Value in business markets: What do we know? Where are we going?

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Abstract

This article presents a review of the existing literature on value in business markets, from the perspective of both business marketing and purchasing and supply management, in three steps. First, some of the early research strands on value are examined including value analysis and engineering, the augmented product concept, consumer values, and economic value of customers. Then this seminal research and more recent research are categorized according to two distinct levels of analysis: the value of goods and services versus the value of buyer–supplier relationships, and different understandings of the role of business marketing and purchasing and supply are discussed. Lastly, a number of future research avenues, which can be organized around the value of products/relationships on the one hand and value analysis/creation/delivery on the other, are considered.

Keywords: Business marketing; Buyer–supplier relationships; Goods; Services; Relationships; Value analysis; Value creation; Value delivery

1. Introduction

The creation of ‘value’ is key in marketing (Albrecht, 1992; Alderson, 1957; Anderson, 1982; Anderson & Narus, 1999; Doyle, 2000; Drucker, 1973; Woodruff, 1997). Indeed, the role of marketing is “to assist the firm to create value for its customers that is superior to competition” (Tzokas & Saren, 1999: 53). If this takes place the firm can arguably deliver superior value to its shareholders (Doyle, 2000; Rust, Zeithaml, & Lemon, 2000). This is key because customers, who are satisfied with a firm’s goods or services that offer them value, ceteris paribus, remain loyal to that firm and place their future purchases with that firm (Bolton & Drew, 1991; Eriksson & Lõifmarck-Vaghult, 2000; Fornell, 1992; Reichheld, 1996; Rust & Zahorik, 1993; Scheuing, 1995). Notable studies in this area have been the Profit Impact of Market Strategy (PIMS) research, which examines the relationships between service, quality, and profitability (Buzzell & Gale, 1987; Chusil & Downs, 1979), as well as Zeithaml’s (2000) recent synthesis of evidence about the profit consequences of service quality.

The examples of rice merchants in ancient China (Grönnroos, 1996) and traders in pre-industrial society (Sheth & Parvatiyar, 1995) are evidence that the concept of value is not new in marketing and illustrate that buyers and sellers have long gained value from their business relationships and, as a result, have continued to stay in these relationships. Although a number of marketing writers began to study value from the mid-20th century (Payne & Holt, 1999) including Churchill (1942), Womer (1944), and Barton (1946), who all examined brand loyalty and repeat purchasing, it is fair to say that only recently has the value concept been used by practitioners, and studied by academics, in a much more explicit way than previously. In this context it is useful to realize that the emphasis on creating value was not always necessary in the past where firms could still achieve high profitability because markets were regulated, production resources were scarce, distribution

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Value is not only an increasingly relevant concept in the area of marketing, but also interesting from the perspective of purchasing and supply management, as it can be said to be very closely connected to the concept of ‘total cost of ownership’ (Wouters, Anderson, & Wynstra, 2005). Information on the total cost of ownership quantifies the costs besides the direct purchasing price, which are involved in acquiring and using alternative offerings and are comprised of transaction costs related to purchasing activities (e.g., ordering, freight, and quality control), inventory holding costs (e.g. capital, storage, handling, insurance, and obsolescence), as well as costs associated with poor quality (e.g. rejection, rework, downtime, and warranties) and delivery failure to customers (Carr & Ittner, 1992; Ellram, 1995). Understanding and trading off these various costs – or value – related to purchasing decisions is all the more relevant given the emphasis on concepts such as total cost and value in a more strategic perspective on the purchasing function and process. Van Weele (2001), for example, distinguishes between six phases with respect to purchasing orientation: transactional orientation, commercial orientation, purchasing coordination, internal integration, external integration, and value chain integration. In the latter three phases there is a cross-functional approach to purchasing, and total cost/value considerations have replaced an exclusive focus on price.

Perhaps surprising then is that firms often do not know how to define value, or how to measure it (Anderson & Narus, 1998). In fact, there has been only little research examining what value is, “[despite] its importance for the marketing discipline, little research effort has been devoted to examining what this value is, how it is produced, delivered and consumed and how it is perceived by the customer” (Tzokas & Saren, 1999: 53). This belief is echoed by Woodruff (1997: 150), “[We] need richer customer value theory that delves deeply into the customer’s world of product use in their situations”. Collins (1999) undertook a bibliometric study using key words in abstracts, titles, and headings during an ABI Inform electronic search in order to identify papers and articles associated with customer retention, relationship marketing, customer value, and relationship value over the 14-year period 1985–1998 and concluded that both customer and relational value are not significant sub-fields within marketing, as the frequency of publications on value has been relatively low.

Why is it that only limited research has been conducted? With regard to customer value some people argue that the concept is still poorly understood and that it is the customers and not the firms who are driving the value creation process (Tzokas & Saren, 1999). Another argument is that existing schools of thought such as (social and) relational exchange theory do not adequately address why, and how, values are created, and what motivates customers and suppliers to engage in exchanges (Sheth, Gardner, & Garrett, 1988). It is also reasoned that the research, which does exist, originates not from marketing or purchasing and supply management, but rather from strategy and strategic management, psychology and sociology of consumer behavior, accounting, and finance (Tzokas & Saren, 1999) and that this has made it difficult for both marketing and purchasing and supply management to control the value creation and delivery process.

The Marketing Science Institute has, therefore, defined the understanding of markets and the delivering of superior value as a research priority (Parasuraman & Grewal, 2000). The need for research concerns not only theory on value, but also marketing tools for understanding what consumers value and for designing systems that can deliver this value. Specifically in the area of business marketing both the Center for Business and Industrial Marketing (CBIM) and the Institute for the Study of Business Markets (ISBM), respectively at Georgia State and Pennsylvania State University, give particular attention to value research in their research programs (Ulaga, 2001).

This article develops an overview of existing research literature on value in business markets, both from the perspective of the marketing and the purchasing and supply process. First, some of the early research strands on value are examined including value analysis and engineering, the augmented product concept, consumer values, and economic value of customers. Then this seminal research and more recent research are categorized according to two distinct levels of analysis: the value of goods and services versus the value of buyer-supplier relationships. Lastly, a number of future research avenues, which can be organized around the value of products/supplier relationships on the one hand and value analysis/creation/delivery on the other, are considered.

2. Seminal research on value

For an initial review of the existing literature on value please refer to Payne and Holt (1999) and Tzokas and Saren (1999) who are affiliated with an international academic group, which under the umbrella of ‘relationship marketing’ has explored themes such as (marketing) relationships, creation of value, and value of (marketing) relationships. Doyle’s (2000) recent book on value-based marketing also provides an extensive overview of how firms can design and implement marketing strategies that provide value to...
consumers and shareholders and ensure corporate growth. Attention is also drawn to Wilson and Jantrania (1994) who have looked at how value has been used and/or measured across different disciplines such as accounting and finance (e.g. recorded value, market value, replacement value, assessed value, appraised value, earning potential, and liquidation value), purchasing and materials management (e.g. use value and esteem value), economics (e.g. use value, exchange value, and cost value), and marketing (e.g. economic value to the customer and value-in-use for the customer).

The understanding of value and customer value can be seen to be influenced by previous work in a number of areas including early work on value analysis and engineering, the augmented product concept, consumer values, and the economic value of customers (Payne & Holt, 1999). These areas are considered in the following.

2.1. Value analysis and engineering

From the mid-1950s, marketing academics started to advocate that firms achieve their organizational goals through creating, delivering, and communicating value to their chosen target consumer markets more effectively than do their competitors (e.g. Borch, 1957; Keith, 1960; McKitterick, 1957). One of the earliest and most popular works on product and customer value is that by Lawrence D. Miles, Techniques of Value Analysis and Engineering, from 1961. Miles contends that in a free enterprise system, with competition at full play, success in the business world over the long-term hinges on continually offering the customer the best value for the price asked. Competition, in other words, determines in what direction one must go in setting the value content in the price asked. Competition, in other words, determines in what direction one must go in setting the value content in order for a product or a service to be competitive with that which is offered by others to supply the same wants or needs.

According to Miles (1961), the term value is used in a variety of ways. In most cases, value to the producer means something different from value to the user. To producers, for example, value often stems from customers who are loyal because (e.g. Best, 2004; Buttle, 2004; Doyle, 2000):

- they are more likely to respond favorably to cross-selling efforts by the producers;
- they take less of the producers’ time in personal selling;
- they bring the benefits of word-of-mouth advertising;
- they are less price sensitive, and there are no acquisition or set-up costs, as marketing expenditures are reduced.

To users, on the other hand, value could mean that:

- they get high-quality service and customized products, and they feel ‘valued’ and their anxiety is reduced;
- they experience social (e.g. friendship/fraternization with the producer) and special treatment (e.g. economic and customization), especially in services where there is a high degree of contact between the user and provider;
- their sense of anxiety is reduced because they trust the producer.

Furthermore, the same item may have differing value to the user depending upon the time, the place, and the use. Miles distinguishes between four kinds of value:

1. Use value: the properties and qualities, which accomplish a use, work, or service. Thus, although it is possible to accomplish the same work using either a notebook or a desktop the use values of the two computers are often not the same, with firms seeing added value in a portable computer that allows the employees to work when being away from office;
2. Esteem value: the properties, features, or attractiveness, which cause a want to own it. For example, the value of a Mercedes is much different from that of a Volkswagen and this can be an important consideration for sales people;
3. Cost value: the sum of labor, material, and various other costs required to produce it. As an example, the cost of producing aluminum has decreased significantly after the necessary electrolytic process was invented in 1886;
4. Exchange value: its properties or qualities, which enable exchanging it for something else that is wanted. One case in point is produced goods that, when kept in a good condition, actually can increase their value over time, for example veteran cars, books, and port wine.

Value is defined as the minimum dollars, which must be expended in purchasing or manufacturing a product to create the appropriate use and esteem factors (Miles, 1961). Following this definition, most value studies around that time were concerned with use value as the lowest cost of providing for the reliable performance of a function and with esteem value as the lowest cost of providing the appearance, attractiveness, and features, which the customer wants. Miles (1961) summarizes the following challenges for improving value:

- Market information: incorporation of full (market) information at each stage of the product cycle;
- Effect of time shortage: as soon as a customer’s needs arise there is a rush to provide a proposal to satisfy the need and to do so effectively as quickly as possible and before competition has a chance to gain a hold on it. As the product then moves into the design engineering area, deadlines must often be met, which definitely do not permit complete searching, testing, and securing and utilizing information that would result in accomplishing customer use at the lowest cost;
- Lack of measurement in value work: value-oriented work at each stage of the product design and manufacturing cycle cannot be accurately measured;
Human factors: it is basic to the philosophy of value analysis that extensively improved tools should be provided – but these need to be understood and applied as well;

Impact of new processes, products, and materials: the constant and accelerating flow of new ideas, processes, products, and materials can, when properly applied, aid in establishing the desired use and esteem values at a lower cost.

The work by Miles and others placed great emphasis on the concept of (product) value in relation to competition. Consecutive work by Levitt and others on the so-called ‘augmented product concept’ went into more detail regarding the different aspects of products that could embody value to the customer.

### 2.2. Augmented product concept

In one of the most common definitions of a product, meaning either a good or service, it is stated that a product is “anything that can be offered to a market to satisfy a want or need” (Kotler, 2000: 394). With regard to their market offering, Levitt (1969, 1980, 1981) argues, marketers need to think through different levels of the product each of which adds ‘more value’ to the consumer. Levitt (1969) expressed this in the following way: “The new competition does not occur between what companies produce in their factories, but between what they add to these products in the form of packages, service, advertisements, financing, ways of delivery, stock policies and everything else that customers may value.”

Four levels are generally defined: core benefit, expected product, augmented product, and potential product. In other words, the four levels make up a consumer value hierarchy that can equally well be used for goods, services, and any combination hereof (see Lovlock, 1994, 1995). For example, the core benefit for people going on vacation is often nothing but the flight and hotel accommodation; the expected product is a safe flight and a pleasant stay in a clean and noise-free hotel; the augmented product is a product that exceeds customer expectations including for example in-flight catering, transport to and from the hotel, friendly service from the hotel and the tour operator, and a welcome basket with chocolate and a bottle of wine. Lastly, the potential product includes all the augmentations and transformations of the product in the future (Kotler, 2000).

Levitt’s work was key in emphasizing that customers may value product attributes beyond the immediate core product. The next research stream, customer values, was instrumental in explaining how product attributes translate into a certain ‘value’ or ‘usefulness’ of a product to an individual customer. Most of this research was focused on individual or household consumers, and therefore the article will speak of consumer values.

### 2.3. Consumer values

‘Value’ traditionally refers to a preferential judgment like an interactive, relativistic preference experience, whereas ‘values’ refer to the criteria by which such preferential judgments are made (Holbrook, 1994). Values, in this way, become deeply held and enduring beliefs, while value results as a trade-off of, for example, benefits and sacrifices associated with a particular good or service (Holbrook, 1994; Rokeach, 1973).

Different researchers have tried to understand how consumers make their decisions and trade off benefits and sacrifices (see for example Gutman, 1982; Woodruff, 1997; Zeithaml, 1988). At the same time, marketers have sought to understand consumers’ values, preferences, or beliefs; to measure and categorize consumer lifestyles (psychographics); and to develop different classifications. For example, it would appear evident that the values differ greatly between people who have experienced the Great Depression and people who have been shaped by the Vietnam War or the Internet boom. The SRI International’s Values and Lifestyles (VALS) is one such framework (Mitchell, 1983), but there are other lifestyle segmentation classifications. For example, Kotler (2000) writes on McCann-Erickson London that identified four British lifestyles and D’Arcy, Masius, Benton, and Bowles who found five types of Russian consumers. Sweeney and Soutar (2001) suggested a 19-item measure for assessing customers’ perceptions, at a brand level, of a consumer durable good’s value. For additional literature on this topic please refer to Anderson (1995) and Oliver (1996). It has now been considered that firms must analyze and engineer for value and that their products/services should be augmented with value-added features (depending on consumer values). By doing so, firms can retain valuable consumers. Therefore in the following the article will look at the economic value of customers.

### 2.4. Economic value of customers

There has been an increasing realization over the past decades that existing customers represent a valuable asset to the firm, especially maintaining existing customers is often more profitable than winning new ones. Reichheld and his colleagues, from Bain and Co., were among the first ones to advocate that firms have to succeed in retaining their consumers if they are to grow their profits and sales (Dawkins & Reichheld, 1990; Reichheld, 1993; Reichheld & Kenny, 1990; Reichheld & Sasser, 1990). Please refer to Reichheld’s (1996) book that presents a good summary of this consulting firm’s pioneering work.

It must be emphasized that some consumers represent a greater net present value than others, and that the retention of unprofitable consumers destroys value (Carroll, 1991-1992; Halberg, 1995; Hammond & Ehrenberg, 1995). One case in point is Sherden (1994) who argues that in some
industries the top 20% of the buyers generate as much as 80% of the profits, but that half of these profits are lost because of the bottom 30% of the buyers who are unprofitable. Flensted Catering is a case in point: focusing on only those customers who were somewhat-to-very loyal and satisfied, over a three-year period, this food caterer increased customer retention from 80% to 94%, whilst the average value of these customers quadrupled (Lindgreen & Crawford, 1999). It should be understood that the economic value of consumers is an output of the value-creating process and not an input to this process. In other words, customers become valuable to the firm only when the firm has something of value to offer to them.

Summarizing this literature review of seminal research, value has been studied in the early marketing literature as an attribute of a core product and an augmented product (be it a good or a service), as a (psychosocial) attribute of customers (consumers) that affects their interpretation of these attributes, and finally as an economic attribute of (satisfied and/or loyal) customers in relation to their economic potential to the supplier firm. In the more recent literature one can see that the first and third conceptualization of value have developed into two more or less distinct research streams. The first of these deals with the value of the (augmented) goods and services, while the second one focuses on the value of buyer–seller relationships. The article now proceeds with analyzing in more detail these two research streams, since they are also the most relevant to business marketing.

3. Two research streams

3.1. Value of goods and services

As was already demonstrated by the work of Miles (1961) there is no universally agreed-upon view of value. Indeed, Zeithaml (1988: 13) gives four different definitions for value: “(1) value is low price, (2) value is whatever I want in a product, (3) value is the quality I get for the price I pay, and (4) value is what I get for what I give.” Some of these definitions are explored in more detail in the following.

Doyle (2000) understands competitive advantage as the capability to make target customers an offer that they perceive as providing superior value to competitors’ offers. Customers buy from those competitors that they ‘perceive’ as offering the best value. A product’s perceived value consists of three elements: the perceived benefits offered by the company’s product, minus the product’s price, and minus the other costs of using/owning it. The perceived benefits are a function of the product’s performance and design, the quality of the services that augment it, the staff who deliver it, and the image of the brand that the company succeeds in communicating. The price is the money the customer has to pay to purchase the product. The other costs of using/owning the product are those expenses that occur once the product is purchased. These may include installation, insurance, staff training, maintenance energy consumption, trade-in value, and the psychological costs of risking a switch to a new supplier (Doyle, 2000).

Very much in line with Doyle, Kotler (2000) argues that customers estimate which offer will deliver the most value, and that they will buy from the firm they perceive offers the highest customer-delivered value. Kotler defines value as follows:

- Total customer value: the bundle of benefits customers expect from a given good or service (e.g. good, services, personnel, and image value);
- Total customer cost: the bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the good or service (e.g. monetary, time energy, and physic costs);
- Customer-delivered value: the difference between total customer value and total customer costs.

Delivered value can be measured as a difference, or in so-called value–price ratios. According to Kotler (2000) there are three possibilities where the buyer does not choose the offer with the highest delivered value:

1. The buyer might be under orders to buy at the lowest price and is prevented from making a choice based on delivered value;
2. The buyer is maximizing personal benefit in the short-run and does not try to convince people of long-term value;
3. The buyer enjoys a long-term benefit in a particular supplier meaning that for another supplier to be successful in selling this buyer must be convinced of the long-run benefits.

According to Neap and Celik (1999) the value of a product reflects the owners’/buyers’ desire to obtain or retain a product. An individual’s level of desire to obtain or retain a product depends on how much the product details and/or its performance agree with the value system of that individual. Neap and Celik define value of a product as a measure expressed in monetary units, which reflects the desire to obtain or retain the product and is equal to the cost of the product and a subjective marginal value, where the cost of the product is the total price paid for the product. The marginal value is the subjective part of the value and depends on the buyers’ value system. Thus, depending on the owners’/buyers’ value system the subjective part of value of a project can change (Neap & Celik, 1999). Theirs is obviously a somewhat different definition compared to the ones offered by Doyle and Kotler, as cost is not seen as a factor that should be subtracted from the benefits, but as a sort of ‘objective’ indicator of (part of) these benefits.

Yet another definition comes from Anderson and Narus (1998: 54) who see value as “the worth in monetary terms of
the technical, economic, service, and social benefits a customer company receives in exchange for the price it pays for a market offering. Value in this definition is the worth in monetary terms a customer firm receives in exchange for the price it pays for a product offering taking into consideration competing suppliers’ offerings and prices (Anderson, Jain, & Chintagunta, 1993; Anderson & Narus, 1998, 1999). As Anderson and Narus define value, a product offering’s value and price are independent of each other, where at least in business markets the value provided nearly always exceeds the price paid with the difference being the so-called ‘customer incentive to purchase’. In this way, price and value can be seen as the two elemental characteristics of a product offering (Anderson et al., 2000).

In contrast to Doyle and Kotler, Anderson and Narus thus see value as excluding price. The benefits underlying this value are in that sense net benefits that any costs a customer incurs in obtaining the desired benefits, except for the purchase price, also are included. Therefore, changes in total cost savings (because of lower operating costs or disposal costs) correspond to opposite changes in the value a customer receives. It is important to note that, according to the definition of Anderson and Narus cum suis, the value of one and the same product can be very different for different customers; they specifically look at the value in use of a product in a particular usage situation (Anderson & Narus, 1999).

Definitions on value, as the one discussed above, most often consider value in monetary terms (Dodds & Monroe, 1985; Yadav & Monroe, 1993). According to other authors, however, affect should also be considered in determining post-purchase responses (Oliver, 1994, 1996; Wirtz & Bateson, 1992). For example, Lemmink, de Ruyter and Wetzels (1998) propose that value be positioned as a three-dimensional concept: emotional, practical, and logical. Wilson and Jantrania (1994) argue that value is measured using economic, strategic, and behavioral dimensions, but they do not examine the interrelationships among the three dimensions. Woodruff (1997) develops the concept of ‘customer value hierarchy’, a model that links customer-desired value and customer satisfaction with received value, and this again emphasizes the role of perceptions.

Woodruff (1997) defines customer-perceived value as a customer’s perceived preference for, and evaluation of, those product attributes, attribute performances, and consequences that arise from use and that facilitate, or block, the customers in achieving their goals and purposes in use situations. Research on consumer-perceived value builds upon the assumption that customers want to maximize the perceived benefits and minimize the perceived sacrifices. Please refer to Kotler (2000), and Payne and Holt (1999) for examples. The sacrifice that customers pay for goods or services can extend beyond money to include investments of time and effort (Babin & Darden, 1995; Batra & Ahtola, 1991; Bolton & Drew, 1991; Zeithaml, 1988). Firms should design value-creating processes that increase the customers’ benefits and/or decrease their sacrifices (e.g. Anderson & Narus, 1999; Grönroos, 1997; Hillier, 1998; Ravald & Grönroos, 1996; Woodruff & Gardial, 1996; Zemke, 1993).

Finally, Ulaga and Chacour (2001) adopt the point of view of the supplier firm and its need to better understand the customer’s perception of value. They identify three key issues in available definitions of customer-perceived value:

1. Multiple components of value: customer-perceived value is presented as a trade-off between benefits and sacrifices perceived by the customer in a supplier’s offering;
2. The impact of roles and perception: customers are not homogeneous and, therefore, different customer segments perceive different values within the same product. Besides that, companies may have a formal or informal buying center and also the number of people involved in the purchasing process and their positions may vary across customer organizations;
3. The importance of competition: value is relative to competition. Offering better value than the competition will help a company to create sustainable competitive advantage. Customer value analysis, however, goes beyond traditional customer satisfaction measurement. Customer value measurement is a strategic marketing tool to clarify a company’s proposition to its customers thus creating a differential superior offering compared with the competition. The tool assesses a company’s performance in comparison with its main competitors as perceived by former, present, and potential customers.

Uлага and Chacour (2001) state that ‘customer-perceived value’ is often used in relation to two other constructs: ‘customer-perceived quality’ and ‘customer satisfaction’. They define customer-perceived value in industrial markets as the trade-off between the multiple benefits and sacrifices of a supplier’s offering as perceived by key decision makers in the customer’s organization and taking into consideration the available alternative supplier’s offerings in a specific-use situation.

3.2. Value of buyer–seller relationships

In parallel with an increased focus on the value of product offerings, several researchers have started to investigate the concept of ‘relationship value’. This work primarily draws upon the work by Reichheld and his colleagues regarding the economic value of customers (as discussed above), as well as the established research in the area of business markets such as that by the Contemporary Marketing Practice Group and the Industrial Marketing and Purchasing Group.

The primary argument underlying the interest in the concept of ‘relationship’ is that buyer and supplier firms do not only do business with each other because of the value of the good or service being exchanged. Apart from any technical, service, economic, or social benefits explicitly
embodied in the offering there may be factors on the level of the supplier firm that make one offer more attractive than another. This includes, for example, the reputation or location of the supplier, but also the supplier’s innovative capability. Even if this capability is not reflected in the characteristics of the current offering it may be ‘valuable’ to set up a relation with this supplier, as it makes it less likely that for example the buyer firm needs to change suppliers in the future when it requires new or other goods or services. Hence, one can speak of a value of a relationship for certain offerings that are above and beyond the actual product or service being exchanged.

In surveying the available recent literature on relationship value, two major streams are seen: one that focuses on the creation of value through – or in – relationships and one that considers the (resulting) value of relationships. Consider as a start the first stream. The aforementioned Contemporary Marketing Practice Group seeks to understand the nature of the changes in marketing’s context and, in turn, marketing practice (Brodie, Brookes, & Coviello, 2000; Brodie, Coviello & Little, 1997; Coviello & Brodie, 1998; Coviello, Brodie, & Munro, 1997; Coviello, Brodie, Danaher, & Johnston, 2002; Lindgreen, 2001a; Lindgreen, Antioco, & Beverland, 2003; Palmer, 2001). One of the group’s findings has been that managers are placing a greater emphasis on managing their long-term marketing relationships, networks, and interactions by focusing, internally, on the organization’s own employees and, externally, on the organization’s customers (and their customers), suppliers (and their suppliers), and other parts which influence the value created. Please also refer to other similar ideas such as organizations participating in webs of alliances (Ghosh, 1998) and competition being conducted between networks of alliances (Gummesson, 1996) or customer webs (Hagel, 1996). Value creation, in this way, does not take place in ‘isolated’ relations. Webster (2000) contends that in the three-way producer–intermediary–consumer relationship the quality of the relationship for any given actor will depend on the quality and strength of that relationship between the other two actors. Wikström argues in a similar vein: the role of firms has changed from one of providing consumers with goods or services to one of designing a system of activities “within which customers can create their own value” (Wikström, 1996: 360). Normann and Ramirez (1993) write that the seller and buyer produce value in a process of co-creation, and Kim and Mauborgne (1999) reason that in order to make value innovation happen a firm must be willing to combine with other firms’ capabilities. Tzokas and Saren (1997, 1999) find that the emphasis should be on the buying firm and not the selling firm in the value-creation process, and that the dialogue between the two firms is key in this process. With regard to the significance of the dialogue please refer to Duncan and Moriarty (1998) who argue that the relationship marketing literature has focused on trust and commitment, but has neglected communication as being an important element for enhancing relationships. Grönroos (2000b) argues that value is created when the selling firm and buying firm reason together and have a common knowledge platform. This brings the article to the relation between value creation and the quality of relationships.

In a literature review, Naudé and Buttle (2000) argue that the quality of relationships should be of considerable corporate interest because it has possible commercial payoffs. For example, it has been suggested that there is a positive effect of relationship satisfaction on customer retention and purchase levels (Eriksson & Löfmark-Vaghult, 2000; Frisou, 1995), and that relationships of high quality result in several benefits for the parties in the relationship including a protection of the customer base and a reduced propensity to switch to other suppliers (Hopkinson, 2000). Storbacka, Strandvik, and Grönroos (1994) argue that service quality results in customer satisfaction that translates into, firstly, relationship strength, then relationship longevity, and, finally, customer relationship profitability. For a somewhat similar reasoning please also see Fornell (1992), Goderis (1998), and Reichheld (1996) who contend that customer satisfaction translates into higher customer retention, and to Bolton and Drew (1991) and Scheuing (1995) who find that customer satisfaction results in increased shareholder value.

Crosby, Evans, and Cowles (1990) look at the nature, antecedents, and consequences of relationship quality in services selling, and how customers perceive the quality of their relationships with the organization. In another study Roberts and his colleagues (Roberts, 1998; Roberts, Varki, & Brodie, 2000) review the dimensions of relationship quality that have been proposed in the literature and find not only that most of the reported studies did not systematically examine the measure of relationship quality but also that these studies have proposed different dimensions. Trust and commitment are among the dimensions that have most often been found essential to successful relationships (e.g. Anderson & Narus, 1998; Mohr & Spekman, 1994; Morgan & Hunt, 1994). For example, one reason why ESS-Food has been able to defend its position as one of the world’s largest distributors or pork successfully is that manufacturers and food retailers trust this distributor to deliver the pork meat on time (Lindgreen, 2003).

As argued above, a second stream focuses more on the value of relationships. According to the Industrial Market-
Supplier-perceived value

Direct functions of a customer relationship
- Profit function
- Volume function
- Safeguard function

Indirect functions of a customer relationship
- Innovation function
- Market function
- Scout function
- Access function

Fig. 1. Functions of a customer relationship.
for the future development of the company. Therefore, these functions are summarized under the heading of indirect value-creating functions. According to the authors, managers can use a corresponding framework (Fig. 2) to classify relationships, which in turn will have managerial implications for the management of different groups of relationships.

At this point, two more or less distinct research streams have been illustrated: one focusing on the value of the object of exchange – goods and/or services – and one focusing on the value of the process of exchange, or the relationship between the buyer and seller. In the following section it is argued that these two streams can be related to two fundamentally different perspectives on the nature of marketing and purchasing in business-to-business markets.

4. Different understandings of the role of business marketing and purchasing and supply

There are some important assumptions regarding the outer context of the firm that underlie our conceptualization of business marketing and purchasing and supply. Häkkanson and Snehota (1995), for example, note that the traditional perspective of a rational planning of business activities relies on three fundamental assumptions:

1. That the organization’s environment is more or less ‘faceless’ and outside the organization’s control;
2. That the execution of the organization’s strategy is enabled by the firm’s hierarchical control of these resources;
3. That the environment (market) is constantly changing and that the organization should adapt itself to these developments.

In line with the Industrial Marketing and Purchasing group of thinking, Häkkanson and Snehota (1995) debate all three assumptions and argue that most organizations operate in an environment with a limited number of identifiable actors. Through the interaction (and interplay) between these actors different relations emerge and networks develop. The interaction may result in the mutual dependency of the resources of several organizations, and this in turn implies that it is difficult to define the boundaries of each organization because, as a result of resource dependency, they ‘grow into’ each other. Being a part of a network with known counterparts, an organization becomes dependent on how well it succeeds in its interaction with others, but it also becomes dependent on how relations are developed with other actors in the network (Axelsson & Wynstra, 2002: 238).

Based on this perspective, it is more appropriate to see a company as being part of a context rather than having an environment: the company will not adapt itself to its environment, but rather act and react within its own context. This perspective also implies that any development need not be the result of a carefully planned rational process, but is rather a result of the actions and reactions of the own organization and others, within their network. Needs are identified, alternatives evaluated, and decisions taken, but this happens within the boundaries of a context that resembles a network as described here, rather than traditional market structures. Because of that, previous experiences (history) and current dependencies and evaluations of future collaboration potentials play a crucial role.

In this section, two main perspectives on the structure of business markets – and their impact on our conceptualization of marketing and purchasing processes (Axelsson and Wynstra, 2002: 237–261) – are discussed briefly. The first view deals with the market system as a fully functional market, based on perfect competition, whereas the second view perceives markets as relatively well-organized connected systems or networks.

4.1. Marketing and purchasing and supply in a market environment

The market system as a starting point for marketing and purchasing and supply activities can be characterized by the following assumptions about its character and function:

- It consists of a relatively large number of actors, buyers, and sellers (companies or consumers) and it is atomistic, i.e. relations between actors are significant;
- No single actor can in any significant way influence other actors and/or markets in a wider perspective;
- It is fluid, it is simple to exchange one supplier for another or/and to get new customers, and the offer
(product, price, etc.) of the moment is the determining factor.

For marketing and purchasing and supply activities this implies that they should be aimed at relevant customer and supplier markets, and that they take place in an environment where suppliers have alternative and replaceable customers and suppliers. The number of alternative buyers and sellers in a certain situation is important since it represents the maneuvering room for actions, both in the short and long term. This partly depends on the offering’s level of standardization: a less standardized, i.e. a more unique offer, entails a lock-in, at least in the short term. If there only is one supplier (customer) then purchasing (marketing) must act in a completely different way than if there are several alternatives. There are costs to terminate a relationship, which means that there are always reasons to analyze whether any existing problems can be solved within the relation before other alternatives are explored. Commercial competencies to pursue under such an approach to business ‘relations’ are primarily market knowledge and an ability to ‘play the market’. For the technical/functional aspects of the transaction it is important to be able to assess the core function to be exchanged. This final aspect can obviously be related to assessing the value of goods and services. The market context in such a situation generally pushes the behavior toward using existing competition and to try to exploit that opportunity. Basically, a market structure like this is therefore likely to focus much more here than in the type of market system earlier discussed.

4.2. Marketing and purchasing and supply in a network environment

The network system as a starting point for marketing and purchasing and supply activities can be characterized by the following assumptions about its character and function (Axelsson & Wynstra, 2002: 242):

- It consists of a few important actors, buyers, and sellers who can strongly influence the market;
- There are important dependencies between actors and between relations and this implies that those actions, which take place within a specific business relationship, influence and are influenced by actions within other relations;
- It is rigid, i.e. it is a difficult process to change supplier and/or to get new customers, as it involves a more or less well-organized system of actors, activities, and dependencies.

A situation like this could trigger efforts to try and create more of a traditional market context, but also to act within the existing frame. It then fosters practices in line with the relationship-oriented approach to marketing and purchasing and supply management. Marketing and purchasing activities are then mainly concerned with the following two aspects (Håkansson & Snehota, 1995):

1. The contents of the relation in terms of the links between the activities of the two parties, the ties between resources and the bonds between the actors involved;
2. The functions of the relation for the firm, e.g. the suppliers role in the customer’s resource supply system (a profitable supplier and/or an important development-supplier, a new or old supplier, a supplier within a certain line of business, etc.). This also includes its significance for the company’s present and future position in the network – or in various networks related to the relation in question (actor networks, different resource and knowledge networks, etc).

The activities of the selling (buying) company are thus aimed toward specific customers (suppliers) instead of toward large market segments. The content and function of the specific relationship are emphasized, but especially the relation’s function in the larger network will be put in focus much more here than in the type of market system earlier discussed.

The demands on the marketing or purchasing function’s competence consequently become more complex, and functional, production technical, and market-related aspects need to be assessed. In such a situation it is, in a short-term perspective, more or less impossible to change counterpart, and work will instead be directed toward building the relation, learn about the other party, and so on. Obviously, this would tie in very closely with assessing the value of relationships, the second research stream we identified earlier. In such a situation, relevant commercial competencies primarily include being able to describe, analyze, and understand the industrial network’s way of functioning and an ability for network-oriented behavior. For the technical aspects of the transaction, competence in the wider functional aspects of the product/service becomes relevant; how will it fit into the system into which it is to be incorporated?

To illustrate the market environment and the network environment consider the following examples. A public hospital, which needed to improve its existing IT support systems, set up a bidding race where eventually 15 suppliers applied all of which were given identical information and if a supplier asked for additional information, all the suppliers would be given that information (to ensure a perfect market) (Axelsson & Wynstra, 2002). In a later stage of the bidding race the remaining suppliers had to complete a mini-project when different aspects such as supply and price were discussed, amongst other, before the winner could be announced. This is an example of a market environment, as the emphasis was on the competition between the possible suppliers with distinct boundaries and the interaction outcome between the suppliers was win/lose. Contrast this situation to that of the New Zealand wine industry...
where wineries are obligated to be members of the New Zealand Wine Institute that undertakes the generic marketing of New Zealand wines (Beverland & Lindgreen, 2004). Although some wineries treat membership as little more than a legal obligation, other wineries regularly use the New Zealand Wine Institute as a conduit to form relationships with competitors. For example, like-minded wine exporters often travel to markets and conduct tastings for the trade, whilst regional wineries frequently combine resources to develop a local festival to provide greater exposure of the region’s wine. In a similar way, competitors share production-based knowledge and production facilities at times, with more established competitors leasing out production capacity to newer players. This is an example of a network environment with the wineries being embedded in a larger network the advantage of which is coordination, cooperation, and specialization. The interaction outcome is a win/win situation for the participating wineries. These two main types of business contexts thus impose consequences on marketing and purchasing activities, both in terms of behavior and in terms of required competencies. For example, it can be related to the debate in the area of purchasing and supply management that has focused at two more or less opposite forms of purchasing behavior: transactional-oriented versus relation-oriented purchasing behavior, which have also been referred to as ‘classical purchasing philosophy’ and ‘modern purchasing philosophy’. Table 1 illustrates some of the main differences between transaction- (competition) oriented purchasing behavior on the one hand and relation- (collaboration) oriented purchasing behavior on the other hand.

According to the transactional view on purchasing and supply management, the buying firm aims for access to several different suppliers, and competition between these suppliers induces them to continuously improve their performance. In this way, vitality and quality is bred at the same time, as prices are kept as low as possible. In the more modern relational view on purchasing, co-operation and long-term relations are emphasized, and the goal is to achieve as low costs as possible, not only low prices on the actual products that are purchased, but also many other important costs that must be recognized (Axelsson & Wynstra, 2002; Carr & Ittner, 1992; Ellram, 1995). The relational-oriented approach to purchasing has increasingly gained ground during the period from the 1980s and onwards. This is the case not only in Europe but also in a number of other countries including the US (see, among others, Gadde & Hakansson, 2001; Helper, 1991). Other indications of the changes are the expressions of attitudes that many purchasing managers seem to agree on. In spite of changed attitudes and stated changes in behavior we may not have come as far as some followers of the relation-oriented view have expected, however. For example, in a set of field experiments Anderson et al. (2000) found that often, purchasing managers still base their purchasing decisions on price rather than on product value.

5. Conclusions

Value is an increasingly relevant concept but many firms often cannot define value or measure it. It is then surprising that there has been only little research “examining what [...] value is, how it is produced, delivered and consumed and how it is perceived by the customer” (Tzokas & Saren, 1999: 53). In this article a literature review was conducted examining earlier research strands including value analysis and engineering, the augmented product concept, consumer values, and economic value of customers. This research was then categorized according to two distinct levels of analysis: the value of goods and services versus the value of buyer-supplier relationships. Both these perspectives represent a distinct theoretical focus or understanding of the role of business marketing and purchasing and supply.

5.1. Future research avenues

Based on the discussion so far it is proposed that there are two main avenues or perspectives for future research: one focusing on the value of products and one dealing with the value of relationships. Apart from these two avenues three major themes within value in business markets can be identified: value analysis, value creation, and value delivery (Anderson & Narus, 1999). Within value analysis, issues in the area of organizational buying behavior include: how do customers analyze value? Within value creation, new offering realization – innovation and product development – is the core process: how can firms use value appraisals and tools like value engineering in (market-oriented) product development? Within value delivery, a core theme nowadays is supply or value chain management: which actors in the chain create value, and which delivery process provides the best value for which customers? When the two perspectives are crossed with the three themes, six potential

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Original Table 1:

<table>
<thead>
<tr>
<th>Transactional-oriented approach</th>
<th>Relational-oriented approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many alternatives</td>
<td>One or few alternatives</td>
</tr>
<tr>
<td>Every deal is a new business,</td>
<td>A deal is part of a relationship, and the relationship is part of a network context</td>
</tr>
<tr>
<td>no-one should benefit from past performances</td>
<td></td>
</tr>
<tr>
<td>Exploit the potential of competition</td>
<td>Exploit the potential of co-operation</td>
</tr>
<tr>
<td>Short-term, arm’s length distance, and avoid coming too close</td>
<td>Long-term with tough demands and joint development</td>
</tr>
<tr>
<td>Renewal and effectiveness by change of partner, and choose the most efficient supplier at any time</td>
<td>Renewal and effectiveness by collaboration and team effects, and combine resources and knowledge</td>
</tr>
<tr>
<td>Buying products</td>
<td>Buying capabilities</td>
</tr>
<tr>
<td>Price-orientation, strong in achieving favorable prices in well-specified products</td>
<td>Cost- and value-orientation, strong in achieving low total costs of supply and developing new value</td>
</tr>
</tbody>
</table>

areas for future research are obtained. The remaining part of the article considers each of these areas in some detail.

5.1.1. Value analysis and the value of products

Anderson et al. (2000) investigate how purchasing managers combine information about product offerings’ values and prices to make purchase decisions. The results of two field studies show that managers do not regard monetarily equivalent changes in value and price to be the same. This is a relevant issue as purchasing managers often consider product offerings that simultaneously represent both a gain and a loss relative to a reference offering. To investigate whether demonstrating worth to the firm is the causal explanation or not, responsibility for the value results could be manipulated within similar buying scenarios to fall exclusively to the purchasing area (e.g. cost savings due to new ‘paperless’ ordering systems) or exclusively to other areas (e.g. cost savings due to innovative production equipment). Another area to consider is the customers’ ability to measure the value they realize. Whether or not the customer firms can readily measure the value they receive could be manipulated along with the department where the value was realized. This also would enable researchers to test empirically whether there are functional area biases. Yet a third area would be to investigate contextual effects such as the kind of product offering being purchased (e.g. maintenance, repair, and operating supplies versus components that go into a final product) and the general purchasing orientation of the customer firm.

5.1.2. Value creation and the value of products

One of the most consistent research findings regarding key success factors in new product development is the importance of the degree of market (or customer) orientation adopted by the developing firm. A key issue in the development of new products is, therefore, how to identify, determine, increase, and measure the (potential) value of the new product for a customer in order to maximize the chances of adoption among prospective customers who will communicate their appraisals of new offerings and their value through their buying behavior, but also through explicit communication of their requirements and preferences. Especially in business-to-business markets the identification and development of new products, and thus their value, partly takes place in interaction between customers and suppliers. However, in such markets customer value is not only a dyadic issue – also downstream and upstream actors in the supply chain have an interest in, and impact on, this value. Two specific topics within this research area are the adoption of new products by industrial buyers and the development of new products from a value chain perspective. The question remains how the demand for a certain value triggers new product development. For example, how does value appraisal by the customer and value propositions by the supplier during new product development interact, and how are value appraisals (propositions) developed? Research could also examine under what conditions the focal firm should promote and arrange direct contacts between its suppliers and lead-user customers. Lastly, the kinds of risk- and gain-sharing arrangements, which will facilitate successful collaboration across firms, could be examined further.

5.1.3. Value delivery and the value of products

IT-based interactivity has transformed the nature of goods and services, structures, functions and processes (Brodie et al., 2000). Firms and their suppliers, distributors, resellers, and customers are now linked into networks of relationships and interactions throughout an industry’s entire value system, adding value not only to existing forms of goods or services, but also creating new forms of value (Brookes, Brodie, & Lindgreen, accepted for publication; Normann & Ramirez, 1993; Palmer & Griffith, 1998; Rayport & Sviokla, 1995; Woodruff, 1997). Not all firms, however, have been successful when embarking on IT adventures. Future research could examine the extent to which firms are using the Web and its associated processes to deliver value to products. For example, in what way do Web sites provide value to a firm’s suppliers and customers, i.e. support search, valuation, authentication, payment and settlement, and logistics processes? Please refer to the framework of an Electronic Commerce Architecture (ECA) for the evaluation of Web sites (e.g. Basu & Muylle, 2002; Muylle & Basu, 2000). Such an analysis has the potential of determining which electronic commerce processes are being supported online. Specifically, the research could seek to answer the following questions: What is the extent of support for commerce processes and sub-processes in value delivery through electronic commerce? What are the patterns of correlations for the support of the different commerce processes in the value-delivery process within an industry?

5.1.4. Value analysis and the value of relationships

Several attempts have been made at providing a model of the nature of relationship marketing (i.e. high-quality relationships). Please refer to Fontenot and Wilson (1997) who have examined four of such more robust models – Anderson and Narus (1990), Dwyer et al. (1987), Mohr and Spekman (1994), and Morgan and Hunt (1994) – and identified ten important dimensions of relationships, namely cooperation, interdependence, commitment, trust, opportunistic behavior, communication, conflict, power, shared values, and relationship outcome. See also Holmlund (1996, 1997) who argues that relationship quality is influenced by the quality of the core product/service (technical dimension), the quality of the interpersonal relationships (social dimension), and the financial costs and benefits attached to the relationship (economic dimension). Although the importance of high-quality relationships in economic terms is apparent it has been noted that the measuring of returns on relationships is still in its infancy.
5.1.5. Value creation and the value of relationships

In most economies, services are becoming increasingly crucial in terms of contribution to employment and GNP, caused by the increasing number of organizations providing services as a core business, but also by the increased service component of traditionally mainly physical goods (Axelsson & Wynstra, 2002; Fearon & Bales, 1995). At the same time, most literature in the area of purchasing and supply management has traditionally focused on the procurement of goods. However, already some 35 years ago, Wittreich (1966) stated that ‘Unfortunately, the tried and true rules for buying goods do not work when applied to the buying of professional services’. In particular, the service marketing literature has consistently been emphasizing that services are produced in interactive processes between the seller and the buyer (e.g. Grönroos, 2000a). Various researchers have indeed demonstrated that organizational buyers’ view purchasing of business services as essentially different from purchasing of goods (Jackson, Neidell & Lunsford, 1995; Stock & Zinszer, 1987). It appears, however, there have been relatively few attempts to investigate these ongoing interaction processes in great detail – and the studies that are available have usually tended to focus only on one particular type of services. More specifically, there has been very little research in the area of buyer–supplier interaction in the development of new and/or improved business services. Potential research questions include the following ones. To what extent do different interaction processes between suppliers and customers of business services exist for the development of different types of business services, and to what extent do different interfaces exist for different types of business services? What are the most important issues discussed in the interaction for the different types of business services? Lastly, what are the critical supplier and customer capabilities in developing the new/improved service and managing the interaction?

5.1.6. Value delivery and the value of relationships

The advancement of electronic commerce has enabled firms to design for and deliver relationships in new ways. For example, not only do Internet-driven electronic marketplaces “enable firms to trade and collaborate more efficiently” (Skjott-Larsen, Kotzab & Griege, 2003: 199) but firms can actually use the Internet to “strengthen or change the relationships within their business network” (Huizingh, 2002: 729). In a similar way, Cox and Mowatt (2004) see grocery retailers creating a web of interfirm alliances and networks that transform relationships within the sector’s value system. There are different avenues for examining how value is delivered through relationships. For example, how do firms utilize the Internet to enhance intrafirm and interfirm coordination (Parasuraman & Zinkhan, 2002). Intrafirm coordination could be between the research and development and the marketing functions, whereas interfirm coordination could be with suppliers, strategic partners, and customer firms. Please also see Huizingh (2002) who discusses how firms can use the Internet to strengthen or change the relationships within their business network, as well as redefine their position in the network with regard to receiving and delivering value to other parties in the network.

5.2. Closing Remarks

It is hoped that this review of the existing research literature on value in business markets, from the perspective of marketing and purchasing and supply, the categorization of this research (i.e. value of goods/services and value of buyer–supplier relationships), and the examination of a number of possible research avenues (organized around the said categorization on the one hand and value analysis/creation/delivery on the other) have helped to a clearer understanding of what we know and where we are going regarding the study of value in business markets.

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