

## Research Article

# Providing Specific Value in Business Markets: Gaining and Sustaining Unique Supplier Status

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**Abstract:** In this study, we make a analysis of the distinguishing from competitors through providing specific value to customer firms in business relationships. From the perspective of asset specificity, this study puts forward the definition of specific value. Specific Value can be defined as considering relationship value from the perspective of asset specificity and based on it, this study explores the dimensions of specific value. According to whether there is direct-cost expenditure or not, this study provides six dimensions of specific value. In view of the dimensions of specific value, companies can distinguish itself from the competitors and gain unique supplier status.

**Keywords:** Asset specificity, relationship value, specific value

## INTRODUCTION

In recent years, a growing number of firms in business markets have sought competitive advantage by forming long-term, close, collaborative relationships with select customers and suppliers. Also, there is a rich and increasing body of academic research focusing on buyer-seller relationships in business markets.

In the process of business relationship study, marketing researchers and practitioners have recognized the dynamic nature of business relationships (Eggert *et al.*, 2006), thus, it's hard to maximize value creating over time at different stage of relationships. Some researchers analyze relationship value through product life cycle management (Jüttner *et al.*, 2006) and others examine it by considering their development as a process through time (Eggert *et al.*, 2006).

In business market, it's not enough for a firm to sustain relationship with collaborators by common way, because competitors are doing what you are doing: providing high quality products and service, building trust through frequent transaction and so on. When a buyer who is multiple sourcing continues a relationship, expectations about the relationship will likely change and subsequently these buyers will likely alter how they evaluate their relationship with this vendor (Flint *et al.*, 2002). How do you differentiate from competitors and acquire unique supplier status? It is to transfer specific value to customers. The value of partnerships resides in the differentiation effect of specific investments placed by partners, which eventually pay-off in superior customer value and surplus profits (Nooteboom, 1993).

There are many scholars who mentioned specific value in discussion of relationship value, but all of them don't analysis it deeply and ignore its importance for

business relationships. Some firms used superior customer selection, differentiate offerings, go to market strategies and configure resources to capture value in the market space (Sharma *et al.*, 2001). Ulaga and Eggert (2006) find the importance of meeting the customer's technical specifications in their empirical research. The specific investments are placed in order to differentiate the joint output and thereby increased the value pie (Ploetner and Michael, 2006).

How to distinguish from competitors through providing specific value to customer firms in business relationships? The purpose of this study is to solve the question.

## THEORETICAL BACKGROUND AND DEVELOPMENT OF RESEARCH FRAMEWORK

**Relationship value:** Value has been touted as the central driver of customer's satisfaction and repurchase decisions (Anderson and Narus, 1999). Thus, some scholars put insights into studies of customer value to satisfy customer. Different researchers have tried to understand how consumers make their decisions and trade off benefits and sacrifices (Woodruff, 1997). Grisaffe and Kumar (1998) argue that superior customer value links with strong customer loyalty, repeat business, positive word of mouth, customer attachment and growth in market share.

Anderson and Weitz (1992) define value in business markets as "the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available suppliers' offerings and

prices”. From the views of customer value, customer satisfaction and perceived switching costs.

With increasing studies of customer value, some researchers find the dimension of relationship in it and the idea that value and value-creation should be examined from a relational perspective has its roots in business marketing and services marketing (Ulaga, 2003; Flint *et al.*, 1997; Raval and Groenroos, 1996). Groenroos (1997) argue that marketing in a relational context is seen as a process that should support the creation of perceived value for customers over times. Payne and Holt (1999) state that the most recent development has been to consider customer value from the viewpoint of relationship marketing. This is described as ‘relationship value’.

Relationship value refers to the value which is created through the interrelated activities of the buyer and supplier; in other words, the value is conceived through the relationship itself. It has also been claimed that relational value production presumes a partnering-oriented culture involving an ability to create trust and commitment between the partners and personnel who have strong interaction skills (Dyer and Kentaro, 2000; Lorenzoni and Lipparini, 1999; Morgan and Hunt, 1994). Narayandas and Rangan (2004) argue that how buyer-seller relationships are initiated, built and nurtured in mature industrial markets and why and how they succeed or fail.

Some scholars have provided insights such as relationship development (Wilson and Jantrania, 1995). Cost reduction (Kalwani and Narakesari, 1995) relationship management and relationship value measurement. Ulaga and Eggert (2006) argue that co-creation of value can range from the value created within the supplier-customer dyad to the value sought through the network relationships of the supplier and the customer.

**Specific value:** There are only indirect mentions in past relationship value literatures, though many researchers have recognized specific and different value can lead to key and unique supplier status. Jackson (1985) discuss that relationship-specific adaptations have little value outside a particular relationship: to the extent they create value, they contribute to building switching costs by their nature. Correspondingly, relationship-specific adaptations can be reciprocated as part of a trust building process and reflect an aspect of calculative commitment in business relationships (Aderson *et al.*, 1992). Also, Adaptations can provide value to one or both parties to the extent that these investments reduce costs, increase revenues, or create dependence (Cannon and Perreault, 1999).

Value, as perceived by industrial customers, resides increasingly in customer specific service (Ploetner and Michael, 2006). It is often argued and no doubt true that different business social and culture contexts demand different types of relationships. Relationship- specific adaptations are investments in

adaptations to process, product, or procedures specific to the needs or capabilities of an exchange partner (Cannon and Perreault, 1999).

Specific value is often argued with transaction cost theory, especially refer to asset specificity. Williamson (1979) argue that identifying the critical dimensions with respect to which transactions differ, of which asset specificity is especially important, has been crucial for explicating contractual complexity. And he state that asset specificity is an operational and encompassing concept (Williamson, 2002).

As against simple market exchange, governance is predominantly concerned with ongoing contractual relations for which continuity of the relationship is a source of value (Williamson, 2005). Transaction cost theory predicts that firms that invest in relationship-specific assets are likely to invoke formalized governance structures at the outset to prevent opportunistic exploitation (Heide and George, 1988). Because transaction specific assets can be redeployed to alternative uses and users only at a loss of productive value, continuity for such exchange relations is important (Williamson, 2005).

One aspect ignored by transaction cost theory is that specific investments are not only a drawback, but are basically made in order to differentiate the company’s offerings (Ploetner and Michael, 2006). Thus, specific investments will increase added value for both supplier and buyer throughout differentiating from competitors.

## THEORETICAL FRAMEWORK

We divide specific value into two dimensions by judging whether a supplier has direct-cost expenditure or not. Based on this, we can evaluate specific value more clearly and build our model (Table 1) more succinctly and practicably. Here, we define direct-cost and indirect-cost by the criteria of monetary expenditure, in other words, a supplier has monetary expenditure while providing specific value to a buyer, which is relevant to direct-cost, conversely, relevant to indirect-cost.

### Specific value deriving from direct-cost expenditure:

**Specific capital:** It is consistent with a financial theory of the firm in which managers seek to maximize future cash flows (Brealy and Meyers, 1996). There is a phenomenon that a buyer can acquire what they need from suppliers when they promise paying for it in a

Table 1: Dimensions of specific value

Specific values	
Direct cost expenditure	Indirect cost expenditure
Specific capital	Specific information platform
Specific human resource	Specific technology
Specific hardware circumstance	Specific skill

certain time. A buyer is willing to collaborate with that kind of supplier and specific value derive from the relationship context.

**Specific human resource:** Instead of focusing on current products, exhibitors at capital goods trade fairs tended to present on the stands technical staff from the R&D department and prototypes built to customer specifications (Golfetto and Rinallo, 2006). It's the fact that building favorable supplier-buyer relationships need not only technical staff, but also marketing staff, specific consultant to coordinate relationships and solve questions. A buyer firm will appreciate convenience of specific human resource, finally rely on it.

**Specific hardware circumstance:** Transaction-specific investments can arise from procedural knowledge, the establishment of working relationships and routines, as well as idiosyncratic investments on equipment (Heide and Weiss, 1995). For keeping deep collaboration in different areas, a supplier may provide specific hardware circumstance, such as specific equipment, specific laboratory and specific workshop. Buyers will benefit from the specific hardware circumstance from suppliers; accordingly, they can reduce costs.

**Specific value deriving from indirect-cost expenditure:**

**Specific information platform:** Partner-specific information is also available long-term and can be used for a continuous cooperation (Walter *et al.*, 1999). Suppliers seeking to gain "preferred partner" status with customers need to develop common information platforms (Sharma *et al.*, 2001). It's important to build specific information platforms, so that communications can easily and efficiently be realized. Building specific information platforms can constraint the influences of information asymmetry in the maximal degree.

**Specific technology:** The supplier's products are expected to meet a set of technical specifications within certain tolerance levels (Ulaga, 2003). When change is rapid, buyers may face considerable exposure in committing to a particular technology and may prefer to focus on a vendor (Jackson, 1985). In fact, specific technology can accelerate the product innovations of the buyers and consolidate suppliers the key status.

**Specific skill:** Kalwani and Narakesari (1995) state that manufacturers search to gain access to the supplier's resources, skills and strength in long-term manufacturer-supplier relationships. Specific skills of suppliers, such as marketing, management experience, production, R&D, can help buyers in several ways and increase communication, trust and interdependence.

**QUANTITATIVE RESEARCH**

**Questionnaire design:** We collect the data by questionnaire from more than four hundred manufacturers. The survey questionnaire was designed based on the literature of relationship value and asset specificity. We propose the measures and items for each dimension. The measurements of relationship value, product value, service value and costs are based on Ulaga and Eggert (2006), Eggert and Ulaga (2002), Lapierre (2000) and Gro'nroos (1997), Williamson (2005), respectively. We revise the measurements according to our industry background. The final questionnaire contains 22 items.

**Pre-survey:** According to the paradigm of scale development process (Churchill and Gilbert, 1979), we conducted a pre-survey. We collected 62 questionnaires and modified a few entries through exploratory factor analysis. The appendix shows the final 7 Likert scale table with 1 indicating strongly disagree and 7 indicating strongly agree.

**Data collection:** The formal investigation was conducted during August and October in 2011. We contacted 410 enterprises and finally obtained 329 cases with valid information. The questionnaire recovery rate is 80.24%.

**Sample characteristics:** The interviewed enterprises are distributed in the industries of electronics, electricity, industrial control and aeronautics, which are quite representative. Age of respondents is between 32 and 55, the average age is 37.3. Work experience is between 6 and 28, the average work experience is 12.7. Influence of purchase decisions of respondents is measured by 7 Likert scale table and the average is 5.87.

Table 2: Exploratory factor analysis

Indicator	Direct-cost expenditure	Indirect-cost expenditure
S-Capital1	0.612	
S-Capital 2	0.685	
S-Capital3	0.669	
SH-Resource1	0.852	
SH-Resource2	0.775	
SH-Resource3	0.737	
SH-Circumstance1	0.628	
SH-Circumstance2	0.674	
SH-Circumstance3	0.667	
SI-Platform1		0.637
SI-Platform2		0.667
SI-Platform3		0.642
S-Technology1		0.719
S-Technology2		0.785
S-Technology3		0.702
S-Skill1		0.817
S-Skill2		0.861
S-Skill3		0.792
Variance extracted (%)	39.82	30.61

Table 3: Parameter estimates of PLS

Variable		Factor loading	t	$\alpha$	CR	AVE
Direct-cost expenditure	S-Capital1	0.856	55.287	0.901	0.932	0.815
	S-Capital 2	0.875	49.120			
	S-Capital3	0.912	90.128	0.819	0.925	0.734
	SH-Resource1	0.932	114.273			
	SH-Resource2	0.911	58.912	0.917	0.919	0.754
	SH-Resource3	0.906	56.981			
	SH-Circumstance1	0.867	109.373	0.857	0.942	0.743
	SH-Circumstance2	0.857	63.546			
	SH-Circumstance3	0.913	76.942	0.829	0.911	0.832
Indirect-cost expenditure	SI-Platform1	0.912	49.469			
	SI-Platform2	0.897	96.324	0.921	0.951	0.863
	SI-Platform3	0.915	100.312			
	S-Technology1	0.879	76.786	0.911	0.937	0.739
	S-Technology2	0.875	42.476			
	S-Technology3	0.917	75.638	0.829	0.951	0.825
	S-Skill1	0.902	29.411			
	S-Skill2	0.912	45.655	0.837	0.953	0.736
	S-Skill3	0.911	51.195			
Specific value	S-Value 1	0.932	75.386	0.929	0.955	0.758
	S-Value2	0.932	67.769			
	S-Value3	0.918	35.827	0.857	0.937	0.712
	S-Value4	0.938	49.398	0.893	0.943	0.735

**Exploratory factor analysis:** In order to test the reliability and validity of our scale table, we conducted an exploratory factor analysis. The result of exploratory factor analysis showed that KMO was 0.852, Bartlett sphericity test significantly ( $p = 0.00$ ), sample date was suitable for factor analysis. The cumulative variance was 70.43% and the joint degree was between 0.612 and 0.861, construct validity passed testing. Factor loading of all items was showed in Table 2.

**Confirmatory factor analysis:** We employ the Smart PLS 2.0 software to conduct the PLS analysis. Applying the bootstrap re-sampling technique, we test the significance of major parameters of the model. Table 3 presents the statistics from the PLS estimate.

**Model Testing:** The measurement model consists of latent variable and observed variable. We mainly test the reliability and validity of the latent and observed variables in the model.

**Reliability:** As shown in Table 3, all  $\alpha$  values are larger than 0.7, which implies that the measures in our design are quite reliable. The smallest value of CR is 0.911, which is still larger than the threshold value 0.7. It indicates that the measures are internally consistent.

**Validity:** Table 4 shows the results. The factor loading coefficient for all items are significant and larger than 0.7. It implies that these items are valid in explaining the dimension variables.

Discriminate validity measures to what extent the items are differentiated with each other. According to Bagozzi and Yi (1988) the model could pass the discriminate validity test if the AVE square root of all

Table 4: The correlation coefficient and the AVE square root

	D-cost	I-cost	SV
D-cost	0.882		
I-cost	0.783	0.893	
SV	0.713	0.781	0.902

Table 5: Determination coefficient  $R^2$

Variable	$R^2$
D-cost	0.776
I-cost	0.781
Specific value	0.723

latent variables are larger than the correlation coefficient of the latent variables and the AVE square root is larger than 0.5. The results in Table 4 indicate that the model has high discriminate validity.

**Model evaluation:** Structural model aims to explore the causal relationship of latent variables. The key evaluation criterion is the determination coefficient  $R^2$ , which reflects the explanatory power of exogenous variables on the endogenous variable of the model. It also indicates the predictive power of the model. The structural model fits the data well if  $R^2$  is larger than 0.67 (Chin, 1998). Table 5 shows that the  $R^2$  of all the endogenous variables are larger than 0.67, so the structural model is reliable.

Note: The numbers on the diagonal is the AVE square root of latent variables. The numbers under the diagonal is the correlation coefficient of the latent variables.

**Model analysis:** We use Smart PLS 2.0 software to test the model. The results are shown in Table 6. The standardized path coefficient is the basic test for the model. It reveals the correlation between variables. T

Table 6: The standardized path coefficient

Relationship	Standardized path coefficient	t
D-cost to SV	0.419	4.152
I-cost to SV	0.337	5.174
S-Capital to D-cost	0.375	3.018
SH-Resource to D-cost	0.264	2.756
SH-Circumstance to D-cost	0.301	2.169
SI-Platform to I-cost	0.255	5.438
S-Technology to I-cost	0.428	4.817
S-Skill to I-cost	0.286	5.269

value indicates whether the relationship is statistically significant. As shown in Table 6, the path coefficients of all the latent variables have the same sign with the model prediction and the estimates are statistically significant.

### RESEARCH RESULTS

From the perspective of Asset Specificity, this study has an exploratory research in the dimensions of relationship value and proposes the definition of specific value. During the process of literature combing and depth interview, we obtain the dimensions of specific value: specific capital, specific human resource, specific hardware circumstance, specific information platform, specific technology and specific skill. Furthermore, the results of confirmatory factor analysis support our dimensional model that is proposed according to whether there is direct cost expenditure.

From the customer's point of view, they can consider the relationship with suppliers from a special angle, as well as the value of this relationship and even this value is that other vendors do not have. Based on this, the customer can be more sensible to judge the degree of importance of a supplier for enterprises. From the point of view of the supplier, the supplier can see more clearly how to distinguish competing suppliers; At the same time, specific value deriving from indirect-cost expenditure also broke that only direct-cost expenditure will increase relationship value with the customer and more ways to provide for the establishment and maintenance of the value of supplier relationship.

The proposal of specific value can help researchers to find a relatively static value in dynamic business relationship. For buyers and sellers, it's an important factor to ensure stable relationship and cannot be put aside.

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