

KIBS purchasing: triadic relationships and end-user value perceptions

Daiane Ribeiro^a, Juliana Bonomi Santos^b, Simona D'Antone^c

a Doctoral student at Centro Universitário da FEI – Rua Tamandaré 688 – Liberdade, São Paulo-SãoPaulo.

email:daianeribeiro2@yahoo.com.br

b Escola de Administração de Empresas de São Paulo-FGV, Av. Nove de Julho, 2029, Bela Vista, São Paulo, SP, cep 01313-902

email:juliana.bonomi@fgv.br

c Kedge Business School, Domaine de Luminy BP 921, 13 288 Marseille cedex 9 – France.

E-mail: simona.dantone@kedgebs.com Tel.: +33 491 827 860.

Abstract

Introduction

Knowledge-intensive business services (KIBS) are services delivered to other organizations that have individuals' knowledge as the main productive resource (Muller & Doloreux, 2009). The productive process of KIBS starts with a specific customer need. The demanding organization usually needs improving some of its characteristics and uses external know-how to do so (Jaakkola & Halinen, 2006). KIBS providers and their customers then interact intensively during the service delivery to co-create a solution together (Lehrer, Ordanini, DeFillippi, & Miozzo, 2012).

The literature on the co-creation of KIBS has usually adopted a dyadic perspective, focusing on the relationship between customers and providers (e.g. Bettencourt *et al.*, 2002; Correcher, Cusmano, & Morrison, 2009; Xue & Field, 2010). Increasingly, however, attention is being dedicated to the role the purchasing department plays in intermediating these transactions and the triadic relationships that emerge between the supplier company on one side, and the purchasing and end-user functions in the customer firm (D'Antone & Santos, 2016; Longsdale, Hoque, Kirkpatrick & Sanderson, 2017; Wynstra *et al.*, 2015). The literature, has acknowledged that the interactions amongst these three actors create considerable opportunity for value creation (Lindgreen *et al.*, 2009; Möller, 2006; Walter *et al.*, 2001). However, there has been scant attention to the way KIBS interactions between these three actors generate and affect value creation.

Particularly in the case of marketing services, extant studies have already focused on the purchasing of marketing services from a relational perspective and analysed different aspects of the triadic relations. These services represent a type of KIBS

for which companies steadily increase their spend (Forbes, 2017). Moreover, marketing services are highly important to support companies' competitive positioning and therefore vital to generate value at the buying company (Tate, Ellram, Bals, Hartmann, & Van der Valk, 2010).

At the beginning it has been highlighted the need to involve the purchasing department in such a kind of outsourcing as a way to improve the efficiency of the process and support the marketing department that, on its side, can only supervise the effectiveness (West, 1997; Ellram, Tate, & Billington, 2007). Developing this idea, Bals et al. (2009) identify the barriers that hamper the purchasing department to get involved in the procurement of marketing services. Indeed, according to the authors, overcoming these obstacles the purchasing department can enter in the triadic relation and "add value, since it can ensure and enhance issues such as quality, timely delivery and costs" (p. 901).

Subsequently, studies have delved into the mechanics of the relations in the triad. For instance, Van der Valk et al. (2009) include marketing services under the category of what they name 'instrumental services', a type of services "that remain within the buying company and affect how the buying company's primary processes are carried out" (p. 809). The authors analyse how buyer-seller interactions are characterized when this type of services (amongst others) are exchanged. Findings show that in the case of instrumental services effective business interactions are gained when business development representatives (i.e. user department) are highly involved from the side of the buyer and product specialists from the side of the supplier. Also, it is important that the supplier holds process design and business development capabilities – otherwise often transferred to the buyer with consequent misunderstandings - and that the buyer holds implementation skills and capabilities of translating internal customer demands – otherwise inappropriately expected by the supplier. Finally, information on sensitive information on the effect on primary processes are important communication topics.

On a similar vein, applying the agency theory, Tate et al. (2010) develop theoretical propositions on how the behavior of the marketing service provider adapts depending on the internal alignment between the purchasing function and the marketing department. The authors find that when the internal alignment between the two above mentioned functions is insufficient the service provider will follow the one which provides more measurable targets and will more likely adopt opportunistic behaviors. Moreover, the authors observe that the marketing department more likely prefers behavior-based contracts while the purchasing function prefers outcomes-based

contracts. Within this context, the authors suggest to integrate the two diverging perspectives through shared objectives and developing hybrid contracts, so that also the relations in the triad will benefit.

These examples clearly illustrate that, on the one hand, extant research provides a deeper understanding on the relational dynamics characterising the procurement of marketing services (a type of KIBS); on the other hand, it has pinpointed the contribution of a triadic (rather than dyadic) relation to value generation. Despite that, studies have not specifically explored the connection between the way triadic relations unfold and the value generated. Therefore, the objective of this research is to map KIBS triads' characteristics in the context of marketing services procurement and understand how these features influence the end-user value perception.

To achieve this objective, we analysed qualitative data collected through in-depth interviews conducted with members of four KIBS triads involved in the purchase of customized point-of-sales marketing campaigns. The methodology adopted is described next.

Methodology

This research explored the printing solutions service needed to implement point-of-sales marketing campaigns. In these services, customers acquire the implementation, at selected stores, of a combination of merchandise displays, signage items, and other suggestive selling materials. Based on a marketing campaign, solutions providers then use their experience and knowledge to define the products and services needed to communicate the marketing message at the sale point. They take into account what is feasible given the physical structures of the stores, the materials available in the market, the capabilities of the team that will install the materials, and the cost structure.

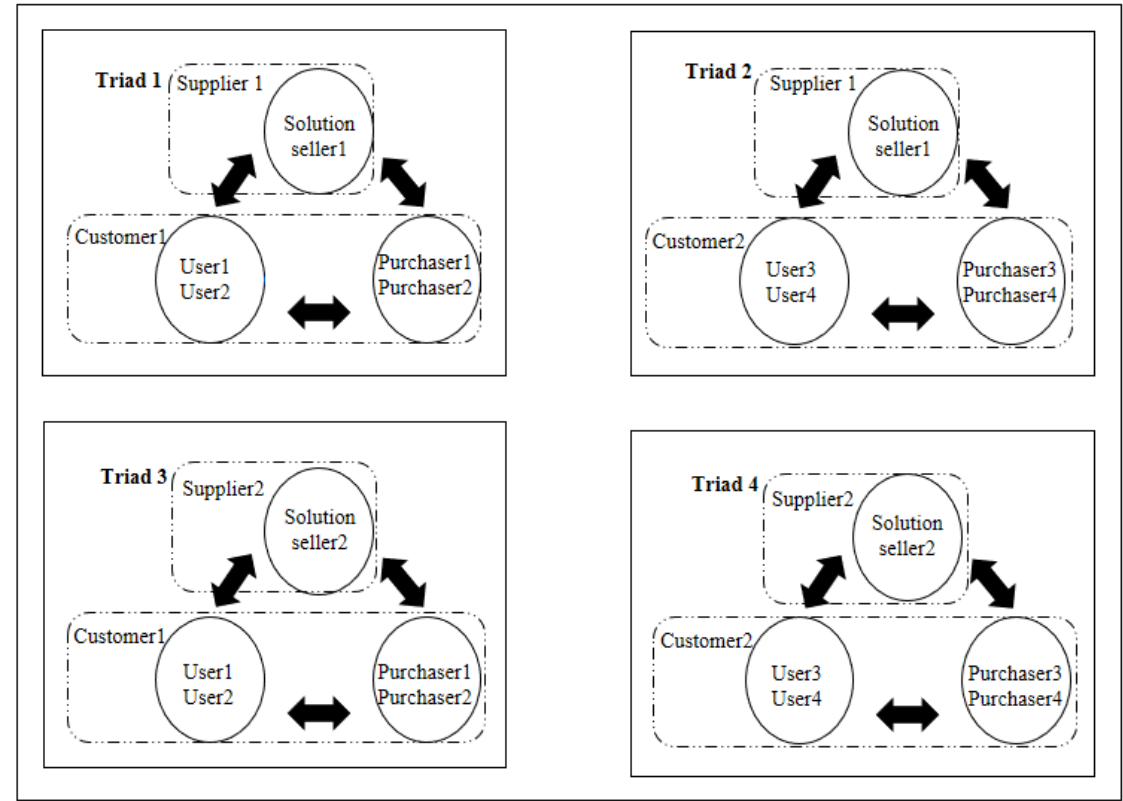
Our unit of analysis was the process involved in purchase and delivery of the printing solutions and we observed how the three members of the triad (purchasing, marketing - end-user, solutions selling team) interacted during the service delivery. We analyzed four triads, which were formed by two solutions selling teams and two different marketing and purchasing departments each.

These three areas were the main parties involved in the printing solutions service provision, characterizing a triadic structure. Within the supplying firm, the solutions selling team was responsible for executing all the stages of the service delivery. Other areas, like manufacturing or accounting, had little influence on the delivery process.

Moreover, in the four triads, an external advertising agency created the campaign to the marketing team, which then hired the printing solutions providers. There was little or no influence of the advertising agency during the later mentioned service delivery.

Data was collected through in-depth interviews with experts who develop and purchase the services under analysis. We interviewed 10 experts that provided data on how four triads functioned. The provider was our starting point. We first selected two suppliers and conducted one interview in each one of them. We then asked them to indicate two customers and interviewed two representatives of the marketing and two of the purchasing team. Figure 1 explains the logic just presented indicating in the rounded figures the representatives interviewed for each actor in the triad.

Figure 1: Triads structure



The two suppliers are Brazilian firms that have extensive experience in the production of point-of-sales marketing campaigns, serve big customers and are able to distribute their material to several Brazilian states. The two clients involved were retailers. The first operates with department stores, supplying several products, including clothing, bed linen, and appliances. The second is a multinational company that has a

network of supermarkets and stores of electrical appliances. The interviewees' positions, their functions, and experience are presented in Table 1.

Table 1 - Interviewees' details

<i>Company</i>	<i>Interviewees</i>	<i>Function</i>	<i>Expertise</i>
Supplier1	Solutions Seller1	General Director	28 years
Supplier2	Solutions Seller2	Commercial Director	35 years
Retailer1	User1	Marketing Analyst	5 years
Retailer1	User2	Marketing Analyst	3 years
Retailer2	User3	Marketing Coordinator	5 years
Retailer2	User4	Marketing Analyst	3 years
Retailer1	Purchaser1	Purchasing Agent	5 years
Retailer1	Purchaser2	Corporate Purchasing Manager	19 years
Retailer2	Purchaser3	Operations Director	16 years
Retailer2	Purchaser4	Purchasing Agent	10 years

During the interviews, we asked interviewees to describe the KIBS purchase/sales and delivery process, describe their knowledge of what was being purchased, point out the main issues faced, explain what they understood as value, and evaluate issues influencing their value perceptions during the transaction. Interviews were recorded and transcribed.

Data was classified according to the factors influencing the relationships in the triad. We then evaluated the value perceived by the end-user in each triad and explored where any connection with the relationships observed. Finally, we compared the findings across the triads to identify underlying patterns and differences across triads. The results obtained are presented next.

Preliminary Findings

The analysis of the interviews, led to identify that some factors influenced the relationships in the KIBS triads examined:(a) the risks that the customer company is willing to take, (b) the alignment amongst company cultures, (c) the strategic relevance of both the final output and the overall service purchased, (d) the purchasing expertise, and (e) the asymmetry caused by the market conditions. We find that these points are all linked to the value attributed to the knowledge component of the service provided. A summary table of these preliminary findings is provided below (Table 2).

Table 2 – Preliminary findings

Categories	Description	Cases
Risks	<p>The risks assumed and the autonomous initiatives taken by the customer company affect the relationships. These depend on how the extent to which the knowledge involved in the process of KIBS development is valued. It is often the purchasing department that doesn't consider the value of the knowledge provided by the supplier.</p> <p>The culture of the company associated with the activity in which it is involved influences how the users perceive the value of the KIBS solution. The alignment between the three parts on the understanding of the solution exchanged and its value has an impact on the satisfaction with the relationships outputs.</p>	<p>In Triads 2 and 4, the users are pushed by the purchasing department to save money at any cost even taking some risks that can provoke higher costs in the long run. This attitude is linked to the fact that the purchasing departments focus on the material outputs provided by the suppliers disregarding the importance of their intellectual contribution. An example in case mentioned by both solutions sellers, is that once a customer decided to buy a printer to do their own printing solutions, ignoring the knowledge that is necessary to operate this kind of machine and get a good result. Finally, this investment, guided by the willingness to save money, was useless, therefore generating supplementary costs.</p>
Culture		<p>It was possible to compare the results in the Triad 1, where both companies value human knowledge to get results in a relationship and consider the products they deal with, with the other triads where perceptions are contrasting and at least one part is not used to value human knowledge. It seems that in the Triad 1 the actors involved are more satisfied with the relationship outputs.</p>
Strategy	<p>The strategic importance attributed to the output produced by the KIBS by the customer company is not enough to motivate and engage him in the relation. Only the strategic importance attributed to the overall service triggers more engaged interactions.</p>	<p>In all cases, users and purchasers attributed high relevance to the KIBS purchased: on a scale from 0 to 10, they all assigned scores higher than 8. However, throughout the discussion, it emerged that these high grades were sometimes referred to the physical end result but not to the overall service provided. Users 3 and 4 and Purchasers 3 and 4 fall in this case.</p>

Expertise	<p>The company expertise in buying KIBS, products that rely on human knowledge, and not only material goods that can be seen as commodities, influences the triadic relationships. The higher the expertise in purchasing KIBS, the better the relations.</p>	<p>Triad 1 was composed by companies that are used to buy and sell products that are related to human knowledge. Also, they have a more articulated structure, what seems to give them some expertise in trading this kind of product. They get better results, considering that the Solutions seller 1 works in biggest printing solutions company in the Brazilian market, they have a great structure to help the customer, and even though the Users 1 and 2 just act in the Brazilian market, the main product of their company are clothes, what can make them create a culture that help them to understand the necessity of human knowledge in this relation. In other hand, in Triad 3 and 4 the users and purchasers work for a company that has a great expertise in buying commodities, when the User 3 and 4 make transactions with both solutions sellers they complain about the same thing: they do not spend time designing the inputs, what can change the output. The Solution Seller 2 described a situation when Users 3 and 4 and Purchasers 3 and 4 were unable to precisely identify their needs, therefore to quickly solve the problem the Solution Seller in person, on his initiative, went to the customer stores and tried to identify their needs and how they could use the service that they were demanding.</p>
Market Asymmetry	<p>Even when the supplier is a small or a medium company, when the market does not have a number of suppliers with productive capacity, knowledge, financial resources and structure, the supplier that sum up these characteristics earns a considerable power negotiation, even when trading with a multinational.</p>	<p>The Triad 2 shows how the market asymmetry is a relevant characteristic of a triadic relationship. Solution Seller 1 works in the most organized company of printing solutions in Brazil. Despite this is a medium company, Solution Seller 1 is able to choose his customers, and even he refuses to deliver a service to a big multinational company if this multinational companies does not appropriately recognizes the professional capabilities of the supplying company. Solution Seller 1 declares that when the customer is not willing to precisely specify its needs ‘we do not accept the project’.</p>

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