quotations for tenders have to include so much slack that un-included details and unforeseen add-ons can be covered. There has to be a buffer in order to make room for a profit to the builder, but on the other hand the price still has to be competitive.

Perfect deliveries are partly a matter of correct specification of physical attributes and features of each item, and partly a matter of logistics. Supplier B describes this in more details:

> "If there are imperfections in the details of an item, there is no time for improvement. The builder runs the risk of daily penalties on tenders, if the time limit is exceeded. It can be very expensive. Therefore, the groundwork for the order is very important, so everything is perfectly in order, when the order goes into production" (Supplier B: p. 22)

And this groundwork includes detailed logistic:

> "Logistics is not just a matter of time of delivery. It is a matter of the right distribution of items at the right time. So time of delivery is related to logistics" (Supplier B: p. 21)

Thus, the logistics include detailed specification plans which point out the precise location and time of delivery of each item comprised in a consignment. Summing up, all three parties in this triadic relationship apply an expanded perspective on the price-issue. They include the importance of cost-reductions from perfect deliveries as a value worth paying for.

Value dimensions in creating customer value

The respondents were asked to prioritize the five dimensions of value, categorized as direct value functions. The respondents were free to prioritize all, none or just some of the dimensions. The only respondent who did prioritize was Merchant B. His prioritization is illustrated in the below table 9B.I. The other two respondents chose instead to comment on and debate the division of labour and the importance of the value dimensions. These discussions are the foundation for the interpretation of Supplier B's and Customer B's understandings of the value creation.

	Finance	Logistics	Product	Adm. support	Knowledge
Merchant B	1	2	3	4	5

Table 9B.I: Case B Respondents' prioritization of value creating activities

Basically, Customer B believes that merchants are irrelevant in exchanges of customized goods:

> "The merchant's involvement is justified in assortment goods, but there is no justification for the merchant in customized goods" (Customer B: p. 23)

Therefore, Customer B does not perceive any value of Merchant B's involvement in the triadic relationship. He perceives the value output to be a result of Supplier B's input in the value dimensions of the product, the logistics, the knowledge, as well as administrative support (in terms of backup from the supplier's internal back-office). Thus, the customer perceived value of the triadic constellation cannot sustain the involvement of the merchant in this intermediated exchange pattern. When asked directly, Customer B confirms that the perceived value of his merchant relationship would increase, if Merchant B was not involved in exchanges of customized goods (Customer B: p. 37).

Supplier B's perception of the organization of the activities is similar to Customer B's. The supplier is prime responsible for the product, the quality, deliveries, logistics, and product knowledge, including knowledge about novelties and new solutions. Moreover, Customer B and other large customers sometimes involve Supplier B in the cooperation with the architects in large projects:

> "In large projects the builder sometimes asks me to get in touch with the architects, because the specifications sometimes are so demanding that the builder cannot handle them" (Supplier B: p. 25)

When this is the case, the supplier ends up with a coordination task which goes much further than his own part of the delivery. Merchant B confirms this division of labour, when explaining the justification of merchant involvement in customized goods. It is a matter of risk on guarantees, occasional transport, and especially the logistics in the sequencing of assortment goods so that they fit into the logistics of customized goods:

> "Normally customized goods are sent directly from our supplier to the building site. This is where we can show our worth. We are going to combine with assortment goods, and they have to fit precisely, and be ready at the building site, when they are needed" (Merchant B: p. 68)

And it is a matter of acting as the customer's ambassador in negotiations with suppliers, when guarantees on products are to be actualized and faulty deliveries corrected. But in Case B such problems are avoided and handled in the supplier-customer interaction. However, Merchant B also points to a number of supporting activities performed by the

merchant for the customer, such as copying of drawings in large formats in multiple sets. These services have become so institutionalized that the value of this input tends to evaporate.

The discussion of calculations, as a possible merchant input to the value creation process, indicates that both Merchant B and Customer B conceive of an alternative, and quite different role for merchants which could change the merchant's input to the value creation process. Customer B has his own calculation department and regards the present calculation support offered by Merchant B as a service from which minor and newly established builders can profit. But if Merchant B could and would take responsibility on systems deliveries, and offer quotations for all building materials needed for a construction, this could be an important cost-reducing and value creating activity. However, Customer B believes the merchant to be unable to engage in such liabilities:

> ”When I am going to build, then I get a drawing which tells me that I am going to mount these building materials with a specified list of add-ons. Then the timber-merchant shall say: “We sell you a package including the correct add-ons. And then we take responsibility”. But they will not take responsibility. They say that they do not know it all. But listen; they have the same drawings as I. If they had an expert to handle this, and he found 10 flaws in the project description, then they could mail me a sheet of paper, which I could send to the architect. And then I would see to it that the merchant gets the answers he needs. And then he is welcome to earn a commission. Because then I can reconsider the manning of my office” (Customer B: p. 22)

Merchant B confirms that it is difficult for merchants to take over such responsibilities:

> “The damned thing for us it is – we can make a calculation, but who knows whether quantities are correct. To dare say: This is what you need. Although I think this is an interesting field to enter. Because I think it would be exciting if people came and said:”Here is a house, what is the price”. But it is difficult, many things influence the situation. If we guarantee such a delivery of building materials – how much is taken away from the building sites in the cars. We cannot control it when the building materials leave our premises” (Merchant B: p.23)

Apparently, there are two difficulties involved for Merchant B. One relates to the calculation of quantities. The other difficulty relates to flow of materials and waste on the building site which cannot be controlled, if the merchant is not present. So, in spite of the

potential in such merchant activities, Merchant B renounces on engagement in tenders for all materials for a project, due to the potential liabilities. The merchant only involves himself in very limited and precisely defined standardized constructions such as storage buildings. Thus, Customer B experiences to carry the full responsibility on the projects in which he engages.

The value of the customer to the merchant and supplier

For Merchant B Customer B is a source of income as he is receiving discounts from Supplier B on all deliveries of customized goods that he invoices to Customer B. Thus, he is interested in being part of the B2B exchange of as many types of customized goods as possible. And he is interested in promoting expensive high quality products, because the level of commission is dissimilar on cheap and expensive products. However, Merchant B states that the commission on customized goods in B2B is not as high as implied in the media:

> "There is a certain level of commission and actually it is not that high. Many believe –wow – it is 100%. But this is not the case. In fact we talk of less than 10%. That is how it is in our company"(Merchant B: p. 42)

For Merchant B customers are also an important source of information, because they are the ones who monitor, inform and involve the merchants in tenders which add to the merchant's volume and profit:

> "The typical procedure is that a tender is published, and then we are informed by our customer, who sends us a set of drawings, and then we can get started" (Merchant B: p. 20)

Moreover, he points out that the customers are the ones who introduce new products and brands to the merchant through their demand. For the merchant, this lowers his risk on novelties. When the customer demands novelties, he carries part of the liability if anything goes wrong:

> "If a customer comes and orders something we do not know, then we gladly buy it. We haven't imposed anything on him, which we claim to be excellent. And it makes a difference if there is a problem with the delivery" (Merchant B: p. 79)

Supplier B did not explicitly state the perceived value of Customer B. But basically, a customer is a source of profit. In Case B, the turn-over is so substantial that Customer B is very important to safeguard, as he has specialized in the mounting of the suppliers' products, and therefore is one of the single customers who offers very high volumes.

The value of the merchant to the supplier, and of the supplier to the merchant

Supplier B prefers that Merchant B and other merchants, who are participating in equally substantial exchanges, do not involve themselves. He prefers that the merchant stays out of the interaction, when the merchant has received, organized and divided the material for a tender into relevant parts; a task which Supplier B acknowledges as a cost reducing contribution. It only creates confusion and unnecessary resources for coordination if the merchant gets involved in the communication:

> "I take all large project, and I prefer that the merchants keep away, because it only causes confusion and distraction" (Supplier B: p. 10)

The high level of supplier involvement saves a lot of hours for the merchant who can refrain from investing man-power and resources during acquisition:

> "We save them a lot of trouble and this means hours" (Supplier B: p. 20)

The subsequent cost-reduction is perceived by Supplier B to be just as important for the merchant, as the price. Merchant B describes the activities similarly. He expects suppliers of customized goods to support him in the servicing of his customers, including measurements at the building site. And he sees Supplier B's organization of direct transport from the production site to the building site as a means to save costs and handling for all parties involved.

But in spite of the fact that Supplier B handles the lion's share of activities in this triadic relationship and similar relationship, he holds Merchant B, and merchants in general, in high esteem and finds that their contribution is important. The major contribution of Merchant B and other merchants is that they have sufficient knowledge to service minor B2B customers and the increasing number of private customers who are switching from standardized off-the-shelf items to customized versions of the supplier's offerings:

> "Of course there are differences between the persons, who are employed by merchants, because some of them really engage in the matters and other do not. It means that actually there are merchants, who can handle medium sized order on their own" (Supplier B: p. 13)

Thus, to Supplier B the value of a merchant is just as much a matter of handling other types of exchanges. So, it seems that services rendered by merchants in other types of exchange partly are paid off by suppliers in the triadic business constellations where the supplier and the customer handle the exchange with little merchant involvement. This will be discussed in more detail in the below sections about interconnections and positions.

However, Supplier B mentions that in orders for customized goods, Merchant B supports Supplier B with storage in heated store-houses, if the precise date of delivery is uncertain, or delays on a building site result in a need for temporary storage. In addition, Merchant B facilitates the acquisition activities for Supplier B. For tenders and large project where several builders are competing for the same project, Merchant B demands one quotation from the Supplier B which he applies in his calculation for more customers:

> "They get the projects". "Then they send the drawings to us, and we calculate a price for the specific project, where Merchant B serves four or five competing builders" (Supplier B: p. 14)

And a merchant, with whom the supplier has a close relationship, can also act as a scout and inform the supplier on competitors:

> "I can get some information about our competitors at a timber-merchant, of course" (Supplier B p. 35)

Moreover, the merchant carries the risk on debtors. Consequently, Supplier B can take out one single credit insurance on Merchant B, instead of multiple insurances on Merchant B's individual customers.

As Customer B perceives that the merchant adds no value at all, he should not accept the present state of affairs, but in one single remark he states and explains the organization of activities. It is the result of Supplier B's choice of marketing channels:

> "Essentially it is the supplier who chooses the channel" (Customer B: p. 41)

	To supplier	To Merchant	To Customer
Supplier perceives to give (input)		Customer service Profit Volume	Product Logistics Knowledge Adm. support
Supplier is perceived to give (output)		Customer service Volume Profit	Product Logistics Knowledge Adm. support
Merchant perceives to give (input)	Finance Adm. support		Adm. support
Merchant is perceived to give (output)	Finance Adm. Support Scout Occasional storing		Nothing
Customer perceives to give (input)	(Not explicitly expressed) Volume Profit	Profit	
Customer is perceived to give (output)	Safeguarding resulting in Volume Profit	Volume Profit	

Table 9B.II: CASE B: The respondents' perception of the parties' input to and output from the activities

Thus, Customer B must accept Supplier B's choice of channel if he wants to purchase his offerings. However, the triadic relationship B has been adapted to resemble a direct buyer-seller relationship as much as possible in order to accommodate Customer B's preference for this organization of the exchange relationship. Customer B states that contrary to the normal procedure in merchant intermediated sales, Supplier B quotes the prices, and

Customer B expects Supplier B to solve the problem of finding a level of commission for Merchant B which is sufficiently low to be competitive, and high enough to satisfy the merchant. And apparently, Customer B is confident that this is the case. During an unrecorded part of the interview, which took place as a walk-and-talk on the premises, Merchant B explained that he had offered Customer B the possibility to come to his office at any time and read the agreement between Supplier B and Merchant B on commissions. But Customer B had never done so. The above table 9B.II sums up the respondents' perceptions of their input to and output from the value creation process.

When comparing the cells vertically and horizontally two by two, the parties are in relative agreement of the pattern of input and output. Anyhow, the pattern is intriguing. It reflects that the intensity of interaction and value-creation is concentrated in the relationship between the Customer B and Supplier B, but still Merchant B is having a share in the output, in terms of profit. And this is accepted by Supplier B. Thus, the supplier's high level of service to the customer can be interpreted as a means to safeguard the customer in a sales arrangement which is not fully satisfactory to the customer.

9B.2 Interconnection: Pattern of intermediation

The actor's perception of the triadic relationships

All three parties to the triadic relationship agree that it is based on personal relationships characterized by trust. They perceive this to be a general characteristic of relationships, both between suppliers and customers, customers and merchants, and merchants and suppliers in merchant intermediated sales. Supplier B explains that these personal relationships have the side-effect that customers change merchant relationships when their contact at the merchant's leaves his job and gets employment in another merchant's organization:

> "You can take some of those, who are employed by merchants, you know, if they move from one merchant to another one, then they bring some customers along, because it is a matter of relations, so it is" (Supplier B: p. 15-16)

However, both Merchant B and Supplier B explain that such personal customer-merchant relationships are sustained by the merchant's knowledge about the customer's preferences and routines, as well as knowledge about supplier capabilities. But Merchant B also points out that a delicate balance is to be observed between good relationships and friendships:

> ”I think you have to take care. And I think that it is difficult for some to handle. You see, when you work together you get to know each so well that – you can get – I do not know what it is called, you become friends. And I think it is important that both parties say; there is a limit. Especially, if you also meet privately, as some do. Then I think it is time to reconsider” (Merchant B: p. 59)

Therefore, Merchant B believes that when a business relationship develops into a friendship, a colleague must take over the business relationship. Otherwise, both business and friendships are endangered.

For Merchant B customer relationships and supplier relationships are equally important. He depends heavily on his suppliers whom he regards to be partners:

> ”To me it is just as important to have a good relationship with our suppliers. We cannot act as brutes; we have to be able to look into their eyes tomorrow, when we have bought something today. We have to treat our suppliers like we treat our customers. There was a time when it was usual in our business to say that the customer is king and suppliers are to be used and exploited at our will. It does not work. If we are going to have good suppliers tomorrow, we must treat them decently today” (Merchant B: p. 12)

Good supplier relationships enable the merchant to offer the customer the right prices, good logistics, and fast processing of quotations and complaints. These partnerships constitute the foundation of the activities of the merchant’s project office. The supplier relationships develop over time and involve regular visits from the suppliers’ representatives:

> “These relationships develop over the years. We get to know the suppliers, the persons, the consultants who come to visit us. They come once or twice a month and in ten years it adds up to a lot of visits. In this way we get to know what we can expect from them” (Merchant B: p. 63)

It makes it difficult for a supplier to promise more than he can keep, and not to keep promises given. Every fortnight or so, he is confronted with his partner in the merchant’s project department, so if promises are not kept, it will not be forgotten. The trust created in such partnerships makes it difficult for new suppliers to get access to the project department in which Merchant B is working. Therefore, the project department depends on colleagues who are handling minor orders, to introduce novelties, whereas the project department acts as the technicians who know construction regulations by heart.

Supplier B also emphasizes the importance of trusting relationships between merchants and suppliers, but he believes that the merchants' ability to establish good customer relationships may be even more important than the merchant-supplier relationship. This is illustrated by the relationship between Merchant B and Customer B which has a long history. Merchant B was employed by another merchant, who merged with Merchant B's present employer some years ago. This former merchant only handled B2B customers, and when Merchant B's present employer approached Customer B in connection with the merger, Customer B agreed to stay as a customer on the condition that Merchant B would keep his job:

> "I only did business with one specific person at Merchant NN for many years. It was and still is the same person, who handles all our business. And it saved his skin several times. Because the whole division came to visit, but then I said: "Listen, this guy is going to be employed because, he is the one with whom we do business". And they know, and that is why our relationship is characterized by a certain freedom of action, because what can I say. Anyhow, as long as he can fulfil our needs and demands his job is secured. That is what I wanted to say" (Customer B: p. 22).

Together with a number of former colleagues, who were re-employed on similar demands from their trusting customers, Merchant B founded the project department for his present employer. This history indicates that although Customer B finds Merchant B's involvement in the triadic relationship in Case B irrelevant, his relationship with Merchant B is strong and characterized by trust.

It may be one of the reasons why Merchant B is very observant to the fact that all three parties to the triadic relationship have to get a profit from the exchange, if the co-operation is to function, and that the outcome has to be relative to the input. He explains that merchants have to consider the level of commission carefully:

> "We must constantly evaluate our efforts. Is it a matter of factoring, or are we participating in the activities. Are we involved in transports? How much do we contribute? Then we have to find out what is fair. We know that we carry the risk on debtors and product guarantees. And of course we are going to be paid for that. That is what we are going to earn. We have some people working here. But the less we are involved, because the customer and supplier communicate very much, the less there is for us" (Merchant B: p. 43)

In return, he trusts Customer B to be loyal to him in assortment goods, and this is the core business for Merchant B.

The triadic relationships and the division of labour are reflected in the parties' perception of the three-party constellation. Customer B perceives the relationship to be predominantly a direct buyer-seller relationship between Customer B and Supplier B. But when discussing customized goods generally, Customer B visualizes the general organization of the activities as triadic. This is confirmed by Supplier B and Merchant B. However, Supplier B perceives the organization of minor B2B orders and B2C exchanges of customized goods to be chain-like.

An interesting comment from Merchant B seems to confirm the general impression that he tries to balance the interests of the parties. When asked how he sees his role, he answers that it is a matter of factoring. He interprets Case B as a constellation having developed over time. The organization of activities suits the involved parties; it saves time and handling, and creates as little fuss as possible, so that the activities flow:

> "This is where it has landed – and we all feel comfortable about it" (Merchant B: p. 70)

This is supported by Supplier B. Merchant B is the minor party who is taking care of the factoring and the related financial services, and who is paid a relatively low commission, which reflects his limited input to value creation.

Analysis of the embeddedness of relationships

The embeddedness relating to the multiplexity of the relations between the parties to the triadic relationship in Case B, is important for the understanding of the interplay of interaction and interconnection in the triadic constellation. The embeddedness emerges throughout the interviews where the parties include the importance of

- Merchant B's role in supplies of assortment goods to Customer B
- Merchant B's role in servicing minor B2B customers and B2C customers in customized goods on behalf of Supplier B
- Merchant B's role in the marketing of Supplier B's standard assortment

As indicated by the description of the relationship between Merchant B and Customer B in the preceding section, Customer B regards Merchant B to be a very good partner in assortment goods. Not necessarily because the prices are low, but because it is convenient to have access to assortment goods nearby, and because the merchant is service-minded

and supports Customer B. To a large extent, this is a matter of the personalized service that Merchant B can offer Customer B, due to their long-term cooperation. He knows Customer B's preferences and routines, and in consequence he is able to offer high value cost-economizing services.

The importance of such services and the way these services relate to customized goods are explained by Merchant B as a matter of packing the deliveries of assortment goods around the direct deliveries from the suppliers of customized goods. All assortment goods must arrive to the building site in the correct sequence. The insight in Customer B's business enables Merchant B to find interesting services which fit into the customer's needs, too. This is illustrated by Customer B who exemplifies his satisfaction with his merchant's service-mindedness. If Merchant B has a truck which is not fully loaded, but heading for a town in which Customer B has a building site, Merchant B contacts Customer B and offers a free ride of building elements to the building site. This enables Customer B to get free transport of pre-fabricated construction elements made in his work-shop (Customer B: p. 37).

Likewise, Supplier B is very satisfied with Merchant B and other proficient merchants in the servicing of minor to medium-sized B2B customers, and of B2C customers. Such merchants, who have a good understanding of and knowledge about the supplier's offerings, are able to guide and support customers. Moreover, they are able to promote high-quality / high-price varieties, because they know the value of the attributes of such products and are conscious that it yields higher earnings:

> "The guys employed by merchants can often handle these cases. They know that it is profitable for them, if they sell up and close a deal on high-quality varieties" (Supplier B: p. 28)

Finally, merchants handle the majority of activities in the planning of logistics, the coordination, and other administrative services, in these minor cases. But most of all, merchant are marketers.

The merchants' roles as marketers are very important in relation to standard assortments. In this line of business, Supplier B and his colleagues seldom have any direct contacts with customers. Therefore, it is crucial that the merchants will display and stock a reduced assortment which is available for instant purchase and mounting. This assortment is primarily aimed at private customers, but is also part of the B2B standard assortment offered by a merchant outlet. The significance of this part of the business for the choice of channels for customized goods is evident:

”The merchants handle a lot of small and medium-sized customers for us. So you have to take care. Because if you establish direct channels to a number of large customers in a region, then it may happen that the merchants get angry and go looking for alternatives, because then they would lose their earning on the sales of customized goods to large customers” (Supplier B: p. 42)

Thus, the embeddedness of interaction related to customized goods in relationship which includes regular exchanges of assortment goods is vital for the understanding of the present triadic constellation. The embeddedness of relationships as perceived by Supplier B and Customer B is illustrated in the below figure 9B.1.

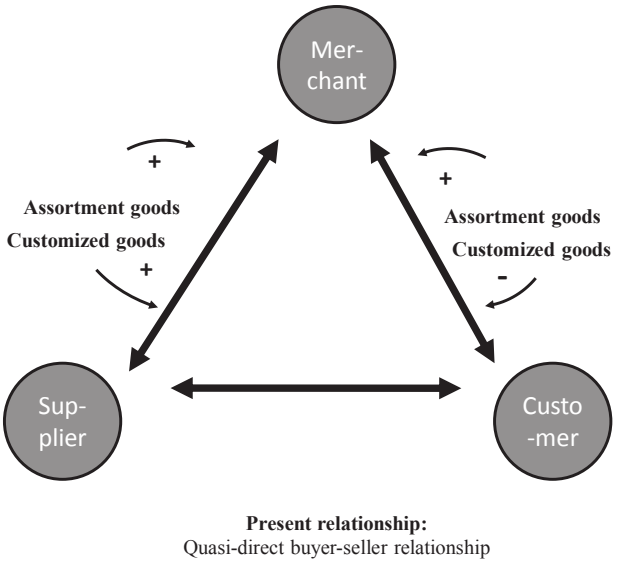


Figure 9B.1: Case B: The mapping of Supplier B’s and Customer B’s perceptions of the embeddedness of exchange relationships

The supplier-merchant relationship and the customer-merchant relationship are influenced by the fact that the triadic relations relate to assortment goods as well as customized goods. The basic difference is the way in which Supplier B and Customer B balance these two elements of the relation. Both Customer B and Supplier B are very

satisfied with Merchant B in assortment goods. But Customer B finds that Merchant B's involvement in the exchange of customized goods is a cost-drain, and reduces the value of the composite relationship, whereas Supplier B finds the present circumstances satisfactory. Merchant B is able to balance his contribution and outcome in a way which suits Supplier B and adds to the composite supplier-merchant relationship.

The constellation of interconnections interpreted as a pattern of intermediation

When the embeddedness of the exchanges of customized goods is included in the interpretation of the triadic relationship, and in the mapping of interconnections, the result is noteworthy. Figure 9B.2 below illustrates the results.

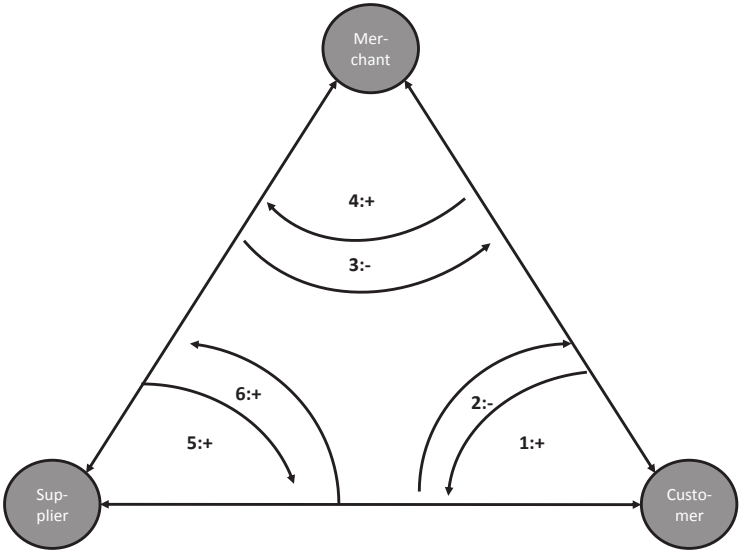


Figure 9B.2: Case B: Constellation of triadic interconnection

Under the present circumstances, the exclusivity agreement implies that the merchant-customer relationship has a formal, positive effect on the supplier-customer relationship; the involvement of the merchant is a precondition 1:+. If there is any effect of the supplier-customer on the merchant-customer relationship, it tends to be negative under the present circumstances. The customer would prefer a direct buyer-seller relationship, and the fact that this is not possible reflect negatively on the merchant-customer relationship (2:-). This effect is repeated in the influence of the merchant-supplier relationship on the merchant-customer relationship. The fact that an exclusivity agreement exists, and that the merchant is paid, reflects negatively on the merchant-customer relationship (3:-). Whereas the arrangement is perceived by Supplier B to reflect positively on the overall merchant-supplier relationship (4:+). The exclusivity agreement between supplier and merchant, which is a precondition for the present organization of the triadic relationship, results in a formal, positive effect of the merchant-supplier relationship on the supplier-customer relationship (5:+). This effect is supported by the fact that Merchant B has accepted to step aside and leave it to Supplier B to organize his relations with Customer B in a way, which enables Supplier B to safeguard this business relation through high levels of service. And finally, the supplier-customer relation yields profits for the merchant which strengthen the merchant-supplier relationship (6:+).

The resulting pattern resembles a twisted pattern of initiation. The merchant-customer relationship and the customer-supplier relationship apparently initiate or strengthen the merchant-supplier relationship. This is remarkable, because it seems as if the supplier is willing to run the risk of not satisfying his customer's preference for direct buyer-seller relationships, in order to strengthen his relationship with the merchant. This is the case, in spite of the fact that Customer B is one of Supplier B's major customers.

The constellation seems to have reached a stable organization of activities, but it depends on the customer's satisfaction with the supplier. Merchant B's interest in the present business triadic constellation is a low-level commission on rather substantial order, which adds to his profits. But if Supplier B should decide to fully dis-intermediate the triadic relationship, it will not harm Merchant B's business with Customer B in assortment goods. On the contrary, it will add to Customer B's satisfaction with his merchant relationship.

It is Supplier B who perceives that there is a risk involved in dis-intermediating the supplier-customer relationship. He fears that merchants in general will no longer service minor professional and private customers, if large accounts are fully dis-intermediated. And he believes that a dis-intermediation of large accounts will have a negative influence on merchants' willingness to include the supplier's standard assortment. Thus, the pattern

illustrates Supplier B's perceived dependence on Merchant B in other exchanges. This dependence is conditioned by extra-triadic network restraints which will be discussed in more detail in the following section.

But the pattern of intermediation in Case B points to another possible threat. An alternative supplier with an attractive competitive offering may endanger the whole constellation. If the product, the service and potential relational values offered by a competitor are right, and he is able to offer attractive pricing due to disintermediation, there is a risk that Customer B defects. If so, the constellation collapses, and Supplier B loses his business, whereas the customer-merchant relationship will continue.

9B.3 Position: Indirect value functions

The extra-triadic network influence on Case B emerges in the respondents' discussion of the competition in the building material industry, and in decision making in building materials. The possible network influence in terms of alternative sales channels and competing suppliers seem to have only a faint effect on the actors' interpretation of the network context in this specific triadic relationship.

Customer B states that he would prefer all exchange of customized goods to be organized as direct buyer-seller relationships, but he is highly satisfied with Supplier B, and this can explain why he does not attempt to find alternative suppliers. Merchant B is conscious that the number of direct channels for customized offerings is increasing, although this development is slower than he expected. But Supplier B does not perceive of this as a threat. He is confident that as long as the product satisfies the customers, the emergence of alternative competing channels is not a problem. This is evident when Supplier B is asked to convey his thoughts on possible competitive threats from the network:

> "Actually, the most important thing is that we deliver the right product at the right time. And if we do so, I do not think that our regular customers will change supplier. So that is what I regard to be most important. The right product, the right quality, and the right time of delivery" (Supplier B: p. 47)

Apparently, the actors in Case C do not perceive of the network context as a competitive threat. On the contrary, the actors in this case profit from their connections to the surrounding network. This is observable in the discussion of decision making in building materials. All three parties agree that the architects, consulting engineers and other actors in the construction industry, who are responsible for the preparation and organization of tenders, are core actors in the network. They specify and define the building materials to

be applied, and therefore the actors depend on these exterior parties. Supplier B's organization is very observant to this fact and has sales-representatives who are dedicated to the servicing of these actors and to the marketing activities directed towards them. In addition, Supplier B experiences that it is rather easy to find solutions with architects which support Supplier B's and his customers' interests:

> " You can always find a solution with the architect. Of course in many large projects they have specified, but not always. And if competitor R or competitor Z is prescribed as the standard, normally it is not a problem" (Supplier B: p. 30)

So apparently, the triadic relationship is positively linked with good communication and cooperation to the surrounding network. The parties in Case B do not communicate future competitive threats or difficulties in relating to the construction industry as arguments for the present pattern of intermediation.

A re-interpretation of the activity pattern in Case B as flanking enables a coupling of the intermediation pattern and the present organization of the building material industry. This re-interpretation indicates that although the network context is not perceived as competitive, it has a substantial influence on the intermediation pattern. The data on Case B support this re-interpretation. All three parties in Case B agree that the merchant is to keep a distance to the supplier-customer relationship, and leave it to the two of them to organize the business. Supplier B is in charge of the interaction, and he secures quality and customer satisfaction. He is flanking the merchant together with Customer B, with Merchant B's consent. However, the high performance in the supplier- customer relationship could be achieved through avoidance, too. But the surrounding network discourages this pattern of intermediation. When Supplier B's perception of the effect of flanking is compared to his perception of avoidance, the claim is sustained: The present network structure motivates Supplier B towards preservation of present intermediation patterns. Figures 9B.3 and 9B.4 on the following pages, illustrate flanking and avoidance. It is a matter of 'all-or-nothing'.

One of the characteristics of the network for building materials is a closely knitted structure. It is organized in a way which fulfils the necessary conditions for the small world phenomenon to exist: co-existence of short paths and high clustering. The small world phenomenon implies that news travels fast, and this is a core feature of how merchants are organized in the building material industry. Consolidated chains of merchants facilitate the exchange of information. In addition, merchants and merchant chains are organized in

organized in various trade-associations which enable the exchange of information between merchants in different chains. Thus, merchant chains have the capacity to get information about and to stage coordinated reactions towards suppliers who dis-intermediate their channels for some groups of products, or some types of customers. Thus, there is a perceived risk of retaliation from the chains. This seems to be the motivation for Supplier B not to fully dis-intermediate his large accounts. He is not ready to test the possible existence of the 'all-or-nothing' trade terms suggested in the business press during the winter of 2006-2007 (see chapter 1). He assumes them to exist.

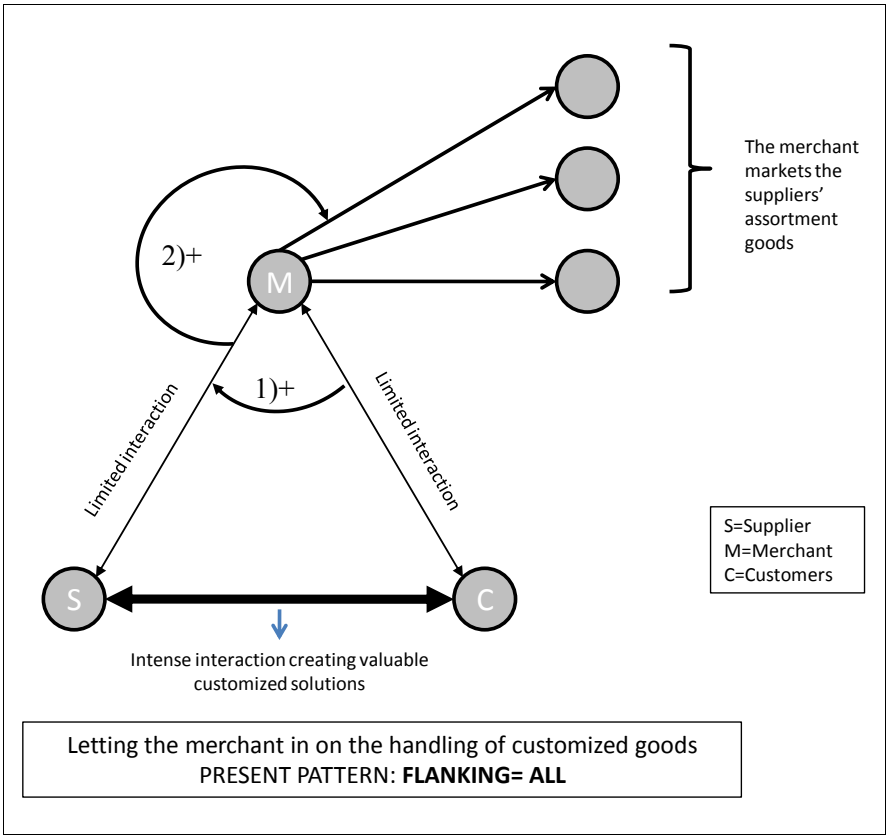


Figure 9B.3: Case B: Supplier's perception of interconnections in a pattern of intermediation characterized by flanking

The link illustrated in figure 9B.3 between flanking in Case B and the surrounding network is a two step argument.

1) +: The maintenance of the Merchant's intermediation of customer-merchant relationships in customized goods reflects positively on the composite supplier-merchant relationship

2) +: The positive merchant-supplier relationship encourages the merchant to handle minor B2B and the B2C customers on behalf of the supplier, and to market the supplier's assortment goods

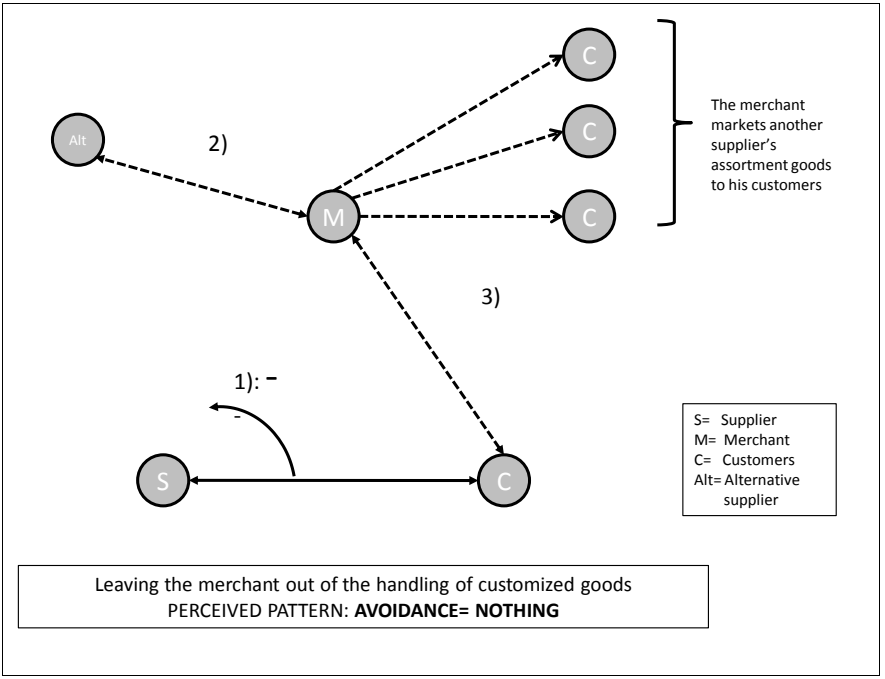


Figure 9B.4: CASE B: Supplier's perception of interconnections in a pattern of intermediation characterized by avoidance

The link between avoidance in Case B illustrated in figure B9.4 and the surrounding network is a three step argument:

1) The supplier preserves his relationship with the customer. But avoidance of the merchant in the handling of customized goods results in the merchant's exclusion of the supplier's assortment goods. The interconnection is negative and the merchant-supplier relationship dissolves

2) The merchant's chain chooses another supplier (Alt) of assortment goods

3) The merchant markets another supplier's assortment goods to his other customers

The dotted lines indicate lost potential business

Concluding comments on the analysis of Case B

The analysis of the interaction and the interconnection in Case B results in a twisted pattern of initiation. The merchant-customer relationship and the customer-supplier relationship apparently initiate or strengthen the merchant-supplier relationship. This is remarkable, because it seems as if the supplier is giving higher priority to his merchant relationship than to his customer relationship. And at the same time, all three parties to the triadic relationship agree that the merchant is a minor player.

However, the pattern of activities indicates an alternative understanding of the intermediation; the customer and the supplier are actually flanking with the merchant's acceptance. When the intermediation pattern in Case B is re-interpreted as flanking and analyzed in a network context, it becomes evident that the interplay of interaction and interconnection reflects the supplier's balancing of direct and indirect value functions. Flanking is a lubricant to merchant partnerships which gives access to the marketing of assortment goods and to assistance from the merchants in handling small orders for customized goods (indirect value function). At the same time, flanking sustains the close supplier-customer relationships based on high performance (direct value function). It enables the supplier to safeguard his customer relationship without running the risk of exclusion by merchants, which is perceived by Supplier B to be the plausible result of avoidance. Customer B seems to be right; the supplier decides on the pattern of intermediation to be applied, and what channels he wants to use. It is his positional considerations as much as the customer's desires which influence the pattern of intermediation.

9C: CASE C

The case involves the same supplier as in Case B: A major European supplier of building materials. As in Case B, it is the department for customized offerings which participates. The respondent (Supplier C) has 20 year of experience in the trade and has been employed by this supplier for 10 years.

The merchant; a limited company with 500 employees, has expanded through mergers and acquisition within the last 20 years. It is a member of a purchase group which organizes supplies for 10 timber-merchants. The company is based in the region of Copenhagen, and business is organized in a number of branches in that area. The branch involved in Case C, which has 50 employees, is organized to service B2B customers; especially customers involved in large projects. The respondent (Merchant C) has taken his position recently, but is trained and experienced in the trade. The respondent is not the employee who has the closest relation to Customer C. However, Merchant C is well informed about the relationship between the merchant and the customer, and he knows how his colleague is interacting with the customer and the supplier.

The customer is a building company with 100 employees specialized in carpentry and related activities. Except for a small number of staff, the employees are carpenters. The company is specialized in large projects based on tenders. It often co-operates with a selected group of other builders with whom the customer is used to doing business. These projects include new constructions and reconstructions of old estates. Besides, the customer has a minor repair unit which handles small tasks. The respondent (Customer C) is a middle-aged man with a life-long experience in the construction industry.

The triadic relationship is handling substantial orders of customized goods for large constructions and reconstructions. Moreover, Merchant C is one of Customer C's preferred partners in deliveries of assortment goods, and he is marketing Supplier C's assortment goods, too.

9C.1 Interaction: Direct value functions

Price, quality and time of delivery

The three parties to the triadic relationship agree that price, quality and time of delivery are the most important criteria for a delivery of building materials. However, Customer C points out that the importance of the parameters varies. Supplier C is of the opinion that time of delivery is the most important criteria. Merchant C supports this view:

> “At the bottom of it, it is important that the deliveries are correct and arrive at the right time. Because if not, it costs money if three or four carpenters have to wait on the building site for deliveries” (Merchant C: 0.13)

Moreover, Merchant C believes that the quality of building materials is rather homogenous, and therefore not the most important issue:

> “Of course quality is important for a business customer, but I think, it is a matter of finding the right product for the right case” (Merchant C: 0:11)

Price and time of delivery are the most important criteria, according to Merchant C. Furthermore, he points to two matters related to pricing of customized goods. The first relates to the fact that the prices for customized goods are rather stable:

> ”Of course, you get a quotation, but the level is more or less the same from one case to another. But it differs from assortment goods because in orders for customized goods, the merchant can get in touch with the supplier and say:”I am pressured on prices in this case, can you give me some additional discount”” (Merchant C: 0:18)

The other matter which influences pricing is the customer-merchant relationship:

> “Now we have had Customer C for some time, and my colleague knows him very well, and they have a good relationship. Then the customer spends less time on pricing, negotiating prices with three different merchants. He orders and gets a good and reasonable price, sometimes a bit higher, sometimes a bit lower” (Merchant C: 0:13)

Merchant C argues that pricing is less important than cost-efficiency. The merchant’s and the supplier’s ability to deliver correct and undamaged articles, at the right time of delivery, and in the right sequence reduces costs at the building site for the customer. This being so, the parties to this triadic relationship operate with an expanded definition of price as a concept which also relates to costs during operations at the building site. This is an element of the perceived price. However, Supplier B states that generally he imagines that builders prefer direct supplies:

> ”Builders prefer direct buyer-seller relationships, because they expect the price to be better. As long as the builder is not invoiced directly, he feels a bit cheated by the merchant” (Supplier C: 2:24)

Value dimensions in creating customer value

The respondents were asked to prioritize the five dimensions of value, categorized as direct value functions. They were free to prioritize all, none or just some of the dimensions. In this case, Customer C and Merchant C prioritized some of the dimensions as illustrated in the below table C9.I. Supplier C did not prioritize these functions, but used them as the basis for his description of the division of labour in the triadic relationship. The two other respondents also used the discussion of the value dimensions and the prioritization as an opportunity to express their assessments of and views on value dimensions and creation. This dialogue is the foundation for the interpretation of the respondents' evaluations, presented in this section.

	Product	Logistics	Finance	Knowledge	Adm. support
Customer C	1		2	3	4
Merchant C	1	5	3	2	4

Table 9C.I: CASE C: Respondents' prioritization of value creating activities

One of the characteristics of this case is the pattern of activities and the fact that all three respondents have a more or less similar picture of this activity pattern. They perceive it to be a triadic business relationship. Customer C explains that in substantial orders for customized goods, Merchant C is not much involved:

> "Together with the supplier we decide on quantities, qualities, specifications and whatever else needed, and we agree on a price with the supplier, and then I do not think that the merchant sees anything before they receive the order confirmation from the supplier" (Customer C: 0:37)

Supplier C's description is very similar:

> "And often the merchant's contribution is that he takes our quotation or order confirmation and faxes it to the customer, and that is basically his contribution" (Merchant C: 0:44).

This is so, because in projects where the supplier and the customer have direct contact, it is not the merchant, but the customer who usually informs the supplier when a tender is won, and delivery plans are to be prepared. Merchant C confirms that in projects of the type handled in Case C, the merchant's prime contribution relates to finance and some administrative services. Actually, Supplier C prefers it to be like this; the involvement of merchants only creates problems:

> ”So the merchant, he shall not, he is not to get involved, under any conditions, because he only creates flicker” (Supplier C: 0:39)

This organization of the activities is possible because Supplier C and Merchant C have agreed upon the level of discounts that Supplier C can offer to Customer C. This is not the usual modus operandi in merchant intermediated trade. Normally, merchants are very persistent in keeping their right of quoting prices, also for customized goods. In order for Supplier C to be able to quote prices to Customer C, he has to make an agreement with the specific salesman who handles Customer C on behalf of the merchant. Therefore, this procedure is only applicable in selected cases involving important customers who have close relationships with the person handling their account at the merchant's:

> ”For me a good timber-merchant in customized goods items is one for whom I can negotiate the price directly with the customer. Maybe we have a deal that I can grant XX% discount on our quotation to the customer. If I want to give more, I will have to lower our prices” (Supplier C: 0:39)

> “And if I have such an agreement with the merchant, then the customer knows about it. And therefore, you can say, therefore it is me that the customer contacts, if something is wrong. If the price is wrong, if the delivery is wrong or if the specification or something else is wrong” (Supplier C: 0:40)

Supplier C perceives of himself as the trouble-shooter in specifications, price and complaints. Merchant C supports this understanding of the pattern of activities, and regards suppliers who act in this capacity as partners in the servicing of customers. Moreover, Supplier C and Merchant C believe the supplier to be responsible for product knowledge and logistics. However, Customer C remarks that basically these issues are his responsibility, but that the supplier assists him in these matters.

Customer C states that in spite of the fact that direct contacts between suppliers and customers in customized goods are expanding, he still finds that the involvement of the merchant is relevant. Merchants have the buying power to press suppliers for time of delivery, and in complaints. In addition, he acts as an extra security on liabilities relating to product guaranties:

> "But many deliveries of customized goods, which are handled directly between customers and suppliers, and for which you negotiate price and delivery with the supplier, are still passing the merchant, and we do that much more than before" (Customer C: 0:13)

> "one of reasons is the guarantee, because many of these suppliers – not the well-established ones as in this case – but if you do business with some small suppliers, there are no guaranties after delivery" (Customer C: 0:14)

> "There is also quite another aspect, which concerns time of delivery. Some suppliers tend to be delayed, whereas we as builders have to deliver at a certain point in time. Then it is often easier to bash the merchant than to bash the supplier" (Customer C: 0:15)

One of the means that Customer C applies to get Merchant C to act on the problem is to withhold payments. Supplier C confirms that it is usual for customers to use their relationships with merchants to pressure for deliveries, even when the customer is responsible for delays. And in complaints, customers expect merchants to be on their side, no matter what; and so they are. Moreover, Customer C expects Merchant C to have good knowledge, on products and suppliers, and to have insight into customer preferences.

> "It is a matter of approach. For example if I call them and order some customized goods and say it has to be like this, then it cannot help if you have to explain for half an hour. They must know your language. You cannot leave it to a lad to handle it, because then you order something, and when it comes it is all wrong. When you get to know each other, then you know that you can say so and so, and then they know what you need. When we order timber it cannot help that they deliver one dimension and we need another one. They have to know our standards when we order. The same applies to customized goods" (Customer C: 0:09)

Whereas Merchant C and Customer C primarily are concerned with the present organization of the activities, Supplier C also explains how a re-organization of activities in the building material industry may add to the efficiency of the construction industry. He sees two possibilities: One in which the supplier is involved in more of the activities in the acquisition and operation phase of the delivery. Another one where the merchant is more involved.

These considerations start off from his observations that in spite of detailed specifications, which are linked to delivery plans, problems arise from wrong mounting, wrong dimensions of the construction before mounting etc. These problems arise, because correct specification, planning and mounting depend on a detailed knowledge about the product which the construction manager or the builders not necessarily have. Supplier C explains the possible efficiencies and quality gains from supplier involvement as a result of better communication:

> "If you take a case like this; I get some drawings, descriptions and explanations. But I do not participate in the construction meeting. So if suddenly something is changed, I would like to know, and be able to influence the decision" (Supplier C: 0:18)

And he believes that a lot of problems could be avoided if the construction manager could leave some of the problems to the suppliers:

> "In a case like this, there is a construction manager, who is to handle the whole thing. He may not only have carpenters, or he may have carpenters and joiners. And then he gets these lists over customized goods with a lot of accessories and add-ons, and he knows nothing about it. He would be grateful if he could throw it all in my face. He could nearly say – please, take care of this part". "I would like to take the next step and nearly, what can you say, help when the deliveries arrive; that you are present" (Supplier C: 0:22)

Supplier C expects that similar communication advantages could be achieved if merchants involved themselves more directly in site-management. He exemplifies his reflections with a single example of merchant involvement in site-management, which he has experienced:

> "He actually managed the whole process. He had a carpenter as customer, probably one the largest in Town NN, and then he actually ran these cases as a sort of construction manager on behalf of the customer. He went to the building sites and participated in the construction meetings, and then he

> returned and ordered customized goods on behalf of the customer. There only was an agreement that he should buy at a good price, and then he was paid for the work he did" (Supplier C: 1:24)

The experience behind these visions is that builders cannot have a detailed knowledge of all sorts of specialized and customized items. Therefore, time is wasted at the building site in the handling of such items. Time saved at the building site is a much more cost-economizing contribution to the customer and easily exceeds an increase of one or two percent on the discount. And for the supplier it would be a way to avoid costly re-handling and repairs due to the builders' lack of product knowledge and insufficient communication between the site-manager and the suppliers. Thus, a re-organization of the division of labour between builders in the construction industry and supplier and merchants in the building material industry may yield efficiency gains.

The value of the customer to the merchant and supplier

Merchant C and Supplier C do not discuss the value of Customer C very much. Implicitly, volume and profit are communicated as relevant and important value dimensions. Customer C is one of Supplier C's large customers, and therefore an important source of income. And large customers with whom Supplier C has direct relations are important, because they do not tend to be as focused on price as the final criteria for choice of suppliers. The services that the supplier can offer a customer whom he knows well, apparently are services, which customers are willing to pay for:

> "Those with whom we have direct relations, we say that they buy the whole package, the solution, and thereby also get the service. And then we do not need to be the cheapest every time. But it is difficult to keep that position and avoid price as the only issue" (Supplier C: 2: 26)

This is confirmed by Customer C who explains that relationships influence his preferences and decision:

> "If we have had some good projects together with some people, well then we turn to them next time. And then you are willing to go far to make it work – usually it is the pricing issue that demand that you are willing to yield in order to set it up, so that you get the same supplier a number of times" (Customer C: 0:42)

Thus, some element of safeguarding seems to be involved in the relationship between Supplier C and Customer C. Customer C's preference for Supplier C is not exclusively a matter of price, but also motivated by the relational value of exchange. Such relationships are very valuable for Supplier C.

Merchant C does not explicitly express the value of Customer C. Except for a remark which indicates that the feed-back which merchants get from customers is important in order for the merchant to adapt his services and assess his suppliers. There are reasons in favour of saying that his lack of communication on the issue relates to the fact that the triadic relationship handles customized goods, not assortment goods. Merchant C has accepted a low involvement-low commission profile. Thus, the resultant income for Merchant C of the activities in Case C is a side-effect of the core of the relationship between Customer C and Merchant C; the business in assortment goods.

The value of the merchant to the supplier, and of the supplier to the merchant

Merchant C has little to say specifically on the value of Supplier C. It may relate to the fact that the communication is intense between Supplier C and Customer C, whereas it is rather sparse in the supplier-merchant dyad. However, Merchant C explains that the group of suppliers to which Supplier C belongs pay visits on a regular basis and help the merchant in the problem solving related to large project and to complaints:

> "I define them as those who come to visit. Often we profit a lot from them in large projects, and if there is something, if we have a complaint or something, then it is always them"(Merchant C: 0:47)

In contrast, Supplier C communicates several reflections on the value of merchants to suppliers. First of all, merchants offer the financing and guarantee on debtors. Merchants also handle minor cases on their own, and this is important, because it gives Supplier C the possibility of concentrating on large and complicated orders, which also offers potential of safeguarding important customers. In addition, Supplier C acknowledges that merchants act as scouts who offer business intelligence, and they are important partners in getting minor orders for their suppliers. This is an advantage of which suppliers with no merchant trade are deprived:

> "Well, I can easily imagine that those, who offer direct sales, are still in the business, but they do not get a share in the small orders. And you can say that during recession it hurts even more" (Supplier C: 0:48)

Moreover, it happens that merchants have good knowledge about the supplier's products, and in such cases the merchant can increase the quality-level and consequently the price and earning on orders, but it is rare. In the province it is also customary that merchants can store customized goods, if the customer causes delays in deliveries, or if the exact date of delivery is not known. But in the greater region of the capital, merchants cannot support suppliers with intermittent storing, and the supplier must use external warehousing for which the supplier bills the customer. But Supplier C also has some reservation to the merchants' role in the network and the value creation:

> "Usually I say to a merchant that he has to remember that he is a partner. We have a deal. He gets bonuses and other things, and he gets subsidies for marketing activities. I mean, for example, some of the large merchant-chains, they get a high share. And I believe that in consequence we should get a chance to give a second offer, or at least that we are their first choice of suppliers" (Supplier C: 1:28)

> "Sometimes I feel that the merchant is pressing the market-price. And it can be very frustrating, if you have spent time with the architect, visited and discussed the project with the builder and made a deal on how the delivery should be specified and organized. And then at last the order confirmation turns up, which you send through to the merchant, and it corresponds with the deal you have made with the customer, then suddenly a price pressure occurs – hello supplier, we have not finished the price yet. And then you become frustrated; you have done all the work and then you have to give discounts for the work you have done yourself" (Supplier C: 1:28)

> "If I then become unyielding and say that I can grant no further discounts on this price, because I have met with the architect, worked through the whole case, made detailed descriptions of all item, and therefore I think I have done my part, and this should be our case. Then the merchant's alternative in order to earn some money is to find an alternative product and see if he can get a better price. And the competitor may only have to calculate a price. He may even get the specifications that I have made so that he only is going to type it. He has never been out on the case. Maybe he has only used a couple of hours whereas I have had two meetings with the architect, have made all specifications and calculated them" (Supplier C: 1:05)

In spite of exclusivity agreements and the supplier's servicing of the merchant's customers, it happens that the merchant, whom the supplier expects to act in the capacity of distributor, ends up pressing his suppliers to lower the prices and exploiting their resource-investment. A certain degree of mistrust seems to lure. However, it is important to note that apparently these reservations are not directed towards Merchant C, but towards merchants in general, or maybe a specific group of merchants. As explained earlier, there are some very precise guidelines which Merchant C and Supplier C have agreed upon, also concerning pricing, which enable Supplier C to act on the Merchant's behalf. And that suits him fine and adds to his satisfaction.

The respondents' assessment of the value creation conveys a number of statements and evaluations which more generally refer to the value of the merchant intermediated trade of customized goods. They have been included in the above description, because they give an impression of the general atmosphere in the building material industry. However, the below table 9C.II specifically offers a summation of the respondents' perception of their input to and outcome from the interaction in their triadic relationship.

When comparing the cells two by two, vertically and horizontally, a pattern of relative agreement on the division of labour and value functions is evident. This corresponds to the observed agreement among the parties concerning the organization of their relationship. The pattern of activities is characterized by intense communication and interaction between Supplier C and Customer C. This is where the majority of activities take place. Merchant C is responsible for some auxiliary services related to the finance function, both in relation to Supplier C and Customer C. And the triadic relationship is sustained by Supplier C's regular visits to Merchant C, and the specific negotiated agreement between the two of them, concerning the supplier's handling of and authority in the supplier-customer relationship.

	To Supplier	To Merchant	To Customer
Supplier perceives to give (input)		Profit	Product (incl. price) Logistics Knowledge Specifications Problem-solving
Supplier is perceived to give (output)		Profit Problem-solving	Product (incl. price) Logistics (assistance) Knowledge (assistance)
Merchant perceives to give (input)	Guarantee on debtors		Finance Adm. support
Merchant is perceived to give (output)	Guarantee on debtors Market-intelligence		Financing (liquidity and guarantees) Support in trouble-shooting
Customer perceives to give (input)	Volume Profit	Profit	
Customer is perceived to give (output)	Safeguarding resulting in Volume Profit	Profit	

Table 9C.II: CASE C: The respondents' perception of the parties' value input to and value output from the activities

9C.2 Interconnection: Pattern of intermediation

The actor's perception of the triadic relationships

The parties to Case C agree with the parties to Case A and Case B that the triadic constellation is based on personal relationships. Customers follow a merchant sales man who gets a position in another timber-merchant. Merchant C explains that the personal relationship between his colleague and Customer C is the foundation for the organizational relationship. Customer C only orders through this colleague; even, when an order comprises of only a small quantity of stocked assortment goods. This confidence is related to the merchant's ability to offer personalized services on the basis of his relationship with the customer:

> "But, but, it is obvious, when they know each other so well, they also know each other's trade patterns. Well, it is part of this type of business relationship that you may ask:"Now that you have ordered these articles, don't you need these, too" (Merchant C: 043)

But the organizational relationship also depends on the merchant's ability to deliver good logistics:

> "It is personal. You can say it is the confidence in saying; this is the guy who handles my account. They know that when they phone my colleague everything is under control. But besides that, it demands, what shall I; our logistics is an important factor. That it is flexible and good; that we deliver the right thing at the right time" (Merchant C: 0:12)

These quotes indicate that the personal relationship is the basis for adaptation and institutionalization which reduces the perceived uncertainty of interaction. Customer C's statements, quoted in the former section, corroborate the importance of a personalized adapted service as the foundation for customer satisfaction, but he is also observant to the importance of personal relationships:

> "Again, it depends on whether the merchant has some sales people with whom we match, and whether they offer decent prices. But I say; it is extremely important that the employees have the right attitude and that we get along" (Customer C: 0:08)

> “It is a matter of confidence: That you know that everything is all right, when the delivery arrives. If you did not have that confidence you would start trading in the market instead” (Customer C: 0:30)

So it seems that there is some sort of balance between price and relationships.

> ”In principle we can compete on price and relationships; that’s it” (Merchant C: 0:23)

This balance is a most important issue in the relationship between Customer C and Merchant C. Basically, Customer C regards merchant relations to be a matter of competitive offerings:

> ”In many situations we apply various merchants. Actually, I only use one for the time being, because I have been involved in some very substantial cases, but in our company we use several merchants. But you ask for a price, and then it is the merchant, who quotes the lowest price, who gets the order” (Customer C: 0:06)

Supplier C also emphasizes the importance of relationships:

> ”If you talk a lot together, you can say, in merchant stores that you visit often, and where you know that the relationship is cooperative, there you know that they will always choose you” (Supplier C: 0:57)

But he also points out that relationships cannot guarantee sales:

> “Sometimes, there are some builders, with whom you have a close relationship, who are for sale if they are offered a low price. But of course it depends on how much they are pressured themselves” (Supplier C: 1:07)

This balance between the value of relationships and the price is more important in the Copenhagen region than in the province, because the competitive aspect in merchant trade is much stronger around Copenhagen. Supplier C describes the situation:

> ”It is the merchant, who quotes the price. And the closer you get to Copenhagen, the lower it is. The market is more competitive. Normally we give the merchant XX% discount on our pricelist, and then the merchants have an annual bonus in addition. But here in the town it is usual for merchants to give their customers XX+2% or XX+3%. It means that when quoting the prices, the merchant gives a higher discount than the one we offer him; he has

> already included part of his annual bonus. And he has to wait up till one year before he gets that bonus" (Supplier C: 0:37)

Therefore, Merchant C is constantly bench-marked with other merchants. And according to Customer C, different merchants offer different advantages. The ability to adapt to the customer, to offer personalized service and support him with technical advice, is the criteria that Customer C applies in his assessment of supplier relationships:

> "A supplier, who comes, he has to know the product really well. If not, he is soon rejected, and you get in touch with the merchant instead: Then he must handle the problem". "It has happened rather often for suppliers of building materials of type NN. They have no idea about building regulations, product specifications or anything. But I have to say that Supplier C has always been very good" (Customer C: 0:41-0:42)

Besides, Customer C is comparing and evaluating the value of different intermediation systems. If a supplier is not proficient, the merchant takes over and the triadic constellation is substituted with a chain-like open triadic constellation of relationships:

> "The activity pattern depends on the supplier's representative. He is to be really good. If they are not 100% knowledgeable about the product or procedures in the construction industry, then we choose simple merchant trade instead" (Customer C: 0:40)

The triadic pattern in Case C is not standard procedure, but a possibility which is used in cases involving orders for customized goods, primarily those which demands specification. However, Merchant C also describes how one of his customers, a producer of standard housing, applies a triadic activity pattern for the ordering of rafters, a standard bulk item. Whether a three-parties constellation is chain-like or triadic depends on customers, orders and types of goods.

Given these circumstances, the constellation of relationships and division of labour in Case C, depends on Supplier C's ability to service Customer C on the one hand, and on Merchant C's willingness to step aside, and choose a low-involvement / low commission profile on the other hand. This is how the balance between price and the value of relationships is achieved. The constellation gives Supplier C the chance of safeguarding an important customer, and it gives Merchant C the possibility of safeguarding a customer relationship, which is a vehicle for income in assortment goods; Merchant C' core business.

Analysis of the embeddedness of relationships

Case C illustrates that order size and detailed logistics can change a consignment of assortment goods into a customized offering. A customized delivery is defined as much on the basis of size and logistics as on product specifications. In some projects Customer C mainly buys large quantities of similar and simple products which Supplier C defines as stocked assortment goods. However, the size of the order changes such consignments into customized deliveries.

The mounting of Supplier C's articles may be spread over a period of several days, and it is important that the articles arrive in batches with a limited number of items, in the correct varieties. These deliveries have to be precisely sequenced. The customer simply cannot handle a delivery in one large batch. The deliveries have to be divided into minor consignments which are planned so that they fit into the planned finalization of the different sections of a large construction. Consequently, a delivery of assortment goods to Customer C takes on the character of a customized order.

The size of the projects also influences orders for bulk and commodities; they change into customized deliveries, too. In large projects Customer C does not bring building materials from the merchant to the building site himself. Everything, including commodities, is delivered on the building site by the merchant on the basis of a specific quotation. In such cases Merchant C does not quote his list prices, but demands specified quotations from his listed suppliers of off-the-shelf assortment goods. According to Supplier C, such cases in which the merchant assists the customer in collecting all the bits and pieces for a project justify the existence of merchants. This is the core business between Merchant C and Customer C:

> " Then he gets hold of the merchant and says:"I am going to buy, this and this and that" – and this is where the merchant is justified. He says: "I will help you find these different things and put the bits and pieces together for you"" (Supplier C: 048)

When these two procedures, the one for customized goods from Supplier C, and the one relating to customized deliveries of assortment goods from Merchant C, are combined, the activity pattern in Case C takes on another perspective. It is a finely tuned pattern to which Merchant C concedes.

The service needed, in terms of specifications and logistics, for an order of Supplier C's products is difficult to handle for Merchant C. Therefore, he chooses a low involvement /

low commission profile which satisfies Customer C. Merchant C signals to Customer C that he is willing to arrange business in a way, which results in a high level of service. And he accepts a low level of commission due to his limited involvement. The activity pattern in Case C supports the composite relationship between Merchant C and Customer C. It is a way to make sure that the activity pattern in exchanges of customized goods is so satisfactory for Customer C that he finds the composite relationship even more attractive. This is the important issue – to be the most preferred merchant among those with whom Customer C makes business. And Customer C who is an experienced builder acknowledges that merchants have to earn their living:

> ”The merchant is also going to live, so we know that they get some percentages as intermediaries, but the price is actually negotiated with the seller” (Customer C: 0:35)

Summing up, the activity pattern in Case C involves multiplex relations between Supplier C and Merchant C, and especially between Customer C and Merchant C. Supplier C depends on Merchant C for minor orders of customized goods and orders of assortment goods. Basically, Supplier C finds that the need to pay-off merchants in orders for customized goods influences negatively on supplier-merchant relationship. But the organization of the triadic relationship in Case C seems to satisfy Supplier C. Likewise, Customer C is satisfied with the present organization of the triadic relationship. Thus, the exchange pattern in customized goods has a positive influence on the composite merchant-supplier and merchant-customer relationships. The embeddedness of exchange as perceived by Supplier C and Customer C is illustrated in the below figure 9C.1. It only differs from the illustration of Case B (figure 9B.1) in one respect. Whereas Customer B finds that the involvement of the merchant is unjustified, Customer C prefers that Merchant C is involved and his involvement influences the customer-merchant relationship positively.

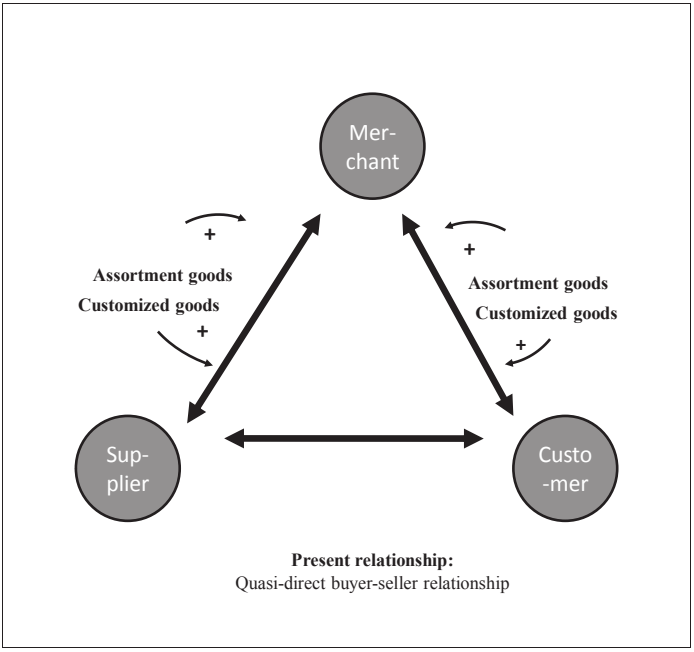


Figure 9C.1: CASE C: The mapping of Supplier C's and Customer C's perception of the embeddedness of exchange relationships

The constellation of interconnections interpreted as a pattern of intermediation

The mapping of the relationships in Case C in the below figure 9C.2 equals a pattern of collaborative cohesion. The relationships support each other. The exclusivity agreements imply that the merchant-customer relationship is a precondition for the supplier-customer relationship (1:+). However, in this case Merchant C's low involvement profile adds to the positive effect. It enables Supplier C and Customer C to organize their relationship in a way which suits them well. In return, Supplier C's servicing of Customer C' reflects positively on the merchant-customer relationship. The customer receives a service which he appreciates (2:+). The close merchant-customer relationship is the foundation for the supplier-merchant relationship which has the character of a negotiated agreement (3:+). In return, this agreement, which is the foundation for the present activity pattern, reflects positively on the merchant-customer relationship (4:+). The exclusivity agreement between the merchant and the supplier is a precondition for the supplier-customer relationship (5:+).

And due to Supplier C's ability to create customer satisfaction in the supplier-customer relationship, this relation strengthens the present organization of the supplier-merchant relationship (6:+).

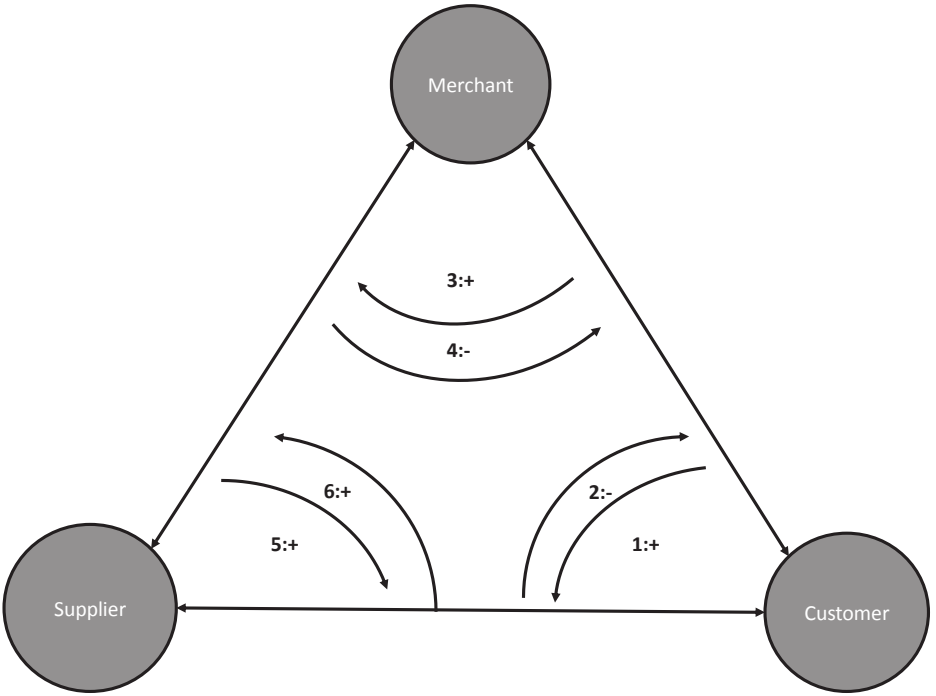


Figure 9C.2: Case C: Constellation of triadic interconnection

However, it is noteworthy that the apparent collaborative cohesion is based on high levels of interaction in the supplier-customer relationship, and low levels of interaction in the merchant-customer and the merchant-supplier relationship. This does not conform to a pattern of cooperative cohesion which is normally related to closely knitted groups with high levels of mutual communication. The question is whether the pattern of

intermediation in figure C9.2 reflects the activity pattern in Case C, or the parties' perception of the effect of the negotiated agreement which guides the activity pattern. The latter seems to be the case.

The core condition for the present activity pattern in Case C is that the supplier can act on behalf of the merchant. This demands not only negotiated agreements, but also some degree of trust between Supplier C and Merchant C. This trust building is supported by the activities which prove to Merchant C that the negotiated agreement works. And it is nurtured by Supplier C's regular visits to Merchant C. Likewise, the faint communication between Customer C and Merchant C concerning activities related to the triadic relationship C is possible, because the parties have very frequent contacts relating to assortment goods.

Thus, to isolate the interaction relating to orders of customized goods from Supplier C to Customer C gives a twisted picture of the relationship. The composite character of the relationships is the reason why the activity pattern in Case C is possible and preferable for the three parties involved. This is important for the interpretation and understanding of the observed pattern of intermediation.

C9.3 Position: Indirect value functions

Case C resembles Case B in many respects, relating to extra-triadic network influence. The data indicate that the re-interpretation of the triadic constellation as flanking applied in the analysis of indirect value functions in Case B is applicable in Case C, too. Both triadic relationships are characterized by intense supplier-customer interaction and the merchant's participation is barely visible. Flanking in Case B is a way to handle the perceived 'all-or-nothing' trade-terms. These trade-terms are perceived to exist in Case C, too. Supplier C describes the situation like this:

> "We have a few customers with whom we have a direct buyer-seller relationship. And the merchant chains have sort of accepted it. But if we come with another, or a new customer and say; this customer would prefer a direct buyer-seller relationship, too, and try to discuss it with the merchants, then their reaction is: Fine then I will get in touch with your competitor" (Supplier C: 2:12)

This being so, similarities between Case B and Case C indicate that the pattern of intermediation in Case C also involves elements of flanking by Supplier C and Customer C. It is as close as they can get to a direct buyer-seller relationship. However, Case C differs from Case B in two important respects:

1. Customer B does not find the involvement of the merchant justified. Consequently, the involvement of Merchant B has a negative effect on the composite relationship between Merchant B and Customer B. In comparison, Customer C accepts the involvement of Merchant C. Therefore, the organization of exchange in Case C has no negative effects on the composite relationship between Merchant C and Customer C.
2. The parties to Case B do not communicate any competitive threats from the surrounding network, whereas network competition is perceived to be very important by the parties to Case C

Customer C's acceptance of the present activity pattern and the related intermediation pattern in Case C makes it less vulnerable to the possible occurrence of competing suppliers who offer direct sales. As indicated in section 9C.2, Customer C regards his merchant relationship as a guarantee on minor or unfamiliar suppliers. Therefore, he engages Merchant C in a number of exchanges, similar to the ones taking place in Case C, and demands that the billing is made through the merchant.

Consequently, Customer C's probable reaction to a competing direct supplier would be that it is a precondition for business that he invoices through Merchant C. Thus, Supplier C would be granted more equal terms than Supplier B in Case B. In Case B there is a greater risk that Customer B defects and chooses a direct alternative, because Customer B is more annoyed by the involvement of Merchant B than Customer C at the involvement of Merchant C. And Customer B is prepared to handle such a relationship without the involvement of Merchant B. Therefore, Supplier C's willingness to pay-off Merchant C does not endanger his relationship with Customer C. It is part of an activity pattern which suits the involved actors under the present circumstances. In Case B the payment of Merchant B potentially endangers the relationship between the parties.

The description in section 9C.2 of the parties' perception of the relationships in Case C indicates that competition among merchants may influence the triadic constellation in Case C more than competition from direct suppliers. Merchants basically have two parameters for competition; prices and relationships. One way to crop price-competition is to offer high value or cost-efficiencies to customers through adapted and personalized

services. It is a way to redefine value and price as a matter which relates to the benefit / sacrifice ratio of acquisition and operation as well as exchange. This is what Merchant C attempts to do through his own activities in assortment goods, and the involvement of Supplier C in the servicing of Customer C.

Supplier C is also conscious of the importance of getting the chance to create customer preference for the value of the package that he offers. The advantage for Supplier C in sustaining the present pattern of intermediation in Case C becomes clear, when the consequences of Customer C's potential change of merchant are considered. Two criteria can actuate such a decision: Price and relationship.

As pointed out by Supplier C, relationships are not a guarantee for continued exchange. If Customer C gets a very favourable price offer from a competing merchant, he may change his business elsewhere. And Supplier C has no guarantee that an alternative merchant is willing to accept the same conditions for exchange of customized goods as Merchant C. Two possible outcomes exist:

- Supplier C will have to lower his own prices to make room for an increased commission in order to convince a competing merchant of the advantages of his offerings
- The alternative merchant will scan the market for suppliers of very low-priced alternatives, and engage them in the business with Customer C

A change of supplier is the only alternative that a competing merchant has, if he does not accept to play by a set of rules equivalent to those existing in Case C. This is so, because it will take some time before a new supplier is able to offer the same service to Customer C, as Supplier C is able to offer. Therefore, a new supplier will have to decrease prices rather much in order to preserve a price / relationship ratio which satisfies Customer C. However, there is a small chance that Customer C will demand trade-terms from a new alternative merchant which will force this merchant to accept that the business relationship between Customer C and Supplier C continues on the same conditions as in Case C. (Case B exemplifies that important customers sometimes are able to get such claims accepted by the merchant).

When this alternative is considered, it becomes clear that Supplier C possibly nurses two positions through his high involvement in servicing Customer C. One is to support Merchant C's relationship with Customer C, through high service-levels and assistance. The other is to make sure that he creates a platform for himself as Customer C's most

preferred supplier. If he succeeds, Customer C may be willing to find ways to preserve his relationship with Supplier C, in case he changes merchant relationship.

Concluding comments on the analysis of Case C

The analysis of interaction and interconnection in Case C produces a pattern of collaborative cohesion. The parties to the triadic relationship have developed and negotiated a pattern of interaction and interconnection in which activity pattern supports all three dyadic relationships. Yet, the pattern of activities indicates an alternative understanding of the pattern of intermediation; the customer and the supplier are flanking with the merchant's acceptance. Flanking offers the opportunity for Supplier C to balance the access to the network offered by Merchant C (indirect value function) and the safeguarding of Customer C as an important customer through high performance (direct value function).

However, the merchant is not the only actor in Case C who offers potential positional advantages to Supplier C; so does Customer C, too. The indirect value of the customer relationship stands out clearly in Case C, due to the extra-triadic network influence, in terms of intense competition among merchants. Basically, Customer C takes a competitive approach to merchant relationships. So, in spite of Customer C's strong relations with Merchant C's colleague, there is a risk that Customer C may choose another merchant. Therefore, it is most important for Supplier C to safeguard his relationship with Customer C through high performance. Supplier C's performance may induce Customer C to bring along Supplier C, if he chooses to get involved with another merchant. If so, Supplier C has succeeded in neutralizing possible negative effects of Customer C's potential change of position in the network.

This interpretation and analysis of Case C illustrate that the inclusion of the supplier's positional considerations adds an additional perspective to the understanding of triadic value creation in a pattern of flanking. It is not necessarily a trade-off between indirect value offered by the merchant and direct value offered by the customer. Both the merchant and the customer can offer potential positional advantages to the supplier.

9D: CASE D

The supplier who is party to Case D is the same as in Case A: A Scandinavian group with a Danish branch which organizes a multi-channel system for various segments. As in Case A, it is the department handling merchant intermediated channels which is involved. The respondent (Supplier D) representing the supplier in Case D has been employed by the supplying company for three years, but has worked with sales of various types of building materials for 20 years.

The merchant is situated in the Northern part of the Copenhagen region. It is part of a capital chain having 88 outlets. Communication between the outlets is intense, and the chain has defined various procedures in order to avoid competition among outlets. The outlet is marketing its services towards professional builders. However, 1/3 of the annual turnover relates to B2C sales. The respondent (Merchant D) is trained as a merchant and has 20 years of experience.

The customer is a building company with 20 employees. Moreover, a number of small building companies with one or two employees are regularly hired on a daily basis to participate in the builder's projects. The company is situated in the same area as the merchant. The builder (Customer D) has been independent for 11 years. He prefers not to have private customers, because he experiences that they give a lot of trouble. The majority of his activities relate to repairs and reconstructions. 75% of the turnover is based on tenders or quotations; the rest is based on activities paid on an hourly basis.

The triadic relationship in Case D primarily handles orders related to repairs and construction of small offices, factory buildings, but most of all private estates. Normally, orders do not exceed 25.000 Euros each. Larger project are organized as direct buyer-seller relationships and are handled by another department in Supplier D's organization.

9D.1 Interaction: Direct value functions

Price, quality and time of delivery

Price is the overwhelming issue in this triadic relationship. For several reasons: First of all, because the interview with the participants took place, when recession hit, and the activity level decreased from being overheated to half-frozen, due to the bankers' sudden closure of credits. These credit closures resulted in multiple bankruptcies among developers and builders. Secondly, because Customer D is oriented towards price-based exchange. Thirdly, because price is the most important issue for Merchant D's purchasing decisions.

Customer D states that price always is the prime purchasing criteria. He operates with an expanded price construct which includes credit facilities.

> "Price is the most important. But still it is evident that the credit can be decisive. It is like that; the credit is part of the price" (Customer D: 0:35)

> "If I need a considerable delivery, then I send it to two merchants and a direct supplier. Then I try to pitch them against each other. When I find the cheapest offer, I have to handle the credit. Where do they offer the best credit terms? Because it may be that one is the cheaper, but if another one offers better credit terms and I get some better discounts, so that I don't need to draw on my cash account, then it can be a better solution" (Customer D: 0:32)

As Customer D is preoccupied with the price issue, he leaves no stone unturned in purchasing activities, control of invoices and discounts, and it pays off:

> "It is incredible that it pays off to have one employee, who does nothing else than negotiate prices, control invoices and the like. It is important. There are many mistakes. We have several cases every month, which should have been invoiced to somebody else. If you don't catch such cases it means that money just disappears" (Customer D: 0:24)

> "It is also a way to make sure that you get the promised discounts. One thing is what you agree upon in the telephone. Another thing is what the invoice says" (Customer D: 0:25)

Merchant D is also preoccupied with price as a way to create high gross margins. His challenge is to pressure suppliers, and at the same time convince his customers that price is not the important issue; service is. On the one hand, he plays his suppliers off against each other to get the lowest possible price:

> "If I get an order for which I need to clarify some problems, then I approach the salesman from a specific supplier. Because we have the same understanding and communication, we appreciate each other's services and so on. But at the end of the day, when we are going to negotiate for the final order, which I have received from the customer, I ask some other suppliers. And I do so in order to put a pressure on the supplier with whom I prefer to make business. It is like that" (Merchant D: 0:56)

On the other hand, Merchant D tries to convince his customers that service is more important than price:

> ” I fight to remove price as the customer’s purchasing criteria and replace it with service” (Merchant D: 0.16)
>
> “The less you talk, the more the price counts” (Merchant D: 0:18)
>
> ”I can see what some sales men are doing wrong; they simply don’t try to convince the customer that the price is secondary. The price has to be okay. What it is all about is that I can offer you precisely the services you want. Then the customer will say:”In fact you are right”. What happens is that when the customer calls and ask for something, they ask the price. Then you will have to try and ask them a question: “Does it matter what it costs? Isn’t it a matter of securing the delivery at the right place and the right time, where you need it”. And the customer will say:”Well you are right”” (Merchant D: 0:18)

Though, this approach does not work in Merchant D’s relationship with Customer D who has a regular routine of asking two merchants for quotations, also for minor orders of a value below 300 Euros.

Supplier D believes in the value of good services as a possible way for suppliers to get orders from the merchant, except for the time being. He points out that money saved on the building site, due to fast deliveries, can be more valuable than the price of the building materials. Customer D confirms the importance of time of delivery:

> ”Precisely these two, price and time of delivery can sometimes be equally important. It may be that one supplier is more expensive, but if he has a short time of delivery, then it can happen that you choose him, because you have something at the building site, which cost you a lot of money, if you don’t remove it, for example scaffolding” (Customer D: 0:45)

However, time of delivery is not an issue during recession; activities are so slow that Supplier D’s competitors are also able to deliver within three weeks. This was not the case during expansion. Supplier D won many orders due to his ability to keep time of delivery at a maximum of three weeks, while competitors had delivery times at 10-15 weeks. But presently, this competitive advantage is lost.

In spite of the price-focus characterizing the market, Supplier D believes that there is room for quality as the prime criteria, when builders are renewing private estates. In such

situations Supplier D believes that the builder prioritizes quality and time of delivery before price. A difference of 2,000 Euros is not important. It is the wages which are making a renewal costly. Therefore, he is also annoyed that merchants, according to his experience, do not care about quality:

> ”Mr. and Mrs. Jensen do care about quality. But most merchants don’t care. They only care about selling something, no matter what” (Supplier D: 0:32)

But Merchant D points to quality as a relevant criterion and claims that customers are willing to pay for extra features:

> ”People are ready to pay another 50 Euros for a special feature. But they do not know that this feature exists. But now some suppliers are starting to tell. And they earn extra money” (Merchant D: 0.16)

Thus, all three parties are observant to other criteria than price, but price has taken the stage as the prime issue at the time of the interview, partly due to recession.

Value dimensions in creating customer value

The respondents were asked to prioritize the five dimensions of value, categorized as direct value functions. They were free to prioritize all, none or just some of the dimensions. Customer D was the only respondent who performed a prioritization (see table 9D.I below). Supplier D and Merchant D did not prioritize the value dimensions, but used them as a platform for a discussion of the division of labour, and as an opportunity to express their views on value dimensions and value creation in the triadic relationship. These discussions are the foundation for the interpretations of the respondents’ evaluations presented in this section.

	Product	Logistics	Finance	Knowledge	Adm. support
Customer D	1	3	2	4	

Table 9D.I: CASE D: Respondents’ prioritization of value creating activities

As specified in the above quotes, Customer D's assesses value as matter of price: Price for a given quality, and including the value of the credit facilities. This quality is the product as a physical unit with the needed design. The prioritization of the product and finance as the two most important value dimensions is much related to the price issue. But as pointed out by Customer D, delivery time is sometimes more important than price. Thus, the prioritization of logistics is context dependent.

Customer D's low prioritization of product knowledge, is interesting because he is very observant to the value of such knowledge. He talks about a young salesman, with whom he did business some years ago. His knowledge about building materials was of much value to Customer D:

> "There is a world of difference between the salesmen's knowledge. At a time, one of my merchants had a salesman, whose parents owned a number of merchant outlets in another region. He simply knew everything. And he wasn't very old. But when he asked if you didn't need this or that, you could be sure that this was exactly the articles you had forgotten. It was of immense value for us. Because sometimes he pinpointed what we had forgotten"."For us it was a tremendous loss when he left" (Customer D: 0:42)

A further discussion of the issue shows that the knowledge of merchant salesmen varies very much and depends on former experience. Therefore, merchants cannot be relied on to offer product knowledge. Moreover, Customer D claims that in large projects the architect is responsible for having the right knowledge:

> "If we take a large order – product knowledge, it is not so important, because the architect handles it" (Customer D: 0:42)

He decides on the supplier whose standard he prefers as the bench-mark for the type, quality and design of building materials accepted in the tender or quotation. Thus, for Customer D product knowledge in orders for customized goods seems to be a non-issue, because it is handled by somebody else. Merchant D sees this differently. He believes that the merchant must have product knowledge:

> "If you look at the turnover in a merchant store, there are 8-10 groups of articles. The group to which Supplier D's products belong is absolutely the largest in terms of turn-over. And all articles in this group are customized goods". "You have to know these products, otherwise you get huge problems" (Merchant D: 0:29)

But he also explains that in orders for customized goods it is customary that the pattern of interaction is triadic, and in such cases he leaves it to the supplier to handle the case:

> ”Well, there is no reason why I should call the supplier, when the customer asks me something, and then call back again. That is absolutely tiresome. So I consequently begin by saying to the supplier. “You get the number to the customer, and then you handle this case together with him, and when you are done you call me and get a requisition number”. It is so easy. And then the customer gets the professional service from the very beginning, and you don’t act hesitantly” (Merchant D: 0:58)

This being so, merchant D sees his own contribution in such constellations as a finance function (credits and guarantees), and an administrative function. Moreover, Merchant D highlights two value dimensions which he believes to be very important for value creation in merchant intermediated business constellations. One of them is market knowledge, resulting from a large network. Knowing the market enables you to solve the customer’s problems:

> ”The more quarters you have visited the larger your network; the better the chance and the higher the probability that you can sell the product. …If you have a lot of suppliers, then you have many solutions and many ideas for the customer, and that equals sales” (Merchant D: 0:33)

The other contribution is administrative support. Sometimes, it is a matter of helping the builders with routine orders, in other situation the assistance is more substantial. In the latter situation, the merchant may act as the site-manager, but it is rare.

> ”It is okay to apply the term administrative support, but at many building sites we are some sort of site-managers. You can say so; that is what we are. But we are only in it, in order to obtain additional sales. The customer may take a chance by letting us do it. But we, we have a chance to sell a bit more. But we don’t do it very often. However, you are right that a lot of the customers’ builders call us. They have no idea what the articles are called, they just know how they are applied. And in such cases we help them” (Merchant D: 0:38)

Supplier D does not prioritize the value functions, but comments on the division of labour. He claims that he is responsible for the product, product knowledge, logistics, and for the introduction of novelties, except in the rare event, when a merchant has such knowledge, which is the case with Merchant D. And contrary to Merchant D, Supplier D believes that

the administration exclusively is a matter which is handled by the customer. What Supplier D perceives to offer to the customer is problem-solving, and this problem-solving is a matter of finding the right design for a specific end-user:

> ”That is why they call us. If only it is a matter of simple measurements they will never, ever call, because they can handle it themselves. They call us, because the end-user has uttered some special demand that the builder cannot comply to, this is what happens in the majority of cases” (Supplier D: 1:01)

Behind the builder’s need for support lies a change in end-customers’ perception of the type of building materials that Supplier D delivers. They belong to a group of products that end-users have redefined as design elements equivalent to furniture:

> ” Formerly our goods were regarded as building materials; this is not the case today. They are furniture” (Supplier D: 0:32)

> ” People consider our goods to be furniture, so they do; it is a matter of a total design, into which they have to fit. They expect that the mounting of new building materials will make their house look twenty years younger, seems the double size and change an ordinary standard house into a traditional mansion. And it is really hard to combine these three wishes” (Supplier D: 0:35)

Supplier D adds two observations related to the servicing of private end-users on behalf of the builder. One is that private end-users increasingly involve themselves in the choice of building materials, and they use the internet to find a preferred supplier, before contacting the merchant or the builder. Another is that decision-making in building materials for private homes is heavily influenced by females. These developments show that it may be time to reconsider the understanding of value creation in this type of building materials. It is organized and perceived as a process, which is initiated up-stream, depends on B2B value dimensions, and is evaluated by the customer. But Supplier D’s experiences that private end-users involve themselves in the decision making. They apply other value dimensions and prioritize them differently than professional builders. To the extent that this is the case, the understanding of value creation must include the effects of demand-driven influences, emerging not in the B2B customer’s needs, but in the B2C customer’s desires.

Supplier D has further observations which seem to confirm the importance of private consumers or end-users. One merchant in the Copenhagen area has achieved great success by redefining his B2C department into a life-style studio. To support this he distributes a catalogue which resembles the ones that large department stores use to market clothing, textiles, shoes etc. Just with the small addition that the beautiful settings always include some sort of tools related to the tableaux. Moreover, merchants are inclined to re-organize in order to appeal to consumers, too. Supplier D claims that:

> ” Basically they are retail stores” (Supplier D: 0:52)

However, Merchant D emphasizes that his department is not promoting itself towards consumers, because the chain to which it belongs also owns a chain of B2C outlets. The merchant stores are expected not to compete with this chain. Though, commodities sold in the merchant’s store have a higher gross-margin, and therefore it is an interesting side-effect of the B2B activities to be able to service B2C customers, too. This is noticed by Customer D:

> ”It is funny how timber-merchants have changed; they have become a little like DIY-centres. They play the game between B2B and B2C” (Customer D: 1:09)

Recapitulating the main points of this section, Customer D relates his discussion of value functions to his prioritization of price as the most important element in the direct value dimensions. Merchant D discusses the significance of knowledge and administrative support as important auxiliary services, whereas Supplier D sets another agenda for the discussion: Whether the relevant value dimensions to discuss are the ones related to B2B value creation, or a more consumer oriented approach, may yield a better understanding of the value creation in the building material industry. Supplier D’s perspective also reflects the fact that the merchant trade of Supplier D’s articles only relates to rather small projects. All the larger projects are handled in the supplier’s alternative channels for large B2B customers. Consequently, Supplier D’s perspective is more oriented towards the conditions for minor projects of which an important share relates to private estates.

The value of the customer to the merchant and supplier

Merchant D’s is preoccupied with gross-margins, and he applies this criterion when assessing the value of a customer. Merchant D also explains that long established customer-relationships yield better profit for the merchant than new customer

relationships. This is so, because new customers are offered substantial discounts on bulks; this is one of the ways that new customers are attracted:

> ”The closer the customer relationship, the higher the gross-margin and profits; the more personal and confident it becomes…..If I have a new customer there is only one thing to do; to lower the price to get him closer….You can say that it is not fair, and this is the point where it is difficult to look yourself in the mirror, because it ought to be the same…It ought to be cheaper when you know the customer and he is loyal…But it is not like that. You prostitute yourself a bit in an established relationship; now you know me, you know how fantastic I am, and then I can raise the price a bit” (Merchant D: 0:45)

However, the increasing profits on well-established customers also relate to the way that the customer composes his purchase at the merchant’s. The gross-margin on bulks is lower than on commodities, and normally a new customer is tempted by bargains on bulk. Little by little he includes commodities in his purchases, and the profit on the customer increases, but this is not the only explanation. The discounts to new customers and increasing gross-margins on established customers are part of a premeditated approach taken by Merchant D.

> ”The gross-margin gets steadily higher. Of course it gets higher when we sell bulk in the beginning and adds commodities later on. Then it gets higher. We know that. But it doesn’t get naturally higher. It increases unnaturally; because, all the bulk articles increase, too. It is a bit of an attitude and a psychological game you have here. And that is what I really appreciate” (Merchant D: 0:45)

Thus, in few words, the customer is a means of profit for the merchant, and seemingly nothing else.

The value of Customer D to Supplier D is a matter of potential safeguarding. To the extent that a builder has preference for Supplier D, Supplier D can avoid that Merchant D asks for prices elsewhere, and use these competitive quotations as a means to pressure Supplier D for lower prices. It is a way to crop competition. Supplier D explains the importance of relationships with builders:

> ”If only I can get hold of the builder; and he is happy, he may know me, and is glad that I go out and take measurements for him. When he is going to make a quotation, then I make the measurements, and he doesn’t have to bother.

> There is some sort of deal. Then the builder says to the merchant that he doesn't want alternative offers. There is no reason, because he is happy with me. He knows the price is right". "So wherever I can, I try to establish this type of relationship with a builder. But they are few. Because the merchant knows that if we succeed in getting in touch with the builder, it is our brand which will be used, and then they don't have the possibility to ask another one" (Supplier D: 0:29)

The value of trusting customer relationships with professional customers is very important for Supplier D. However, Customer D's price orientation implies that chances of getting a position as preferred supplier are small. As Supplier D explains:

> "Although I am a personal friend of Customer D, it does not imply that he buys from me" (Supplier D: 0:00:44)

So, in the case of Customer D it is difficult to achieve safeguarding, but to the extent that Supplier D has a convincing offer, Customer D becomes a source of profit. But large orders, which could offer volume too, are not handled in this channel.

The value of the merchant to the supplier, and of the supplier to the merchant

Supplier D perceives of merchants as points of contact, not as active salesmen or distributors on behalf of the supplier:

> "The big difference is that the merchants take the risk" (Supplier D: 0:18)
>
> "Their involvement is a matter of tradition" (Supplier D: 0:22)
>
> "We create new customer relationships ourselves – Well, of course they create new customers for us to the extent that I succeed to become friends with some of the merchant's salesmen; then I may be able to draw some of the salesmen's customer over to me" (Supplier D: 0:22)

This being so, merchants may push their customers towards Supplier D, but they do not establish new accounts on behalf of Supplier D. This assessment of the value contributed by merchants explains why Supplier D is much more pre-occupied with his relationship with the builders and the end-users.

To Merchant D the value of suppliers relates to their problem solving capacity. He believes this to be a service to the customer for which the merchant can claim a price

> ”We are very good at involving our suppliers. Because if the supplier calls the customer and offers technical advice……..then the price becomes secondary for the customer again, so in principle I can earn what I please without cheating on the customer. We use it a lot, and use it increasingly and we must use it”. (Merchant D: 0:20)

So, for Merchant D supplier involvement is a means to increase gross-margins. But Merchant D also sees himself as a partner to Supplier D. Suppliers with whom the merchant chain has exclusivity agreements are categorized as A-suppliers. If Merchant D participates in a competitive bidding and if the standard used as bench-mark is not one of his A suppliers, he tries to find ways which enable his A-suppliers to participate:

> “Those who offer direct sales they also do business with us…….They are often used as the bench-mark for specification in tenders…..Then I try to introduce our A suppliers instead….. And then the architect has to take it seriously. Then he can call me and ask for samples and technical advice. Simply because regulations for tenders forbid the architect to choose a brand; he can only specify technical demands and design features” (Merchant D: 0:23)

When the respondents’ perceptions of contributions are plotted in table 9D.II on the following page, the underlying pre-occupation with price and margins becomes apparent; in many cells profit is the primary or the only value dimension. Safeguarding is difficult, due to the predominantly transactional exchange mode. Supplier D cannot create relational bonds, to safeguard volume and profits, neither to Merchant D, nor to Customer D. Consequently, volume becomes a less probable value outcome of the relationships in Case D.

Summing up, transactional price-competition is ruling, because the customer is price-oriented, and the merchant is focusing on gross-margins. Thus, it may be that the supplier decides on the pattern of intermediation, as claimed by Customer B. But in Case D the customer and merchant heavily influence the exchange mode. This being so, the exclusivity agreement between Merchant D and Supplier D most of all looks like an entrance fee for the supplier. It offers Supplier D a chance of being included in the group of suppliers whom the merchant asks to bid. In return, the merchant gets the suppliers’ services, and earns a commission, seemingly with few or no string attached.

	To Supplier	To Merchant	To Customer
Supplier perceives to give (input)		Profit Customer service	Product Logistics Knowledge News on novelties Design solutions
Supplier is perceived to give (output)		Profit (supplier service increases gross-margin)	Product Logistics
Merchant perceives to give (input)	Finance function (Guarantee on debtors) Creating access to competitive bidding		Finance function (credit /guarantees) Adm. services
Merchant is perceived to give (output)	Finance function (Guarantee on debtors) Point of customer contact		Cost-efficiency (price + credit) Knowledge
Customer perceives to give (input)	(Not explicitly expressed) Profit	Profit	
Customer is perceived to give (output)	Profit	Profit	

Table 9D.II: CASE D: The respondents' perception of the parties' value input to and value output from the activities

9D.2 Interconnection: Pattern of intermediation

The actor's perception of the triadic relationships

Customer D clearly states that there is no trade- off between price and relationships. As pointed out above by Supplier D, the personal friendship between Supplier D and Customer D has no effect on the business relationship between the two of them. For Customer D the main benefit of the exchange is a matter of low prices; i.e. cost reduction. Basically he believes that trust cannot exist in merchant-customer relationships, because these relationships involve monetary exchanges:

> " As soon as there is money between people, it goes wrong. And so there is in merchant-relationships, and therefore you have to control what they are doing. So – you cannot close your eyes, act blindly, and say I only make business with him……Sometimes when I have been checking Merchant D, it was all wrong. I still like him, he is doing a good job, is active. Often he comes over to me and sits here when we calculate tenders. He is good in that respect. But still he has to present the right prices, because it may make the difference between winning the bid or not. Earning money or not" (Customer D: 0:52)

In spite of his reservations concerning the value of merchant relationships, Customer D claims to have an excellent relationship with the two merchants who supply him. And he voluntarily acts as an informant for them:

> "If I happen to notice that the prices of one of the merchants differ very much from the other's then I pick up the phone, calls the manager and tells him: "There is something wrong with this price, because your competitor sells it at quite another price"" (Customer D: 0:52)

But these relations are not partnerships. His merchants are suppliers; he controls them and makes them compete against each other.

Merchant D's relationship with suppliers is primarily a matter of getting his customers' problems solved. Merchant D engages the suppliers in servicing the customers. Still, suppliers who are servicing Merchant D's customers must compete with other suppliers for orders. Consequently, Supplier D's investment in servicing a customer on behalf of Merchant D only pays off, if he offers the best price. But as pointed out by Supplier D, the chance to visit customers and solve their problems is crucial elements in the creation of customer preferences which crop competition. Thus, there is a potential of creating

customer preferences, if he succeeds in becoming the merchant's preferred assistant in solving customer problems. The immediate effect for Supplier D of direct contacts is remarkable in minor orders for private end-users:

> "In fact we prefer that the merchant gives mine or my colleague's phone-number to a private end-user who contacts a merchant for problem-solving. Because we have experienced that when we visit a private end-user, we get the order in 99.9% of the cases. Because then no competitors are asked to quote prices" (Supplier D: 0:23)

But the long-term return on Supplier D's investment in getting orders by servicing private end-user is uncertain. The spin-off in terms of further orders is small, because normally the building materials offered by Supplier D are replaced with intervals of 15-20 years. However, back-ground interviews with the sales managers in Supplier D's department showed that satisfied end-users act as marketers. They are informants whose experience is taken seriously, when they give advice on choice of suppliers to family and friends. So there is a chance that an order for a private end-user results in further orders. But as illustrated in Case A, the value of creating close B2B relationships is a stronger platform for expansion than the individual end-user relationships.

In consequence of the respondents' attitudes to relationships, each episode in Case D seems to have little spill-over effect on the relationship between the respondents; at least on a short term basis. A possible effect from embeddedness of customized goods, in an ongoing relationship between Merchant D and Customer D related to assortment goods, is not apparent in the data. But Customer D's general attitude indicates that if Merchant D offers non-competitive prices for assortment goods for a prolonged period of time, Customer D will find another merchant. If so, Supplier D will no longer be asked to quote prices for customized goods; he depends on Merchant D's performance in assortment goods. Thus, some sort of embeddedness of customized goods in a relationship related to assortment goods exists in the merchant-customer relationship.

This seems not to be the case in the supplier-merchant relationship. Supplier D's servicing of Merchant D's present customers does not result in privileged access to Merchant D's future customers. But an unprivileged access to Merchant D's present and future customers seems to be a sufficient reason for Supplier D to keep up the present relationship with Merchant D.

> "When we have an agreement, then they treat us as assortment goods for which there is three weeks of delivery". "We are an integrated part of the merchant store; we are one of his suppliers". "If we did not have these agreements with the merchant chains, we could not sell very much to them, because then the merchants belonging to the chain were not allowed to buy from you except if it was necessary" (Supplier D: 0.19)

Summing up, reciprocal relationship building seems to be a non-issue in Case D. Supplier D would like to build a more committed relationship with Merchant D, but Merchant D is not interested. He profits from Supplier D's services in an uncommitted fashion. Merchant D would like to build a committed relationship with Customer D, but cannot succeed due to Customer D's price-orientation. And Supplier D would like to build a committed relationship with Customer D, but is unable to do so, due to the customer's choice of a transactional exchange mode. This being so, the triadic relationships in Case D illustrate very clearly that relationships are not necessarily characterized by relational exchange.

The constellation of interconnections interpreted as a pattern of intermediation

The mapping of the relationships in Case D, in the below figure 9D.1, points to the problems involved in the mapping of exclusivity agreements as positive interconnections. The resulting intermediation pattern resembles initiation, but may not result in initiation.

The exclusivity agreements imply that the merchant-customer relationship is a precondition for the supplier-customer relationship (1:+). But Supplier D's servicing of Customer D apparently has no effect on the merchant-customer relationship. The only parameter which counts is the price. Even if the analysis is expanded to include all possible suppliers that Merchant D can offer Customer D, the effect is questionable. Because Customer D will only stay in the relationship with Merchant D, as long as his prices for assortment goods are low. Therefore, the effect on the merchant-customer relationship of the supplier-customer relationship is null (2:0). Likewise, the data do not record any perceived effect between the merchant-customer relationship, and the merchant-supplier relationship. Both relationships are transactional and price-based, not relational. Supplier D's relationship with Merchant D is independent of Merchant D's relationship with customer D, because Supplier D can have relationships with Merchant D's other customers (3:0). And Merchant D's relationship with Customer D does not depend on his relationship with Supplier D, but on his ability to find the supplier who offers the lowest prices (4:0).

The annual exclusivity agreements is a precondition for the supplier-customer relationship (5:+). But no matter how well the supplier performs in the supplier-customer relationship, it will not affect the supplier-merchant relationship; only price does (6:0).

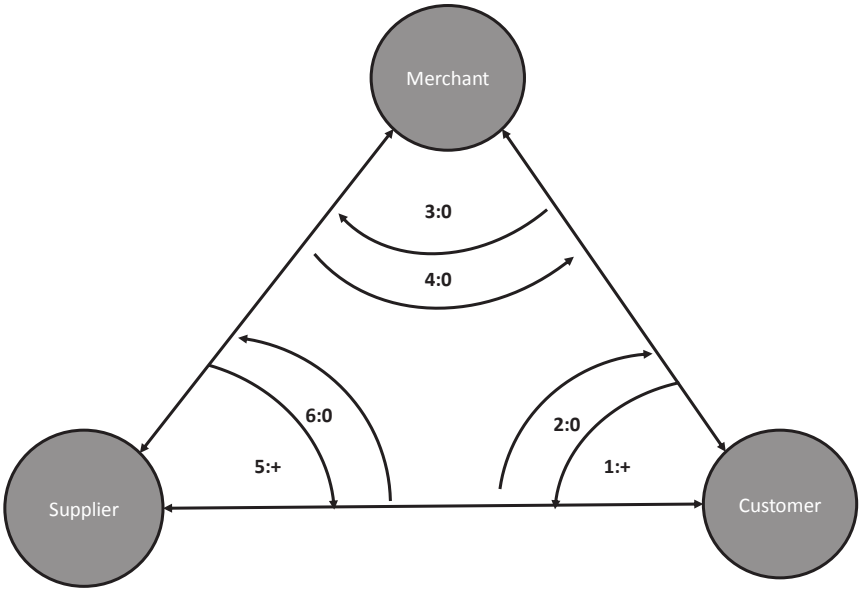


Figure 9D.1: Case D: Constellation of triadic interconnection

The resulting pattern looks like initiation, but the description of Case D shows that this initiation only exists on an episodic level. Sometimes Supplier D quotes prices for an order which both satisfy Merchant D's demand for gross-margin, and Customer D's demand for cost-economizing. But this is not always the case. If so, Merchant D and / or Customer D chose another supplier. Thus, the exclusivity agreement is a necessary condition for initiation, but does not necessarily result in initiation. Supplier D comments on how he sees the present structure of the merchant intermediated sales of building material as it is illustrated by Case D. Supplier D experiences that merchant trade has changed from wholesales with selected partners, to retail based on price-competition. He believes that this is a result of the consolidation of merchant chains

> ”Today it is basically a retail store - it is a coop……..It is precisely the same; in any case that is what I believe. Before, it was much more of a whole-sale arrangement. You found some business partners and were happy with them, used them as suppliers in your merchant store. But it is not like that today…… It is because the larger quantities they buy the better prices they get; the easier it is for them to survive. That is why” (Supplier D: 0:52)

Consequently, the interpretation of exclusivity agreements as positive interconnections must be reconsidered. Case D illustrates that the initiation effect of exclusivity agreements depends on the context in which these agreements are implemented. If exclusivity agreements only entail the right to quote, not to deliver, the level of initiation produced by these agreements is very low.

9D.3 Positions: Indirect value functions

As mentioned in section D9.1, the interviews with the respondents in Case D, took place during recession. The extra-triadic network influence was perceived to be a matter of intense competition; especially in the Copenhagen area.

> “We have nothing to do for the time being. We get orders, but they are very small, less than 2,600 Euros. One year ago we clapped our hands when orders exceeded 26,000 Euros. Today we clap our hands if they exceed 4,000 Euros” (Supplier D: 0.01)

> “I am convinced that if you are going to have something built, you should do it now, because right now a lot of builders are quoting incredibly low prices”(Supplier D:0.05)

Supplier D and Merchant D agree that the recession is partly a matter of insecurity.

> “The strange thing about it is that people do not have less money. Of course a lot of people get redundant, but people have no less money than before, they just don’t dare to use it” (Supplier D:0.04)

> “The problem in the Copenhagen area is related to bankruptcies among builders and contractors. The constructions are awaiting completion, where nobody is doing anything, and this is harmful for the constructions which are attacked by dry-rot. Then you can demolish it all, it is worth nothing. And I think we will see a lot of it from now on” (Supplier D:0.03)

> "80% of the quotations that we make could become orders if it were not for the banks and the mortgage associations, which have created a deadlock for no reason. There are a lot of them who have plenty of money. I am sure that they have no idea what they do, what the real risk is; they just say no to all their customers. I believe that the banks are greedy. The Danish central bank is reducing the interest rate hoping to stimulate activities. But the banks don't care, they are only going to earn money. They don't care what the Central bank does. And then they close credits due to uncertainty, and the whole business is closing down" (Merchant D 1:01)

But Customer D points to incompetence among developers as part of the problem. People with no experience in the construction industry or property market involved themselves, due to the chance of high profits:

> "Everybody became developers; school-teachers, cobblers – it didn't matter. Suddenly, everybody became real estate agents. It ruined the market incredibly. It is a huge problem. Those are the ones, who go bankrupt the one after the other. They are not builders. One example is a company owned by two lawyers. It was a matter of obsession and they could access a lot of money, and when the property market expanded very fast, they involved themselves in that business" (Customer D: 0:14)

So, the network surrounding the triadic relationship in Case D is perceived to be competitive and in recession. It seems to be a struggle for survival, and Merchant D senses that it may result in a change of distribution patterns for customized goods of the type handled in Case D. When discussing competition, Merchant D points to other merchants as the prime competitors, but also points to increasing competition from suppliers and other types of wholesalers:

> "In addition we compete with suppliers, who are offering direct sales to customers. And there we have to know how to react, because they are bold. You have to react fast because an increasing number of suppliers involve themselves in direct buyer-seller relationships. And they do it because prices are so squeezed that they don't find room for us" (Merchant D: 1:01)

Thus, the network context is part of the explanation why the relationships are characterized by transactional relationships. But there is more to it.

As formerly described, Merchant D always asks quotations from three of the suppliers with whom he has annual agreements. And Customer D asks prices from two merchants and a direct supplier. Consequently, an exchange episode between Supplier D and Customer D depends partly on Supplier D's prices and the gross-margin he can offer Merchant D. Partly, it depends on Merchant D's ability to offer the lowest prices to Customer D. This acquisition sequence may include the involvement of Supplier D in the preparation of specifications for the quotation, but this is not necessarily the case. This can be handled by a competing supplier.

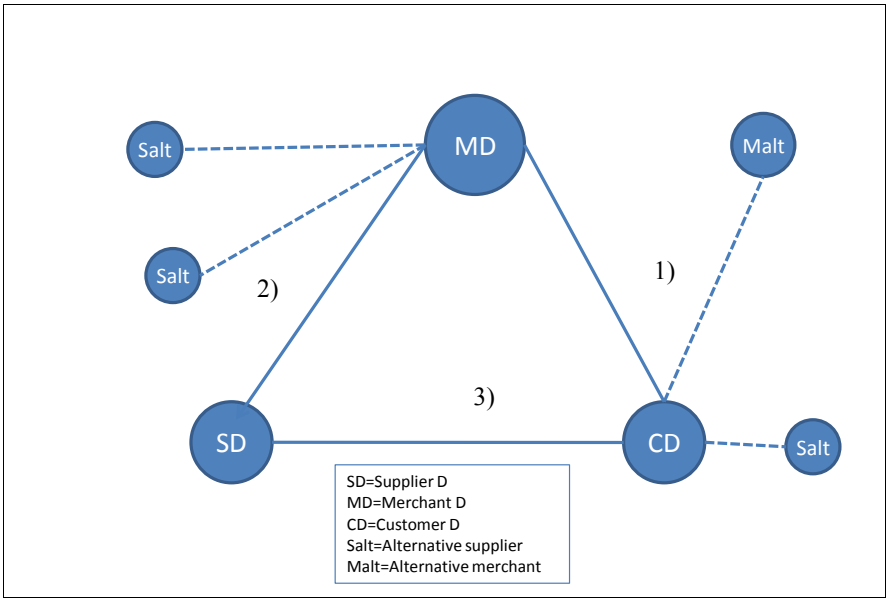


Figure 9D.2: An acquisition sequence in Case D

The sequence, which reflects the transactional character of relationship in Triad D is illustrated in the above figure 9D.2

1) Customer D asks for quotations from two merchants and a direct supplier
2) Merchant D asks for quotations from three suppliers
3) Supplier D will only get the order for Customer D, if he offers the best prices among competing suppliers, and Merchant D offers the best price among competitors

This procedure is not a recent development resulting from recession. It appears to have been Merchant D's and Customer D's standard practices for a number of years. What has changed is the fact that Supplier D has lost competitive advantage from being the fastest supplier, and has no other parameters to apply than price. Additionally, Merchant D perceives that direct suppliers are pressuring the merchant business even more than before recession began.

If the interconnections related to the acquisition sequence were plotted in the above figure, all interconnections would have negative effects. Customer D's relationship with the alternative merchant and supplier influences the relationship between Merchant D and Customer D negatively. The relationships between Merchant D and the alternative suppliers influence the relationship between Merchant D and Supplier D negatively. This being so, all alternative relationships have the potential to influence the relationship between Supplier D and Customer D negatively.

This pattern of extra-triadic interconnections raises the question, why Supplier D stays in his merchant relationship instead of changing position through the offering of direct sales channels. The answer has to be found in the organization of Supplier D's sales organization. This company has several alternative channels: one direct channel for minor builders, one direct channel for large projects, and one for exports. So the department engaged in Case D is targeting minor builders who prefer merchant trade, in addition to decision making private customers. And the merchant is the access point to these customers. There is a potential for expansion to exploit as described in Case A.

In order to get the most out of the present situation, Supplier D attempts to flank the merchant as much as he can and build customer preferences. If he gets the chance, he involves himself intensely in the acquisition process. He assists the customers or end-user in measurements, problem-solving and in designs with the specific purpose of short-circuiting the standard acquisition procedure, illustrated in figure 9D.2. If he succeeds, he can neutralize the effect of the transactional character of the dyadic relationships and create a relational foundation for exchange. That is difficult in Case D, due to Customer D's attitude.

But on a more general level, Supplier D expects that the investment he makes in servicing Merchant D's customers can create competitive advantages. The investment in servicing Merchant D's customers may develop into relational B2B relationships with builders, and create positive word-of-mouth effects resulting from satisfied private end-users. Thus, flanking is a way to achieve a strategic advantage from high performance on direct value

functions. This performance has the potential to substitute a transactional exchange mode with a more relational and cooperative exchange mode in customer relationships. As long as Supplier D stays within the limits of the exclusivity agreement; i.e. sends order confirmations and invoices to Merchant D, Supplier D still keeps a position in the race for orders managed by Merchant D.

The noteworthy aspect of Case D is that not only the supplier's, but also the merchant's strategizing is evident. Whereas Supplier D tries to find ways to counter the merchant's transactional approach to exchange, the merchant attempts to preserve a brokerage position in spite of the involvement of suppliers in the servicing of customers.

> "We have incredibly many contacts for the same product. Therefore, it is so important that the supplier doesn't find out what the customer prefers. Let us say, you know supplier NN. Let us say that the customer prefers Supplier NN, and I have got the order for 15,000 Euros. Then I will have to try and pressure Supplier NN to deliver at the lowest possible price. So if I have a lower price from one of Supplier NN's competitors, it is very important that Supplier NN does not discover that the customer prefer his product. It enables me to say to Supplier NN. Well, I have another supplier who has quoted a price of 13,000 Euros. Then Supplier NN will say: "Okay 13,000 Euros it is". He will be happy because he gets the order. I will be happy because I earn money, and the customer gets Supplier NN's products, which he prefers" (Merchant D: 0.45)

Merchant D's ability to preserve a favourable brokerage position depends on the suppliers' willingness to accept that they are not allowed to quote prices to the customer. This is why the order confirmations and the invoices have to pass through the merchant. It is his last resort of control; and it enables him to keep a brokerage position in spite of his dependence on suppliers for the creation of direct value functions for customers.

In other words, Merchant D attempts to preserve a structural hole, which endows him with the advantages of a brokerage position; this is achieved through the deal on no disclosure of prices. At the same time, Supplier D attempts to flank and close the structural hole through relationship building with customers; this is achieved through the unconditional servicing of the merchants customers. When these two simultaneous patterns of intermediation are mapped in the same triangle in figure 9D.3, the potential instability of Case D stands out very clearly.

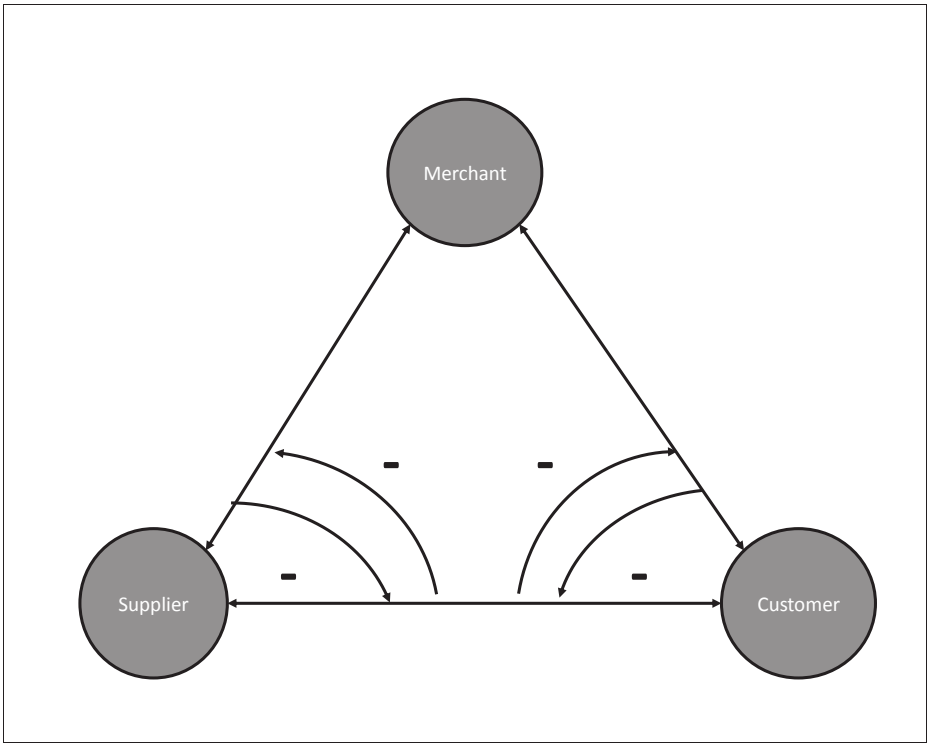


Figure 9D.3: The mapping of a triadic relationship characterized by simultaneous flanking and brokerage

The balance in the triadic relationship in Case D is delicate and depends on two circumstances:

- That Supplier D will continue to invest in value creating interaction with Merchant D's customer
- That Supplier D and Customer D will continue to accept that pricing is a non-issue in their communication

A number of other preconditions exist

- That Supplier D's organization continues to apply merchants as contact points for sweeping up the demand that their alternative channels cannot address
- That a group of minor builders and private customers continue to prefer to buy customized goods through merchants, either because it is a tradition, or because the credit facilities are very valuable

If one of these preconditions changes there is a risk that triadic structures characterized by simultaneous flanking and brokerage will be hit by disruption. As indicated not only by Case D, but by all four cases, the actors' evaluation depends on how they perceive the interconnections to influence value creation.

Finally, it is worth noticing that the annual agreements between suppliers and merchants normally have a clause relating to volume. The annual bonus depends on the volume. These volumes are not specified to the individual outlets, but to the chain. In a capital chain with centralized management, there is a possibility that a top-down instruction can be given concerning the choice of suppliers. Thus, Case D is potentially also under the influence of the strategizing of the chain. The chain may favour the suppliers who offer the best discounts and bonuses. However, each outlet is expected to maximize its individual profit, too. Therefore, it is difficult to interpret the possible influence of the chain on triadic relationship, in terms of discount based supplier preferences.

Concluding comments on the analysis of Case D

The analysis of interaction and interconnection in Case D results in a pattern which resembles initiation. This result points to one of the problems related to the plotting of discrete interconnections in a network analysis of channel relationships. When interconnections are plotted one, by one, the network perspective vanishes. The network is treated as if it is a collection of discrete dyads, not an entity. The problems related to this approach are unmistakable in Case D. The effect of exclusivity agreements can be interpreted either as initiation or as hierarchy. If Merchant D chooses Supplier D, and Customer D chooses Merchant D, the effect on the supplier-customer relationships is initiation. If Merchant D chooses one of Supplier D's competitors, and Customer D still chooses Merchant D, the effect on the supplier-customer relationship is exclusion of Supplier D who is displaced by a fourth actor. This being so, the analysis points to the ambiguity of exclusivity agreements; the effect depends on the context and on the actors' positional considerations.

This is apparent when the interconnections are plotted pair-wise, as indicators of the actors' strategizing; the interpretation of the pattern of intermediation changes significantly. It is not a pattern of initiation. On the contrary it is characterized by the co-existence of Merchant D's attempt to preserve a structural hole, which offers brokerage potential, and Supplier D's concurrent attempt to close this structural hole through flanking.

9E: CROSS-CASE ANALYSIS

This section presents the findings from the cross-case analysis and centres on three subjects:

- The significance of actor attributes and network competition
- The practical adequacy of the framework
- Other findings of relevance for future research

9E.1 Significance of actor attributes and network competition

When comparing the cases it is evident that differences in actor characteristics influence the working of triadic relationship. The major differences in actor characteristics are:

Suppliers:	The number of channels applied, and the product range (only customized goods or customized goods as well as off-the-shelf assortment goods)
Merchants:	Degree of specialization (purely B2B or combined B2B / B2C)
Customers:	Size and the share of activities originating in tenders / bids
Triadic network:	Relating to activities in the province or the Copenhagen area (level of competition)

The significance of perceived interconnection and positional considerations becomes rather evident in a cross case analysis. The supplying company in Triad A and Triad D offers no assortment goods, but only customized goods, whereas the supplying company in Triad B and Triad C offers both. Consequently, the importance of the perceived trade terms, 'all-or-nothing', influences Supplier B and C more than Supplier A and D. Apparently, Supplier B and Supplier C are much more conscious of the risk of retaliation from merchants, if they should establish direct buyer-seller relationships. It is perceived to have potential dramatic consequences for the whole organization.

These perceived trade-terms are also important for Supplier A and Supplier D, but seemingly they are not a prime consideration. Supplier A and Supplier D do not have a line of assortment goods to protect. Moreover, their organization has established alternative channels into which they may be able to channel minor builders whom they presently

serve through the merchants. Instead, Supplier A and Supplier D are more concerned with the B2C potential in merchant trade. This is an important segment for which they have no alternative channel, for the time being.

The comparison between the merchants especially points to the importance of the embeddedness of exchange of customized goods, in ongoing relationships centred on assortment goods. This seems to be of major importance for Merchant B and Merchant C. Merchant B and Merchant C are both exclusively oriented toward B2B customers, and involved in large projects. This implies that they often have to bid for deliveries of assortment goods, too. Both of them are aware that although their involvement in orders for customized goods is profitable, their main income results from their business in assortment goods. Therefore, they seem to be more observant to the importance of balancing their contribution to value creation and their appropriation of value from orders for customized goods. It is a way to preserve customer relationships in assortment goods.

Merchant A and Merchant D are also observant to the importance of relationships, but in another way. Their interaction with the customers depends less on very large projects, and more on the establishment of relationships with customers, who choose to have their account with them, and use them as a single source. When such relationships are established they tend to last. So, it is a matter of creating these relationships which are seldom exposed to detailed scrutiny from customers, when first established, on the condition that assortments goods are available on a daily basis, and at reasonable prices. Therefore, Merchant A and D are less prepared to balance contribution and appropriation in customized goods. The business relationship is a package, not a number of individual exchanges. In addition, Merchant A and D have an alternative source of income; the increasing B2C sales which contribute with 30-40% of the annual turnover, and generally offer higher margins than bulk in B2B trade.

The customers' perception of their merchant relationships is a significant indicator of the importance of interconnections for value creation. Customer B and Customer C are basically offered the same trade conditions by their suppliers and merchants. However, Customer B finds that merchant involvement in customized goods is unjustified, whereas Customer C finds the present arrangement to be justified. Thus, flanking is the second best alternative for Customer B, and the ideal solution for Customer C. Likewise, Customer A and Customer D differs. Customer A seemingly believes in the value of his relationship with Merchant A, and therefore he accepts his involvement, although he questions the balance between contribution and appropriation in orders for customized goods. Customer D is

basically of the opinion that when money is involved, you cannot trust your partners, and consequently he takes a purely transactional approach to business exchanges.

Across these comparisons there seems to be one defining difference which is of paramount importance; the perceived network competition. Supplier A's perception of an initiation potential is related to his belief that it is possible for him to build a relationship with Merchant A which enables him to create merchant preference. He is aware of competitors, but believes that it is possible to create the foundation for relational exchange. Supplier B's interpretation of flanking, as a matter of balancing the direct value of a close customer relationship, and the indirect value of network access through merchants, is undisturbed by any perceived competitive threats. He believes that as long as he performs well, his customer will not consider alternatives, in spite of the customer's unwillingness to accept the merchant's involvement. In contrast, Supplier C, who is also flanking, is aware of intense competition. He faces the risk that his customer may find another merchant and consequently another supplier. Therefore, the close customer relationship can also be interpreted in terms of the possible indirect value; the chance that the customer will bring him along, if he chooses another merchant. Finally, Triad D illustrates a situation where the supplier faces a highly competitive and transactional context. This being so, his flanking is not as much a matter of balancing the direct value of customer relationships and the indirect value of market access through merchants. It is a way to counter the merchant's brokerage position.

These findings from the cross-case analysis are summarized in table 9E.I on the following page.

Table 9E.I: Primary characteristics of cases - cross case analysis

Case A	Case B	Case C	Case D
Supplier only offers customized goods – multichannel arrangement	**Supplier** offers customized goods as well as assortment goods - single channel arrangement	**Supplier** offers customized goods as well as assortment goods – single channel arrangement	**Supplier** only offers customized goods – multichannel arrangement
Merchant: Both targeting B2B (60% of annual turnover) and B2C (40% of annual turnover). Not very observant to the importance of balancing value contribution and appropriation in exchanges of customized goods	B2B **merchant** (>90%). Prepared to balance contribution and appropriation in exchanges of customized goods	Exclusively a B2B **merchant**. Prepared to balance contribution and appropriation in exchanges of customized goods	**Merchant** is only marketing towards B2B (2/3 of annual turnover), but also serves B2C customers (1/3 of annual turnover). Not very observant to the importance of balancing value contribution and appropriation in exchanges of customized goods
Customer: Less than 20% of the customer's activities originate in tenders and 50% of his activities relate to repairs and construction of private estates. Accepts merchant involvement, but questions contribution	The **customer** is specialized in B2B projects based on tenders, and only has a very small share of his turnover from B2C activities related to construction and renewal of private estates. Perceives of merchant involvement as unjustified.	The **customer** is specialized in large projects based on tenders. These projects include new construction and reconstruction of old estates. Besides, the customer has a minor repair unit which handles small tasks. Perceives merchant involvement to be justified	The majority of the **customer**'s activities relate to repairs and reconstructions. 75% of the turnover is based on tenders or quotations; the rest is based on activities paid on an hourly basis. He prefers not to have private customers. Believes that merchants cannot be trusted
Triadic network in the province; perceived low competition. Supplier believes that it is possible to create merchant preference for his offering	**Triadic network** in the province; perceived low competition. Supplier believes that he can balance direct value of interaction with customer and indirect value of network access through the merchant's position	**Triadic network** in the Copenhagen area; perceived intense competition. Supplier believes that he can balance the direct value of interaction with the customer, with indirect value of access through the merchant. The importance of competition among merchants for customer relationship acknowledged	**Triadic network** in the Copenhagen area; perceived intense competition. Supplier does not expect to be able to build merchant preferences. His initiatives are primarily aimed at building customer preferences.
Intermediation pattern: Initiation	**Intermediation pattern:** Flanking	**Intermediation pattern**: Flanking	**Intermediation pattern**: Flanking and brokerage

9E.2 The practical adequacy of the applied framework

The case analysis is performed on the basis of the framework presented in figure 8.2. The framework defines three value functions in triadic micro-nets: The value of interaction (direct value function of activities), the value of interconnections (the perceived value of a pattern of intermediation), and the value of position (indirect value function of network access). The case descriptions and cross-case analysis in the previous section indicates that the framework is practically adequate; it has explanatory quality (see section 2.1.2).

The four cases are all characterized by strong activity links between the customer and the supplier, and by weak activity links between the merchant and the two other actors. In addition, the combinations of activities in the supplier-customer interaction are also comparable. Across the cases it is observable that the supplier is expected to be responsible for the product, the logistics and for all or some of the information activities related to specifications, designs and problem-solving. The merchant is expected to be responsible for the finance dimension, and for some administrative services, too. The apparent pattern of activity consequently is rather similar across the four cases.

The case descriptions and the cross-case analysis show that the chosen contextualized indicators of interaction captures the activities performed in the triadic relationships. The activities which are performed in interaction are core elements in the actor's perception of the value outcome. The performance of these activities creates value dimensions which can be categorized as cost-economizing / profit, volume, quality and safeguarding.

The activities (interaction) result in direct value functions of significance for the value creation. These functions can be studied through the chosen contextualized indicators.

The plotting of discrete unilateral interconnections between two relationships results in four different intermediation patterns:

- Case A: Collaborative cohesion
- Case B: Twisted pattern of initiation (the customer-supplier relationship and the customer-merchant relationship initiates the merchant-supplier relationship)
- Case C: Collaborative cohesion
- Case D: Simple initiation

The inclusion of the supplier's positional considerations which relate to the indirect value function results in a re-interpretation of the pattern of intermediation. When these positional considerations are included the four patterns change into:

- Case A: Initiation
- Case B: Flanking
- Case C: Flanking
- Case D: Combined flanking and brokerage

The differences in intermediation patterns (constellations of interconnections) across the four cases cannot be understood in terms of varying resource and activity interdependencies, because the activity patterns vary very little. This indicates that a pattern of intermediation is the result of a focal actor's assessment of the value potential as a composite of direct and indirect value functions. When the interpretation of the pattern of intermediation includes the positional aspect, these patterns have a stronger explanatory quality. They make sense of the data:

> **The value potential of future network access influences the pattern of intermediation. The indirect value of positions expresses this value potential**

The differences between the patterns resulting from the plotting of discrete interconnections, and the results achieved from an analysis performed from the point of view of a focal actor point to two significant observations. 1) Discrete interconnections cannot be added and produce a perceived pattern of intermediation. The analysis must be performed from the point of view of a focal actor. A pattern of intermediation is a holistic construct which can be divided into its parts; the discrete unidirectional interconnections between two relations. But it cannot be done the other way around and without a defined actor as the point from which the analysis is made. 2) Consequently, a pattern of intermediation depends on the focal actor's perceptions and interpretations. This is most evident in Case D, where the data facilitate a parallel interpretation of the pattern of intermediation as the merchant's attempt of brokerage, and the supplier's attempt of flanking.

> **A constellation of interconnections is not a result of resource and activity interdependencies in relationships. It is an actor perceived construct or phenomenon which is expressed in the pattern of intermediation**

As described in chapter 5, it has been discussed whether interaction conditions interconnection, or vice-versa. The cases in this study sustain the alternative interpretation of interconnections conceptualized in this study. A perceived constellation of interconnections (the pattern of intermediation), is a reflection of how an actor perceives and interprets the combined direct value of interaction and indirect value of position of all relationships and positions in a triadic structure.

> **The pattern of intermediation is the expression of a focal actor's assessment of the whole; the direct and indirect value function of all ties in the triadic relationship**

The results of the case-descriptions and cross-case analysis corroborate the practical adequacy, the explanatory quality of the theoretically founded claim presented in chapter 6. It is the value potential of triadic relationship as a whole, which motivates the actors to participate in a triadic relationship. In addition the data emphasize that this value potential is not an objective constructs, but results from subjective evaluation. This is in line with the conceptualization of interconnections as an actor perceived and interpreted phenomenon.

> **The *actors' individual* *evaluation of* the combined direct and indirect value potential in a triadic constellation is what motivates them to participate. This is the link between motivation for participation, the value potential and the triadic structure**

This phenomenon is captured by the conceptualization of patterns of intermediation as representations of actor perceived interconnections.

Underlying this study is the desire to understand the existence of an apparently paradoxical triadic relationship. In the context of my thesis, suppliers are paying commission to merchants. This is a *give constellation*, and intuitively it is assumed that the suppliers must *get* something in return e.g. that the merchant perform value creating activities from which the customer can profit. However, the suppliers are also active parties in value creating activities for the customer. Thus, the suppliers' give constellation is apparent both in money (the commission paid to the merchant) and resource investments (the activities performed and relationship building with customers). But the get constellation for the supplier; the value of the intermediated system is less apparent.

The pattern of intermediation resolves the paradox. As discussed in section 4.3.2 tie formation can be characterized by motivational duality. Ties can either be functionally motivated (related to activities / resources = direct value function) or strategically motivated (related to actor bonds /positions = indirect value function of market access). The analysis of the four cases in this study shows that the two motives are not mutually exclusive, they co-exist. In Case C the supplier's relationship with the customer is both functionally motivated and strategically motivated. The direct value function, in terms of a high volume / high profit relationship, is combined with the potential strategic value of this actor bond in the case that the customer chooses another merchant. If so, a strong actor bond may induce the customer to bring along the supplier into a new triadic supplier, merchant, customer structure.

However, the core of the pattern of intermediation is that it illustrates that relationships in a triadic relationships cannot be assessed separately, they constitute a whole. This is so in case B, where there exist a latent risk that the customer will defect from the triadic relationship. He is unsatisfied with the supplier's inclusion of the merchant in the organization of sales. But the present circumstances enable the supplier to balance the indirect value function of his relationship with the merchant and the direct value function of his relationship with the customer. Likewise, the initiation sequence in Case A illustrates that the intermediation patterns is a result of the assessment of a complex interplay of the direct and indirect value functions related to triadic relationship.

Moreover, it is evident from Case D that this composite value, expressed in the pattern of intermediation, is a subjectively interpreted phenomenon. The supplier and the merchant perceives of the triadic relationship in which they are involved in two different ways. This implies that for every actor there is a pattern of intermediation. Consequently, each triadic relationship holds the potential of 3 x 6 = 18 interconnections. Thus, a structure is not unambiguously motivated. The interdependencies can be interpreted differently and the participation in the actor constellation differently motivated. The strength of the pattern of intermediation as an analytic tool is that it synthesizes a focal actor's assessment of the whole.

9E.3 Other findings of relevance for future research

The cross-case analysis emphasizes two restraints resulting from the design of the case studies

1) The distinction between off-the-shelf items and customized goods is difficult to sustain
2) The research design only enables the analysis of the suppliers' positional considerations

Moreover, it points to two observations which may inspire future research:

3) Exclusivity agreements do not necessarily result in initiation
4) Merchant are not necessarily marketing their suppliers; they market themselves and their services with assistance from suppliers

Ad 1): In this study I have attempted to separate exchanges of customized goods from exchanges of assortment goods. The importance of the embeddedness of the customers' purchases of customized goods, in an exchange relationship related to the continuous deliveries of assortment goods, indicates that this separation may be faulty. It is difficult for merchants as well as customers to separate activities related to assortment goods from those related to customized goods. The merchant's ability to satisfy his customer in assortment goods is of vital importance for the total customer-merchant relationship. This observation is supported by supplier statements which point to the importance of customer-merchant relationships for the establishment and preservation of supplier-customer relationships. Merchants have to be apt in servicing customers with assortment goods; otherwise, there is no potential for suppliers of customized goods.

Yet, the categorization of orders is not straightforward. In Case A and Case D it is the specification of the product which categorizes the exchange as customized. In Case B and Case C the significance of the order size and the subsequent need for detailed logistics are features of the same importance as product specifications. This observation points to a general phenomenon in the building material industry. When orders become sufficiently large, they change from off-the-shelf deliveries into customized exchanges.

This also applies to standard bulk items such as plasterboards. A supplier who is capable of partitioning a large delivery of plasterboards into minor consignments needed for a single apartment in a large estate has re-invented his offering. It is no longer bulk, but a

customized offering. The builders get consignments which are easy to handle. If the offering also involves sequenced logistics and part deliveries, at each floor of the estate under construction or repair, such offerings present important cost-reductions for the customer. This example, which was conveyed to me by Merchant B, illustrates that the division between customized goods and off-the-shelf items is ambiguous. Consequently, future research must find ways to operate with combinations of off-the-shelf items and customized offerings, defined on the basis of product specifications, order size and logistics.

Ad 2): The cross-case analysis apparently supports Supplier B's claim that the supplier chooses the intermediation system. But this conclusion is preliminary. In this study the focal actors have been the suppliers. It was a challenge to suppliers which set the research in motion, and it has influenced the data collection and analysis. This is evident in the analysis and interpretation of the importance of position, which is performed with the supplier as the focal actor across all four cases. This perspective was chosen for the simple reason that I have gathered much more additional background information from suppliers than from merchants and customers. Therefore, this is the perspective which my data enables me to apply to the analysis. If the claim that the supplier chooses the pattern of intermediation is to be sustained, further studies must be designed to collect the positional considerations of all three actors. I cannot claim that my research design conforms to this demand. Focus in the data-collection is on activities and relationships, and the significance of positions primarily emerges as a result of my analysis and interpretation of the data.

Ad 3): A subject of interest which stands out clearly in the cross-case analysis is the ambiguity of exclusivity agreements in the merchant intermediated business relationships. As pointed out in the first part of this section, the analysis of intermediation patterns results in one instance of initiation, two instances of flanking, and one instance of combined flanking and brokerage. Normally, exclusivity agreements in intermediated trade arrangements are expected to offer territory exclusivity in exchange for brand exclusivity. If this was the reality in these four cases, it would be expected that more cases displayed considerable elements of merchant initiation. This is not so. Therefore, future research on the effect of exclusivity agreements in terms of brokerage, bridging and initiation could inform our understanding of value creating in triadic relationships further.

Ad 4): Finally, the four cases do not conform to the traditional understanding of merchants as intermediaries who perform as marketers on behalf of the suppliers. They do not market their suppliers. They market their own services, and they involve the suppliers to

assist them in this effort. Thus, the network tenet that everybody intermediates between everybody is confirmed by these four cases. An intermediary does not offer a fixed set of activities, resources and actor links. Intermediation is a local phenomenon, related to activities, perceived interconnections and positions. A further development of the proposed framework for the analysis of value creation in channel networks may increase our understanding of this local phenomenon.

CHAPTER 10: CONTRIBUTIONS AND CONCLUSION

This chapter concludes on the results of the research presented in this thesis. It opens with a discussion of the validity of the proposed conceptualization of triadic relationships, with special attention to the definition of interconnections as a necessarily related element of triadic structures. The following section discusses the relevance of a triadic approach. It sets off from a recent debate in Journal of Purchasing and Supply Management of the theoretical significance of substituting a dyadic level of analysis with a triadic level. The subsequent sections present and discuss the theoretical contributions of the study and its managerial implications. The chapter closes with a section which points to avenues for future research.

10.1 The validity of the study

This thesis takes a critical realist approach. A critical realist analysis rests on the ability to sort out the necessarily related and the contingent relations in a structure. On the basis of this categorization of contingencies versus structural mechanisms, the processes which create the events in the actual are analyzed by causation; the theorizing of explanation based on theory and data. In this case the event in the actual is value creation in triadic business relationships

Th study originates in the empirical domain. The initial stages of the research indicated that suppliers pay merchants for assistance in the marketing and distribution of their offerings. At the same time, suppliers perform the majority of value creating activities. In this system the value of merchant relationships for suppliers is not immediately apparent. This observation was intriguing, as business exchanges are expected to be mutually rewarding. Consequently, merchants must be assumed to contribute with some sort of value, which is not a result of activities in the relationships, but is related to the constellation of relationships. Something of value, besides the activities, takes place in triadic relationships. In order to conceptualize this value potential, triadic relationship as a unit, a structure, must be defined.

The triadic micro-networks are composed of a set of actors and their relationships. Social Network Analysis conceptualizes networks as structures of ties and positions, and Markets-as-networks conceptualizes networks as structures of relationships and actors. The perspectives are compatible; they both assume actors to be interdependent. When the two approaches are combined it is evident that the activities performed in interaction and the network access offered by position both have a value potential. However, the MAN

approach offers an additional network insight; interconnection. Relationships influence each other.

Conceptual papers on interconnection are rare (Smith, Laage-Hellman 1992, Ritter 2000) and the discussion focuses on the primacy of interaction and interconnection; i.e. is interconnection the result of interaction or is it conditioning interaction? The analysis of triadic micro-networks in chapter 5 indicated that interconnections may not be structural phenomena. The duality of interaction and interconnection is not a matter of process versus structure. It is a matter of what is done versus how it is perceived, interpreted and motivated. Relationships have no agency and therefore they cannot influence each other directly. Interconnections are not structural phenomena, but an actor perceived and interpreted phenomena. Thus, the value potential of triadic relationship is not an objective phenomenon. The question is whether the perceived constellation of interconnections is a necessarily related element of the triadic structure, or a contingent condition for the working of the structure.

I conclude that interconnection is a necessarily related element of the triadic structure for two reasons: Firstly, the review of SNA literature pointed to the significance of motives for the understanding of the value potential of a structure. This is best illustrated by an open triadic structure which offers different scenarios of value potential, depending on the motives and actions of the participating actors. Secondly, the review of the MAN literature pointed to the existence of a duality of motives. Actions can be functionally motivated and related to activities or strategically motivated and related to positions; there is a link between motives and value potential. When combined the two domains of research point to a link between structure, motives (agency) and value potential. This link is the phenomenon which drives actions. It depends on the structure of relationships, but it also motivates the actions which either transform or preserve the structure. Therefore, interconnections are not contingencies. They are a necessarily related element in the working of triadic relationships.

The evaluation expressed in the pattern of intermediation captures the actor perceived interconnections. These evaluations depend on the structure of the wider network and how the parties to triadic relationship visualize this structure e.g. in terms of competitive threats. Moreover, it depends on the value system which is the internal calculation system which attributes value to phenomena. The network context and the value systems are the contingent conditions for the working of the mechanism.

The categorization of network structures and visualization as contingencies is supported by the comparison between Case B and Case C. When analyzed from the supplier's point of view, both cases are characterized by flanking. But they differ in terms of perceived competition and the customers' evaluation of the outcome of his merchant relationship in exchanges involving customized goods. These contingencies create two different scenarios for possible change. Supplier B does not perceive competing suppliers as a threat. Therefore, Case B is perceived by Supplier B to be a rather stable system, in spite of the fact that Customer B is not fully satisfied with the present organization of activities. In contrast, Supplier C sees Case C as a system which is under influence of competition among merchants. This may result in change, in spite of the fact that Customer C is satisfied with the present organization of activities.

Likewise, Case D illustrates that value systems are contingent conditions for a triadic structure. The perceived value of the triadic relationship depends on the participants' value systems. The merchant focuses on the gross-margin and this preoccupation directs his actions and interpretations. For the supplier the value to be appropriated is a combination of market access and the potential to crop competition. Therefore, their patterns of intermediation differ. For the merchant the triadic relationship is an opportunity for brokerage. For the supplier it is interpreted as an opportunity to flank. The two value systems differ. It is a contingent condition for their interpretations.

Summing up, the empirical observations inspired the conceptualization of the supplier-merchant-customer relationships as triadic structures, because all the participants are interacting. These relationships are structures of three necessarily related elements: The interaction, the positions and the constellation of interconnections. Perceptions and interpretations of interconnections are part of the working of the structure. They are the basis for the evaluation of the value potential, and this evaluation motivates the actors' decisions and action. Thus, perceived interconnection is part of an object necessarily possessing powers. The working of this object or mechanism depends on the contingent conditions; network competition and actor evaluations. The study presented here

- Establishes similarities between events or differences among events in the four cases
- Establishes mechanisms and contingencies of significance for value creation in the four cases
- Produces theoretical re-descriptions which increasingly capture new layers of reality by pointing to the fact that the space encapsulated by relationships and positions is not empty, but captures the actors' sense-making of the network

Therefore, it is claimed that the study is epistemologically valid in a critical realist perspective (Tsoukas 1989). In addition, the proposed conceptualization of triadic relationships can be applied for any structure, open as well as closed, and no matter the identity of the actors. Thus, it is expected to conform to the demand that it can work in other contexts e.g. strategic alliances, innovation networks and triadic relationships of two suppliers and one buyer. Moreover, it is developed on the basis of two lines of network research; social network analysis and markets-as-network, and it is consistent with the knowledge offered by these research traditions. Finally, it has been applied as the foundation for the development of a framework for analysis of channel relationships as value creating networks.

This framework has proved capable of explaining the situation under study; it is practically adequate. But no attempts have been made to apply the framework to produce a longitudinal account of what produced the situation. However, the majority of the demands to inputs for robust practically adequate theories (Sayer 1992) have been met: The study is not only epistemologically valid, but also offers a theoretically valid conceptualization of triadic relationships.

10.2 The relevance of triadic analysis for the understanding of networks

As pointed out in chapter 5, studies of triadic constellations which apply a MAN perspective, yield rich and detailed data. However, the theoretical significance of studies of triadic structures is questioned by scientists who take a MAN approach to the study of B2B relationships (Pedersen, Holmen 2000). A recent issue of Journal of Purchasing and Supply Management treats some of the themes in this discussion (Choi, Wu 2009b, Choi, Wu 2009a, Dubois 2009). The authors agree that the question of how dyads influence each other in triadic structures is interesting for managerial strategizing. But they disagree on the theoretical significance of the triadic micro-network.

The controversy relates to the definition of the fundamental building blocks of a network. Is the triad (in this case conceptualized as a set of actors and their relationships) this fundamental building block (Choi, Wu 2009b)? Or is the triad a particular and incomplete construct, because it excludes the other actors to whom the parties to a triad are connected? If so, the dyad is the theoretically significant building block in networks (Dubois 2009). The incompleteness of the triad is argued on the precondition that any business relationship of importance is a strong tie. Consequently, the link between one such tie and

one or two other ties is incomplete. It does not include interdependencies resulting from other relationships (Dubois 2009).

The dismissal of the significance of the triad on the grounds that it is a spatial separation of a few relationships is difficult to sustain. Any limited group of actors and relationships is an incomplete structure, as the network is without boundaries. This applies to dyadic relationships, too. To me it seems that the claim that the dyad is the theoretically significant building block in networks depends on how the secondary effect of relationships in the MAN approach (Anderson, Håkansson & Johanson 1994) is to be understood. The primary effect is the effects of the dyad and in the dyad. The secondary effect or the network function of a relationship is the effects on and in other directly or indirectly connected relationships. The question is whether the secondary effect exclusively is a matter of resource and activity interdependencies, transmitted through the relationships (the effect in other relationships). If so, the triad may have little to offer in the theorizing of networks.

However, networks are not exclusively a result of objective interdependencies, networks are also under influence of subjectivity (Ford, Håkansson 2006a). This subjectivity can be captured by the pattern of intermediation. It is a representation of a focal actor's subjective evaluation of the value potential not of a single relationship, but of the interconnectedness of a constellation of relationships. The evaluation motivates action and therefore it influences the working of networks. This could also be understood as a secondary effect on relationships. And if a phenomenon, which influences the working of networks, can only be observed when the dyadic level of analysis is substituted with a triadic perspective, then the learning from studies of triadic relationships is theoretically significant. This applies to the study of interconnections; a triadic perspective is relevant.

Thus, it is not the spatial separation which makes the triadic structure incomplete. It is rather the conceptualization of the links within a triadic relationship, and between the triadic relationship and the network, which is incomplete for the time being. The incomplete conceptualization of triadic networks may have several explanations. The quantitative tradition in social network analysis entails a focus on ties, positions and the resulting structure; including the structure of the holes or space between ties and positions. But these spaces are treated as if they are empty, although the same structure may display different patterns of intermediation (e.g. brokerage, bridging or initiation in an open triadic structure). And as pointed out by Ritter (2000), MAN scholars tend to conceptualize interconnections as a result of interaction, not as a phenomenon in its own right, which influences the working of a triadic micro-network.

However, this thesis indicates that interconnection is a phenomenon in its own right, and that the study of triadic relationships offers theoretical insights which cannot be achieved with a dyadic perspective. Therefore, it may be that these insights, resulting from a study of the smallest possible network, can support generalizations from micro-units to a wider network (Easton, Lundgren 1992).

10.3 Theoretical contributions

The research project is driven by the managerial challenge of value creation in merchant intermediated systems. The apparent paradox that suppliers both pay for an intermediated system and are active in the relationship with the customer, directed the focus of the study towards value creation in triadic supplier- merchant-customer relationships.

SNA studies indicate that a network offers two value potentials: The value of autonomy and the value of cohesion. Both relate to the value potential of the hole between relationships in a structure. A structural hole in an open triadic constellation indicates the value potential of autonomy. A space encircled by three strong relationships; a closed triadic constellation indicates the value potential of cohesion. These structures are conceptualized as sets of positions and ties. However, the working of a triadic structure apparently is a result of how it is motivated. An open triadic structure offers three possible ways of working. It can support brokerage, bridging and initiation. But SNA does not offer concepts which include the actors' motivation for participation in a specific structure of relationships. The link between a triadic structure and motivation is unanswered. This resulted in the following research question: **What is the link between triadic structure and the actor's motivation for participation?**

The MAN approach focuses on relationships in terms of actor bonds, resource ties and activity links as the building block from which networks emerge. Relationships can be functionally motivated and related to resources and activities. Or they can be strategically motivated and related to the position offered by other actors and the network access that their positions offer. This duality of motivation points in the same direction as the review of the SNA literature: There is a link between motivation and structure. However, the MAN approach also point to the fact that relationships are assets which offer value potential and liabilities which entail costs. There seems to be a link between this value potential and the motivation for participation in a triadic structure of relationship. This lead to the following research question: **How is the actors' motivation for participation in triadic relationships linked to the value potential of the structure?**

By combining insight from the review of SNA and MAN literature it is possible to counter the first challenge of this study: The conceptualization of the triadic relationship as a micro-network. This is achieved by defining a triadic micro-network as a set of necessarily related elements: Interaction, interconnection and position. However, this conceptualization rest on a re-interpretation of the concept of interconnections. Interconnections are described in the MAN literature as the effect of one relationship on another one. However, relationships have no agency; only actors have. Therefore, interconnections cannot refer to objective structural interconnections. Interconnections are an actor perceived phenomenon. This lead to a third research question which synthesizes the two former questions and includes the re-conceptualization of interconnections as an actor perceived and interpreted phenomenon: **How to conceptualize actor perceived interconnections in a way which reflect the significance of actor motivation for the understanding of the value potential of a triadic relationship?**

On the basis of the semantic meaning of intermediation and the definition of interconnections, I conceptualize constellations of interconnections as patterns of intermediation. An intermediary is somebody or *something* acting between others (Oxford English Dictionary), and what an intermediary do, is intermediation. Interconnections are also acting between something; actors and their relationships. Thus, constellations of interconnections illustrate various patterns of intermediation. A continuum of intermediation patterns captures the significance of actor motivation for the working of the triadic micro-network. The conceptualization of this continuum is based on existing studies of interconnections in the MAN domain and is inspired by SNA concepts of brokerage and cohesion.

The patterns of intermediation reflect the significance of actor motivation for the working of triadic relationships. However, the pattern of intermediation does not pinpoint **the link between the value potential of a triadic relationships and the actors' motivation for participation.** This was the next research question to answer which related to the other challenge in this study: The conceptualization of the value functions related to the three elements of triadic relationships; interaction, interconnection and position.

The review of studies of customer value, value creation and B2B value offered an answer. Activities are an unambiguous indicator of interaction, the direct value function. Network access is the unambiguous indicator of position; the indirect value function. Interconnection is a matter of relationships, and relationships include the value potential of the activities performed in relationship as well as the value potential of the network access, which is facilitated by relationships. Based on this distinction between the

indicators of the three value functions relating to interaction, interconnection and position, I reached the conclusion that: **The combined direct and indirect value potential in a triadic constellation is what motivates the actors to participate. This is the link between motivation for participation, the value potential and the structure.**

The analysis of data resulted in a further refinement of the answer to the questions posed in this study: How is structure, value potential, motivation and participation linked? This thesis contributes by offering the following answer:

> **The *actors' individual evaluation of* the combined direct and indirect value potential in a triadic constellation is what motivates them to participate. This is the link between motivation for participation, the value potential and the structure**

The actors' evaluation of the value potential of a triadic relationship as a whole is the phenomenon which motivates participation. Subjectivity in terms of evaluations affects the working of the network and adds to its complexity. We can analyze activities, relationships and the network access offered by a structure. But the value potential of a network depends on the actors' attribution of value to these elements. It is a matter of subjective evaluation.

This understanding of value creation in triadic relationships is founded on the identification of a need to re-conceptualize the concept of interconnection. Constellations of interconnections (i.e. interconnectedness) are illustrated as curves within a triangle. This illustration, which I also apply, implicitly indicates that relationships have the agency needed to influence each other. However, this is not the case, only actors have agency. Therefore, the study proposes

The re-conceptualization of interconnections as actor perceived phenomena

This re-conceptualization captures the subjectivity of networks which is one of the reasons, why networks are complex structures. Relationships can be interdependent, however actors are autonomous. This study exemplifies how this autonomy; the subjective evaluation and the actors' motivated actions, influence the working of a network. This effect of autonomy and subjectivity on the working of the network can only be explicated with the application of a triadic approach. Interconnections are a network phenomenon, which is implicit in the analysis of dyads. Interconnections combine and create a constellation of interconnection; interconnectedness. Interconnectedness reflects the evaluation of the structure as a whole. The developed construct;

Patterns of intermediation offer a way to describe and capture the subjectively attributed value potential of the structure as a whole

This attribution of value is based on the evaluation and balancing of the direct and indirect value functions related to activities and market access in the triadic relationships. Based on these insight

A framework for the analysis of channel relationships as value creating networks

is developed and applied to the analysis of data. The framework presented in figure 8.2 for the analysis of channel relationships, as the ones in the triadic supplier-merchant-customer relationships, is based on the link between

- interaction, the direct value function and activities
- interconnection, the pattern of intermediation and relationships
- position, the indirect value function and network access

The development of this framework responds to a call among network scholars to substitute the dyadic approach, dominating channel research, with a network approach. The purpose of this substitution is to create a better understanding of how the organization of activities and relationships relates to value creation. It is expected that "even relatively small extensions from channel dyads to very small networks with three to five actors may be enough to learn about such complex issues" (Van Den Bulte, Wuyts 2007 p. 81). This study contributes by offering a framework, concept and insights which facilitate the study of channel relationships as value creating networks. And it proposes that the complexity related to the organization of channel activities partly result from autonomy of interdependent actors in networks.

10.4 Managerial implications

This thesis offers no prescriptive best-practise tools. It offers insights which can assist managerial analysis, reflection and decision making. It exemplifies some of the consequences when channel relationships are visualized as networks. On the one hand actors are linked into a web of interdependent actors based on activity patterns and resource constellations. On the other hand the value potential of this network is evaluated subjectively. This evaluation motivates action. Moreover, it emphasizes that networks offer two types of value: The direct value of activities and the indirect value of market access. Finally, it points to the fact that the value of discrete dyads is evaluated as part of a

whole. This explains why the link between the organization of activities and value creation is a complex issue.

The most instrumental concept offered is the pattern of intermediation. It captures some of the complexity related to value creation in networks and offers a platform for the analysis of channel relationships. First of all, the conceptualization of a continuum of intermediation counters the popular understanding of marketing channels as either direct or indirect. The open triadic relationship is normally categorized as an indirect channel. However, such a structure offers various value potentials. It can give an intermediating actor brokerage opportunities, and it can offer initiation between disparate actors as a service rendered by the intermediating actor. Moreover, it may offer an attractive cost-economizing organization of activities. Likewise, closed triadic structures offer the potential of collaborative cohesion, or the balancing of direct and indirect value functions through flanking as illustrated by some of the cases in this study. But most of all the continuum of patterns of intermediation point out that the structure of a network is not deterministic. It may facilitate and constrain the actors' exercise of agency. But the value potential offered by a constellation of actors and relationships depends on what the involved actors do, and how their actions are motivated.

Secondly, the pattern of intermediations can inspire reflection on the tailoring of intermediation systems. They facilitate the tailoring of intermediation systems which offer a desired combination of direct and indirect value functions. And they can inspire transitional solutions to the question whether to dis-intermediate or not. Channel decisions are often squarely defined as a choice between a direct and an indirect channel. The patterns of intermediation can inspire transitional solutions and offer a way to approach the discussion of the desired value of a channel decision. It may not be a matter of a direct or indirect channel, but a question of how to re-intermediate a channel in a way which offers a desirable value potential. And for that purpose relationships are crucial as conduits of direct as well as indirect value functions.

As pointed out by Ritter (2007), one way to counter unforeseen reactions in business relationships, is to involve business partners in the description and analysis of the relationships. The joint analysis of patterns of intermediation may prove effective for such purposes and have the potential to offer interesting data on which management can act. The case studies indicate that the strength of the mapping of patterns of intermediation is that they integrate an actor's understanding of the network context and his criteria for evaluation with his understanding and evaluation of a specific constellation of relationships. Even if it is impossible to involve partners in the mapping of intermediation

patterns, an attempt to visualize the connected parties' patterns of intermediation may give insights into the working of a triadic relationship. It is a way to describe and analyze relationships which incorporates the effect of other relationships. And it offers opportunities both to describe objective interdependencies, positional consideration and to reflect on how the value potential is perceived by different actors.

A further implication of managerial interest is the distinction between and the links between functionally motivated and strategically motivated actions. It is claimed that "Strategy is the art of value creation" (Normann, Ramirez 1993 p. 65). And studies which focuses on value creation point to activities as the core of this process. However, the duality of motives point to activities as an element of functionally motivated actions, whereas strategically motivated actions are related to the network access that an actor's collection of ties, his position, offers. But both motives and the actions they entail offer strategic advantages.

Actor bonds are a significant aspect of an actor's position, and of importance for his decision on actions to be taken in order to preserve a position or to reposition (Lutz 2009). Network-positioning is a matter of strategizing. Likewise, the activities on which value creation is founded can create strategic advantages. Thus, strategizing is founded on the assessment of the total direct and indirect value potential of a specific constellation of actors and ties. These findings support the call for the inclusion of network positioning as a relevant phenomenon to be considered by strategists. Moreover, the four cases point to the balancing of direct and indirect value functions as one of the possible answers to the question how relationships are used in network positioning (Baraldi et al. 2007). Consequently, a one-sided focus on activities does not capture the full potential of network positioning as a way to strategize for network value.

10.5 Implications for further research

In the light of the recent debate on the relevance of triadic analysis, this study indicates that triadic reductionism is not a greater risk than dyadic reductionism. Neither the dyad, nor the triadic micro-network is a self explaining structure. They are embedded in a wider network, and a careful analysis of dyads as well as triadic micro-networks will include the network context. Thus, there is no apparent reason not to seek new understandings by the application of the meso-level of the triadic analysis instead of the micro-level of the dyad or the actor.

On the contrary, additional studies of triadic relationships, which are designed for the collection of data on the perceived pattern of intermediation of all three parties, can advance the understanding of the space encircled by relationships and positions further. Likewise, the proposed conceptualization of triadic relationships can be applied for the analysis of other triadic structures; e.g. strategic networks intentionally created for innovation purposes. Both types of studies have the potential to advance our understanding of organizational networks further.

A refinement of the distinction between interdependence and interconnection for which the study indicates a need is also a challenging prospect. One of the possible avenues for further research on this subject is to focus on the time dimension. The discussion of the link between interaction and interconnections indicates that the two concepts may refer to different time dimensions. Interdependencies in terms of activity links and resource ties are the present result of former interaction. Interdependencies constrain and facilitate change and stability of networks. In contrast, interconnection which also includes the indirect value function of network access, visualizes the perceived future network potential of present decisions. A more precise definition of the differences between interdependencies and interconnections will be valuable for the understanding of how the objective and subjective dimension of networks interact and affect network stability and change.

Finally, the unanticipated findings of the study point to interesting and relevant topics for further research on channel issues:

- The claim that suppliers decide on the intermediation system, not the customers
- The question whether exclusivity agreements are instruments for initiation of business or admission fees endowing the suppliers with the right to quote?
- The question whether merchants are marketing their suppliers or themselves?

Normally, it is presumed that the customer is King, but the possibility that this is not the case in channel decisions is indicated by this study. These decisions are taken by the supplier on the basis of present circumstances, and apparently reflect his motivations, more than his customers' desires. Likewise, the basic implicit assumption that a supplier, who has an exclusivity agreement with an intermediary, can expect him to initiate business relationship on his behalf is questioned by this study. Finally, the study raises the question whether merchants are marketing themselves or their suppliers, or alternatively act as the customer's provider. Are they acting as tertius gaudens or tertius jungens, why and for whom? One of the possible perspectives from which to explore these questions is to study

how they relate to speculation and postponement; the bundling and unbundling of activities. As indicated by network studies of intermediation, specialization and postponement are altering the landscape of channels and the function of intermediaries. Thus, for scholars who take a network approach to intermediation there is vast ground to cover.

APPENDIX A: INTERVIEW GUIDE

Background information:

Company name and address

Name of respondent + contact details

Employment

- Number of employees
- Number of independent builders working for the company
- Number of staff
- Number of trained builder
- Number of unskilled labourers

Turnover (customers)

- Percentage paid on hourly basis / tender-quotations
- Percentage institutions / business / private estates
- Percentage repairs / new estates

Turnover (merchants)

- Percentage B2B / B2B
- Has the relative importance of B2B / B2C changed within the last 10-15 years

Turnover (suppliers)

- The respondent's turnover
- Share projects / minor orders

Geography

- Spread of activities regional / national

Other issues

- Company founded when
- Ownership
- History
- The respondent's position and history in the company

Building materials:

Checking the separation in three groups; bulk, commodities and special order items

Merchant relationship (only customers)

- The name of the merchant
- The duration of the merchant relationship
- More than one merchant relationship
- How to characterize a proficient merchant
- The possible existence of agreements on discount schemes and bonuses
- The percentage of supplies purchased at the merchants
- The categorization of supplies not purchased at the merchants
- Supplies not purchased at the merchants – purchased from suppliers / other wholesalers
- Desired building materials that the merchant not offers, and which the respondent would prefer to buy from the merchant
- Desired building materials that the respondent would prefer to purchase from a supplier, but which only are available through merchants

Merchant relationship (only suppliers)

- How to characterize a proficient merchant in the eyes of a supplier and a customer
- What is the value of merchant relationships for the supplier
- How to characterize an expert merchant chain
- What is the value of merchant chain relationships for the supplier
- To what extent is the discrete exchange guided by agreements with the chain on discounts, bonuses, terms of delivery
- To what extent are exchanges influenced by individual agreements with the merchants
- What characterizes an expert supplier in the eyes of a merchant
- What characterizes and expert merchant in the eyes of a customer
- Is the quoted price a net price to which the merchant add his commission or is it a gross price which includes commission to the merchant
- Is your earning similar independent of the chain to which a merchant belongs

Merchant relationship (only merchants)

- How to characterize an expert merchant chain in the eyes of the customer
- Is it the individual merchant or the chain which negotiates terms of delivery, discounts etc.
- Do you purchase building materials from suppliers with whom your chain has no agreement
- In what ways can chain membership facilitate the servicing of B2B customers
- What characterizes an expert supplier
- Is the price you quote to the customer a net price of delivery to which you add your commission, is it a price quoted from the supplier, which includes commission for you or is it a combination
- Does the choice of supplier influence your earning
- Do you earn a higher percentage of commission on expensive or not expensive varieties of a specific building article
- Does the level of commission vary between different types of building materials such as kitchens, staircases, windows and doors

Decision making

- Who chooses the supplier in bulks / commodities / special order items
- Does it happen that the architect or the client influence the choice of supplier / channel
- Are criteria for selection of suppliers different in B2B and B2C

The Product – Price, quality, time of delivery

- Do you agree that these three issues are the most important for perceived value of building materials
- How do you prioritize the three elements
- How do you think your partners prioritize these elements

Value dimension (presented on separate sheets of paper in random order)

- Product dimension (price, quality, time of delivery)
- Logistics (storing, assortment, transport)
- Finance and risk (on debts, guarantees, terms of payment, discount schemes)
- Product knowledge (detailed knowledge of products and supplier capabilities)

- Administrative support (coordination of supplies and deliveries at the building site, calculation support)
- Market knowledge (knowledge about alternative suppliers, about future projects, new solutions and ideas for customers / end-users, know the markets' pulse, fashion and trends in building materials)

Who are responsible for which value dimensions?

Relationships (only customers)

- Are you satisfied with your present merchant and why / why not
- Is the merchant a sub-supplier or a partner
- Is it important for the perceived value creation that you trust you merchant
- What are the advantages and disadvantages in merchant intermediated systems
- What are the advantages and disadvantages in direct buyer – seller relationships

Relationships (only merchants)

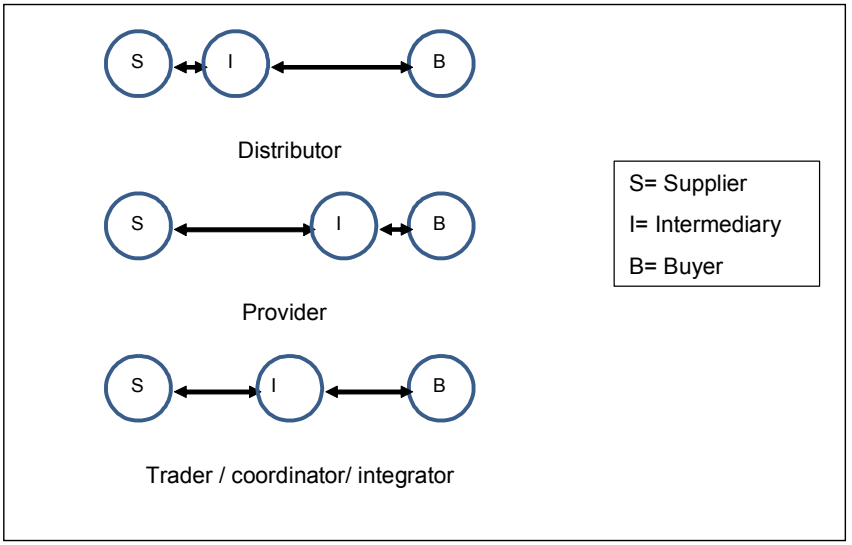
- Do you regard yourselves as the customers partner or sub-supplier
- How is the customer relationship created
- Who is the active partner in establishing customer relationships
- Are customer relationship typically long-term or are the customers shopping around
- Do your customer tend to follow an employee who changes his job and get employed by another merchant
- Do you regard your suppliers as sub-suppliers or partners
- What is the significance of the personal relationships between the employees at merchants and the suppliers sales representatives
- Does your portfolio of suppliers change when you get new colleagues

Relationships (only suppliers)

- Is the merchant a partner or an intermediary
- Is a trusting merchant-supplier relationship of importance for the value creation
- Is a trusting merchant-customer relationship of importance for the value creation
- What are the advantages and disadvantages of merchant intermediated systems

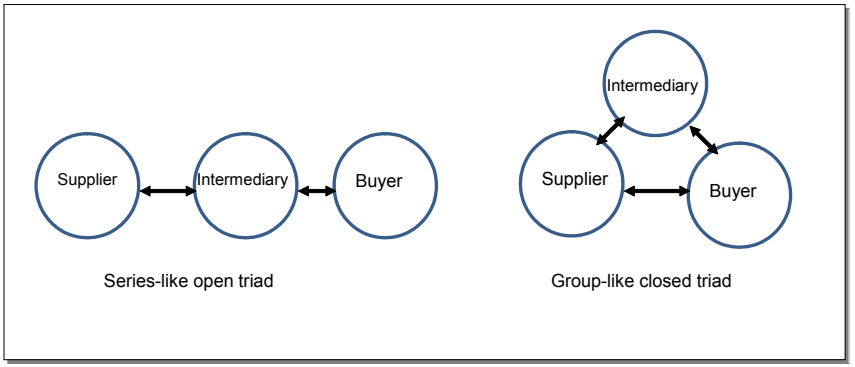
The role of the merchant

Discussed on the basis of the below figure



The visualization of the supplier-merchant-customer relationship

Discussed on the basis of the below figure



- Are the supplier and the customer communicating directly in deliveries of special order items
- If yes, what are they communicating about

(If the relationship is perceived as a triad)

- What activities take place in the supplier customer relationship
- In what ways does this interaction contribute to the value creation – on what value dimensions

Competition

- Who are your competitors

As indicated in the interview guide, some of the issues are approached a bit differently depending on the respondent's role in the triad.

Not all questions are asked in all interviews. If the respondent voluntarily is very talkative, the guide is used by the interviewer as a control instrument. When leaving one issue and opening a new subject the interviewer glances through the questions relating to the issue which has been finalized. It is a way to make sure that all issues are covered, and that the majority of the aspects included in each issue are touched upon, and at the same time to profit from un-anticipated aspects which the respondent may introduce. If the respondent is less talkative the interview guide is used more systematically as a way to probe for the respondents' perceptions and interpretations.

APPENDIX B

The below tables list prepared semi-structured interviews. The right hand column indicates duration of interviews. For interviews with no recordings, case notes have been made immediately after the interview and presented to the respondent to eliminate misunderstandings.

Interviews with respondents in the triads

Date	Respondent	Hours:minutes
2008.02.19	Customer A	00.32:
2008.05.28	Merchant A	00:48:
2008.07.18	Supplier A	01:50
2008.03.28	Customer B	01:19
2008.06.18	Merchant B	01:57
2008.07.01	Supplier B	01:03
2008.11.24	Customer C	00:47
2008.12.11	Merchant C	01:00
2009.02.18	Supplier C	02:51
2008.11.24	Customer D	01:15
2008.12.11	Merchant D	01:12
2009.02.19	Supplier D	01:38
2008.02.19	Customer E (incomplete triad)	01:27
2008.02.25	Customer F (incomplete triad)	00:41

Interviews with respondent outside the participating suppliers' organization

Date	Respondent	Hours:minutes
2007.04.16	Managing Director Wimex, Bo Louring	00:56
2007.05.02	Respondent wants no disclosure of identity	01:07
2007.09.26	Director TUN (Federation of Danish Timber Merchants), P. Thomsen	No recording
2009.02.05	Managing Director, Moth & Partners, Jørgen Moth	02:17
2009.02.18	Director, Danish Building Material Federation, Anne W. Trolle	01:15
2009.02.20	Management Consultant, Implement, René Birk Jensen	01:13

Background interviews Supplier A's & Supplier D's organization

Date	Respondent	Hours:minutes
2007.01.30	Sales Director	01:21
2007.03.12	Manager Intern Sales dept. North	No recording
2007.03.13	Manager HR	No recording
2007.03.13	Manager of Baltic calculation department	No recording
2007.03.14	Export Manager	No recording
2007.03.15	Manager Project sales – new constructions	No recording
2007.03.26	Manager Intern sales dept. South	01:20
2007.03.28	Production Manager	01:02
2007.04.20	Manager Project sales-reconstructions	01:00
2007.05.07	Sales Director	01:57
2007.05.07	CEO	01:47
2007.05.08	CEO	01:44
2007.05.08	Manager Logistics	01:04
2007.05.09	Sales Coordinator	01:01
2008.10.14	Sales Director	57:43

Background interviews Supplier B's & Supplier C's organization

Date	Respondent	Hours:minutes
2007.02.09	Project manager	02:25
2007.04.23	Sales director Scandinavia	01:14
2007.04.24	Manager Intern Sales (special order items)	01:30
2007.04.26	CE0	48:26
2007.04.27	Sales assistant intern sales	No recording
2007.06.11	Project manager	01:17
2007.06.11	CEO	01:36
2007.06.20	Manager Logistics	No recording
2007.06.27	Sales representative	01:45
2008.05.06	Manager Design	01:20
2008.05.06	Sales Director DK (assortment goods)	01:37

In addition to the above interviews the following meetings in which I participated as an observant have been recorded

Date	**Respondent**	**Hours:minutes**
2007.08.07	Sales Coordination (Supplier A+D's organization)	03:19
2007.08.16/17	Management Meeting – strategy development (Supplier A+D's organization)	09:09
2008.02.14	Sales Coordination (Supplier A+D's organization)	03:08
2007.09.11	Sales Coordination South (Supplier B+C's organization)	04:05
2007.04.27	Sales Coordination North (Supplier B+C's organization)	03:55

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