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Value Co-creation Analysis in Customer–Supplier Network Relationships

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Introduction

To have a successful business, companies must be able to create value through their sold products and services given to their customers and also capture part of that value by themselves. Value is, however, not merely tied to the actual object of exchange; instead, it is dependent on the successfulness of the entire relationship between the customer and the supplier (see, e.g., Lindgreen and Wynstra 2005). The value that the customer perceives is also relative to the competition, meaning the alternative solutions the customer is considering or has available for a particular need (Ulaga 2003). The supplier should be able to create more value than the customer can achieve by choosing another solution created by a different competitive supplier. This kind of differential value is very hard to

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define and measure, however, because the expectations of customers are based on the alternatives available on the market (i.e., whether the impact of a similar or substitute product is remarkable). Thus, measuring of differential value always requires a mapping of other potential solutions as well and then a comparison of those with the one under consideration. Usually, it is not an easy task to identify which options are seen as potential and comparable solutions in the eyes of the customer.

For the supplier, it is essential to understand the alternatives that a customer considers to the supplier's offerings. In general, a false perception of value is more likely when there are intangible elements and services, systemic and complex goods, benefits that are not immediate, post-purchase costs, costs of consumables, products, and services that are new to the customer, and last, infrequently purchased goods (Parolini 1999). Essential to the current understanding of value is its subjectivity and the idea of perceived value. These areas refer to the basic nature of value for the customer; the value created by the supplier is in the end thus measured in the mind of the customer, which leads in most cases to a created value that is very hard to measure but still not a mission impossible.

In this chapter a value co-creation measurement tool is proposed for a dyadic level of interaction, specific to the customer–supplier boundary. The tool has three phases. The first two are its measurement parts: first, a measurement is carried out from the supplier perspective to identify the most valuable customers, and second, an analysis is carried out from the customer perspective to find out how value can be co-created in such a way that it maximizes the customer's value perception. The third phase is an actual value co-creation development (i.e., the encounter process) based on suitable relational business practices.

Theoretical Background

Taking a fairly broad perspective then, the concept of value can be seen in terms of a trade-off between benefits and sacrifices. These benefits and sacrifices can be understood in monetary terms, but also as including non-monetary rewards, such as competence, market position, and social rewards. Non-monetary costs can include, for example, the time, effort, energy, and amount of conflict that have to be engaged in by the customer to obtain the desired product or service.

Whether value is monetary or non-monetary, and whether absolute or differential, it always needs both a creator and a capturer. Sometimes these can be one and the same actor, and indeed, often there are several actors involved. However, in the methodology used for our study and in the context of networks, it is reasonable to differentiate between the value creator and the value capturer. It should be noted still, however, that each actor in the value network needs to both create and capture if she/he is to build a long-term and successful value network. Both value creation and value capture can also be viewed from a functional perspective. This kind of function-oriented viewpoint on value, which was introduced by Walter et al. (2001), offers a more complete view of the types of activities that actors can perform in order to create more value for the network members. According to the function-oriented value analysis, a company may gain value from its relationships through both direct and indirect functions. Direct functions bring value that is easier to measure financially and realize in the context of the relationship between the company and the customer. Indirect functions, in contrast, also require the input of third parties, and those outcomes are less easy to measure financially. The notion of value-creating functions of this kind can illuminate the discussion about which activities and functions are likely to create the most value (or any value in the first place).

Another important aspect in the value creation approach is that by understanding the customer's value creation process, the supplier can more thoroughly identify the problems that the customer has concerning his/her own business activities. It has been argued that by understanding the customer's value creation process, the supplier can notice problems and concerns that the customer organization itself does not know (Storbacka et al. 1999). By providing a solution to these unrecognized problems, the supplier can offer a more valuable relationship to the customer than the competitive suppliers can, leading to a mutual value co-creation relationship between a seller and a buyer. All in all, value co-creation builds on good understanding and sound measurement of the supplier process, the customer process, and the encounter process (see, e.g., Payne et al. 2008).

Description of the Tool

Step 1: Supplier Value Creation Process

Measurement Objective: What Value Does the Company Receive from the Customer?

A potential way to analyze the value creation potential of a counterpart is presented by Walter et al. (2001). According to this function-based approach to value creation, value can be measured using seven value functions that can be related to a company's performance either directly or indirectly (Fig. 18.1). Indirect functions are created through network relationships and are usually non-monetary in nature, which makes them difficult to measure. Direct functions can materialize also in dyadic relationships and are therefore easier to measure.

The direct monetary functions are known as profit, volume, and safeguard functions. Profit function refers to the profit gained from selling product(s) to a customer. Volume function is about the selling volume of these products to customers, which helps to exceed the necessary minimum utilization of the supplier's capacities. Safeguard function is the possibility of "guaranteeing" a level of business that serves as insurance against crises or difficulties the supplier experiences with other customers.

The indirect value creation functions are innovation, market, scouting, and access. Innovation function refers to the possibility of product and

	Function	Example of measurement question
VOLUME	Securing a "break-even" volume	"How large projects / amount of purchases this customer has acquired from us in last year?"
PROFIT	Providing a positive cash flow	"How much revenue per sold item we got from this customer in last year?"
SAFEGUARD	Obtaining stability and control in sales terms within a dynamic marketplace	"How long contracts we have with this customer?"
INNOVATION	Obtaining technological knowhow and creative ideas	"How many successful shared R&D projects we have had within five last year with this customer?"
MARKET	Gaining access to new markets	"How many new global market entries we achieved through this customer?"
SCOUT	Providing possibility to gain critical information	"How useful information about competitors (e.g. pricing) we have gained from this customer?"
ACCESS	Allowing access to third parties	"How many contacts with government agencies leading to useful cooperation in new market areas we have gained from this customer?"

Fig. 18.1 Direct and indirect value functions (based on Walter et al. 2001)

process innovation with a particular customer. Market function is about the possibility of acquiring information about potential new customers, the initiation of contacts with new customers, and receiving referrals and/or recommendations to potential new customers from a particular customer. The scouting function refers to the market, competitor, and other information that can be acquired through a particular customer. The access function refers to gaining access to relevant other actors through a particular customer.

Each of these functions acts as a measure of the value creation potential of its counterpart. Under each function, more specific questions should be posed to enhance measurement. For example, under the profit function the exact measurement question might be, "How much revenue per sold item did we get from this customer in the last year?" For the market function, the measurement question could be, "How many new global market entries have we achieved through this customer?" For the innovation function, the measurement could be, for example, "How many successful shared R&D projects have we had within the last five last years with this customer?" Thus, the goals of these functions are to set more specific measurement questions through which the different customer relationships are rated and compared. It is possible to give the same weight to each function or give more weight to certain functions that are more relevant for a specific market area. Based on these ratings, the company is able to identify the most valuable customers to focus on in the next step of the analysis.

Step 2: The Customer Value Creation Process

Analysis Objective: What Kind of Value Can Be Created for the Customer?

This view underscores the importance of understanding value creation as a process during which the customer and supplier interact, and thus, not only the product, but also the overall value of the co-creation process through which the product is developed, marketed, and delivered tovthe customer should be considered (Kothandaraman and Wilson 2001). The process view is especially relevant in terms of service aspects, as the value a customer perceives may be different during the exchange process and afterward when the customer is able to evaluate the outcome of the process more thoroughly (Lapierre 2000).

The basis of the value creation process approach is to understand value creation from the customer's viewpoint and through understanding which kind of process phases that value is created and which kind of challenges occur from the customer's viewpoint. By offering solutions for these challenges, the supplier is able to support the customer in critical tasks and take a key step toward value co-creation (see Fig. 18.2).

The basic idea of the value creation process analysis is to divide the overall process into different phases. As seen in Fig. 18.2, these process phases are identification of needs, purchase, implementation, and, finally, utilization. In these process phases the boundary-spanning practices are carried out, and within these phases, the encounters, which are opened up in the next step of the analysis, play a critical role. Furthermore, in each of these phases the customer has its own problems and challenges. Usually also the supplier company focuses on only some of these phases—mainly the purchase phase, as they want to win the customer case, and naturally also the implementation phase. The customer, however, faces

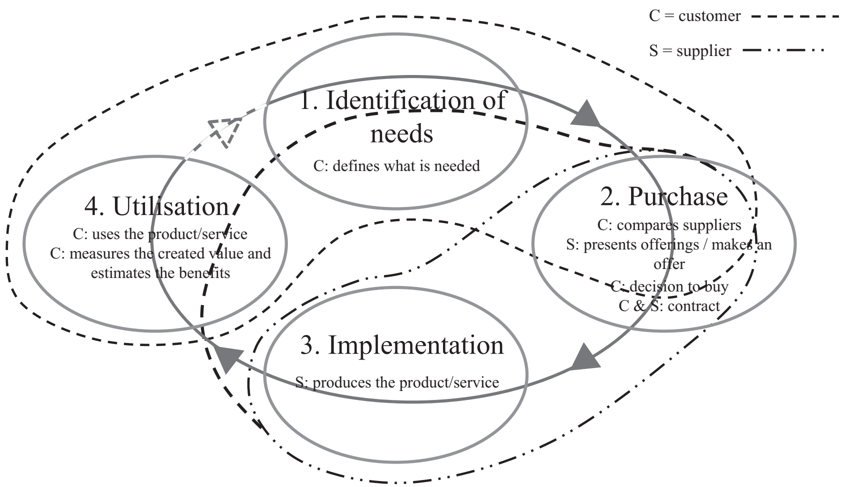

Fig. 18.2 Customer value creation process phases

usually most of the challenges in the need identification and the utilization phases. At the end, most of the value is perceived by the customer in the utilization phase. If the supplier is able to identify the key challenges and to support the customer to overcome those challenges in all of these phases, and especially in the need identification and utilization phases, then the co-creation of value is enhanced. In many cases, the customer's challenges in these process phases are so holistic that the supplier needs complementary resources and competences from other network actors. Thus, value co-creation usually does not happen only between the dyadic level of interaction and within the supplier–customer boundary, but must be leveraged to a wider network in order to achieve best possible value co-creation.

Step 3: The Encounter Process

Objective: How to Develop Value Co-creation

In order to really achieve the level of value co-creation, the processes of the supplier and the customer should be joint (see, e.g., Hirvonen and Helander 2001) as an encounter process (see e.g., Payne et al. 2008). The encounter process consists of a series of interactions between the supplier and the customer (Payne et al. 2008), and thus, it provides a continuation of touch points wherein the different representatives of both organizations of the dyad face each other. The encounter process also includes the physical elements enabling the interaction, such as the space and the IT systems. According to Payne et al. (2008), the encounter process is developed based upon the different types of encounters that each impacts the customers differently. Encounters can be emotion supporting encounters (such as stories and recognition), cognition supporting encounters (such as scripts and customer promises), and behavior and action supporting encounters (such as trials and know-how communication). These encounter types cover rather broadly the key aspects of value creation—symbolic, emotional, functional, and economic—as proposed in earlier research (see, e.g., Rintamäki et al. 2007). Based on the value creation analysis, those encounters that support the most value co-creation need to be identified and further developed. Even though the original research on the encounter process (Payne et al. 2008) concentrated only on the dyads between the customer and the supplier, they can also be used as tools to build the boundary practices and value co-creation between the broader networks.

As stated previously, the value creation process analysis usually reveals the need to cooperate with other network actors in order to be able to provide superior value for the customer. It is not usually feasible to try to create value for the customer merely through the company alone and the company's limited competencies when there is the option of allying with other companies that can complement the existing competencies and jointly create superior customer value. Thus, in a network, the value that is created for customers should be created within a web of actors, where each actor performs activities related to its core competence. The network operates in order to create value for the end customer, but each actor also contributes something to the creation process and in return captures something from the network. If the supplier tries to create superior value for the customer only, in the long run, the supplier might well also do things for the customer that are not related to its core competence, and thus, serving the customer may no longer be profitable. However, when the network is constructed of those complementary core competencies needed to create superior value for the end customer, then each supplier actor does not have to make major sacrifices. Instead, each actor can ultimately capture more value from the network than it originally contributed.

Case Description

The tool was applied in a B2B context, specifically in the ICT sector. First, the function-based value analysis was carried out to discover what kind of value the supplier is able to capture from its customer relationships. This part of the analysis was carried out by gathering internal data from the CRM system and other internal data sources, and then implementing a series of internal workshops where the key personnel responsible for customer relationships were involved. In the first workshop, the different value functions were weighted by their importance from the firm's perspective, and further still, additional specific measures under each of the functions were developed. In the second workshop, the key customers were evaluated based on these identified measures. Each customer received a value function rate, which indicated which customers were the most valuable for the firm. The representatives of the case firm perceived the measurement very useful, as it gave a more detailed, but, at the same time, a very holistic, view on the value capture potential of the customer portfolio. It also revealed which customer relationships should receive more emphasis.

In the second phase of the analysis, the most valuable key customers identified in the first analysis phase were chosen for further value analysis and under a development of relational practices. The purpose of the value process analysis was to understand the customer's needs better because this kind of understanding is necessary before relational practices can be further developed. In this second phase, five customer organizations were chosen, and from each at least two representatives were interviewed. Altogether, 13 thematic interviews were carried out, where all four value creation process phases were discussed thoroughly with the customer representative. These interviews not only discussed about the success factors and the biggest obstacles within all four phases, but also identified the softer "feelings" side of the interviewee in each phase. Using this approach, the overall value, including not only economic factors but also emotional and symbolic one, was then identified.

A process analysis enabled the measurement of the most valuable actions and practices that the supplier was able to carry out within its customer relationships. These were not monetary in nature; instead, they were related to the caring attitude and know-how of the supplier company and the agile methods that the company personnel used with the customer. As such, the supplier company seemed to already have potential for relational practices for managing and developing their customer relationships.

However, also based on the analysis, the key challenges in value creation were identified. It became evident that the supplier had almost totally neglected the need identification phase, even though all of the key customers had severe challenges in this phase. Furthermore, the customers also expected to receive more support in this phase, as they relied on the supplier's expertise on the subject. Another key finding was that the customers were most disappointed in the supplier's action (or in better terms, non-actions) in the utilization process. In many cases the customer felt that they were left alone with their problems in the utilization phase. Even with a little more input and concentration on this phase, the supplier would have grown the value creation to a new level. However, the biggest obstacle in supplier–customer relationship management was the shift between the different value creation process phases. For example, when moving from the acquisition phase to the implementation phase, the key personnel taking care of the project were usually changed in the supplier company. This action in turn caused feelings of non-trust and even a sense of neglect among the customers. Lack of trust was further hindering the potential of true value co-creation within the dyad. This was an interesting finding from the viewpoint of the boundary-spanning process; that is, more interaction was needed within the supplier company.

Based on these two phases of the value measurement analysis, the most important phase, the development of the relational practice and the value co-creation within the dyadic relationships, was started. This phase included the building of an encounter process between the supplier and the customer, where special emphasis was placed on solving the challenges identified in the analysis phases. First, a key account manager was named for each of the key customers so as to take care of the interaction and build trust (an emotion supporting encounter). This person took on the whole responsibility of taking care of the customer relationship and took care that the shifts between different value process phases were smooth ones. Second, continuous value measures (cognition supporting encounters) were developed and put into use in key customer relationships. These measurements were divided into strategic, tactic, and operational levels, including different kinds of measurement items and a varying sequence of measurement. Third, information and knowledge sharing practices (behavior and action supporting encounters) were taken under special consideration and development not only with the customer, but also within the supplier company's personnel who were participating in customer projects and the different value creation process phases. At the moment, the supplier company would also be building network cooperation with other supplier companies to create more value for the cooperating customer.

Conclusions

The tool presented in this chapter offers a path toward better understanding of value co-creation within customer–supplier boundary of network relationships. Its limitation is, however, that it takes the customer–supplier boundary as the unit of analysis, meaning that the analysis needs to be carried out for each customer–supplier relationship in the network and one by one at first. Only after that process can the measurement results be bundled. However, the value measurement usually reveals the commonalities within the different relationships, and thus, enables identifying and building the key encounters and relational business practices that do support value co-creation.

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