

4th International Service Business Day

Business concepts within integrated value chain

- opportunities of partnership in service business

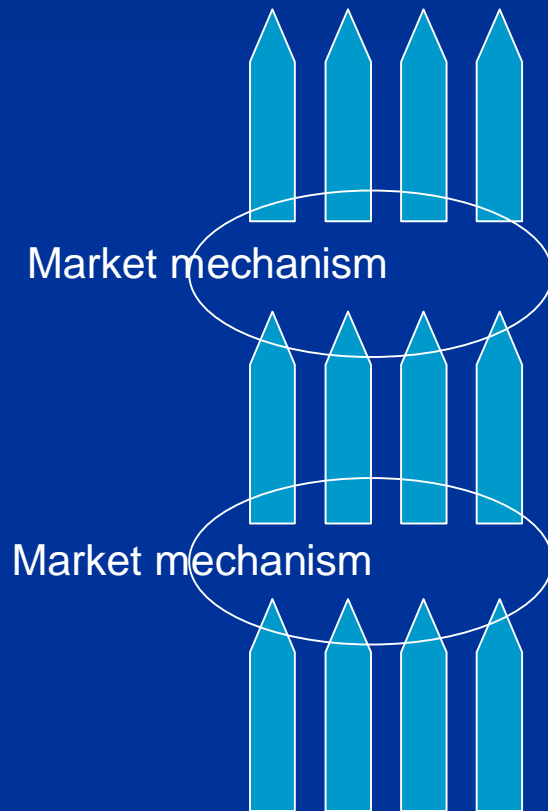
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Three alternative ways to organize the value chain

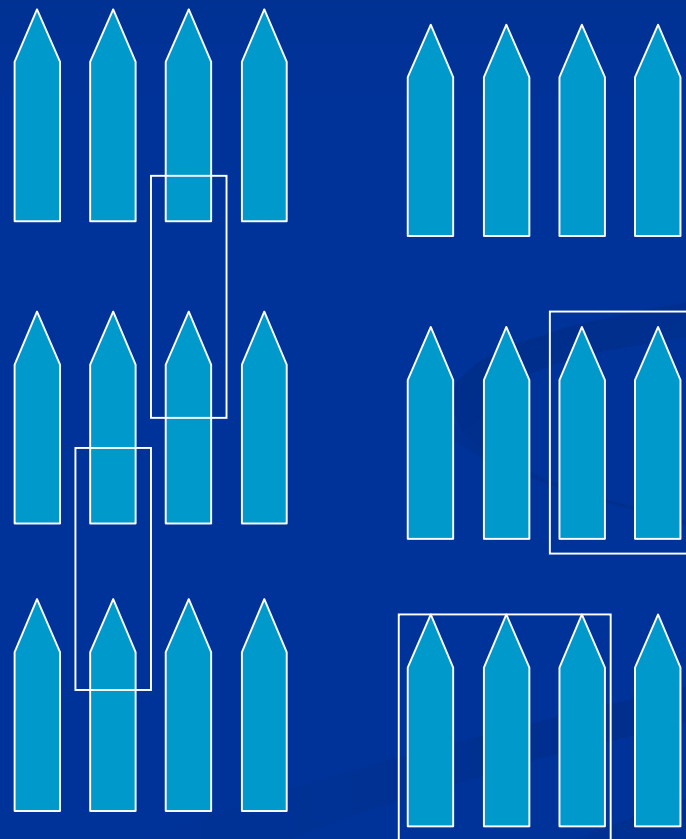
Market based value chain



Network based value chain

Partnership model

Alliance model



Vertically integrated value chain

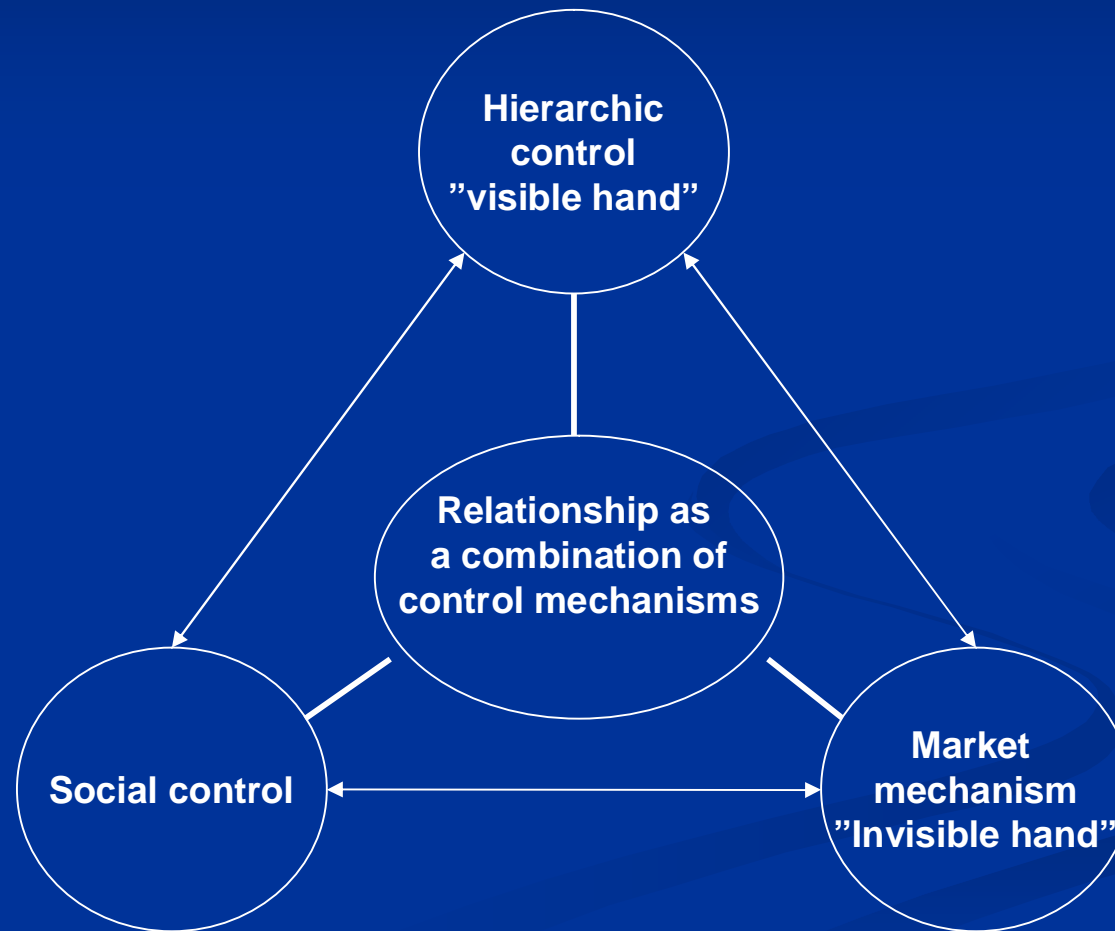


Control mechanisms in buyer – seller relationships

From the buyer's point of view control is needed in order to:

- 1) ensure the internally effective supply of goods and services (cost effectivity)
- 2) ensure externally effective supply of goods and services (the most relevant materials, the newest technology, up to date services, etc.)
- 3) ensure the quality of products and services.
- 4) ensure right timing (JIT), and
- 5) ensure the availability of resources

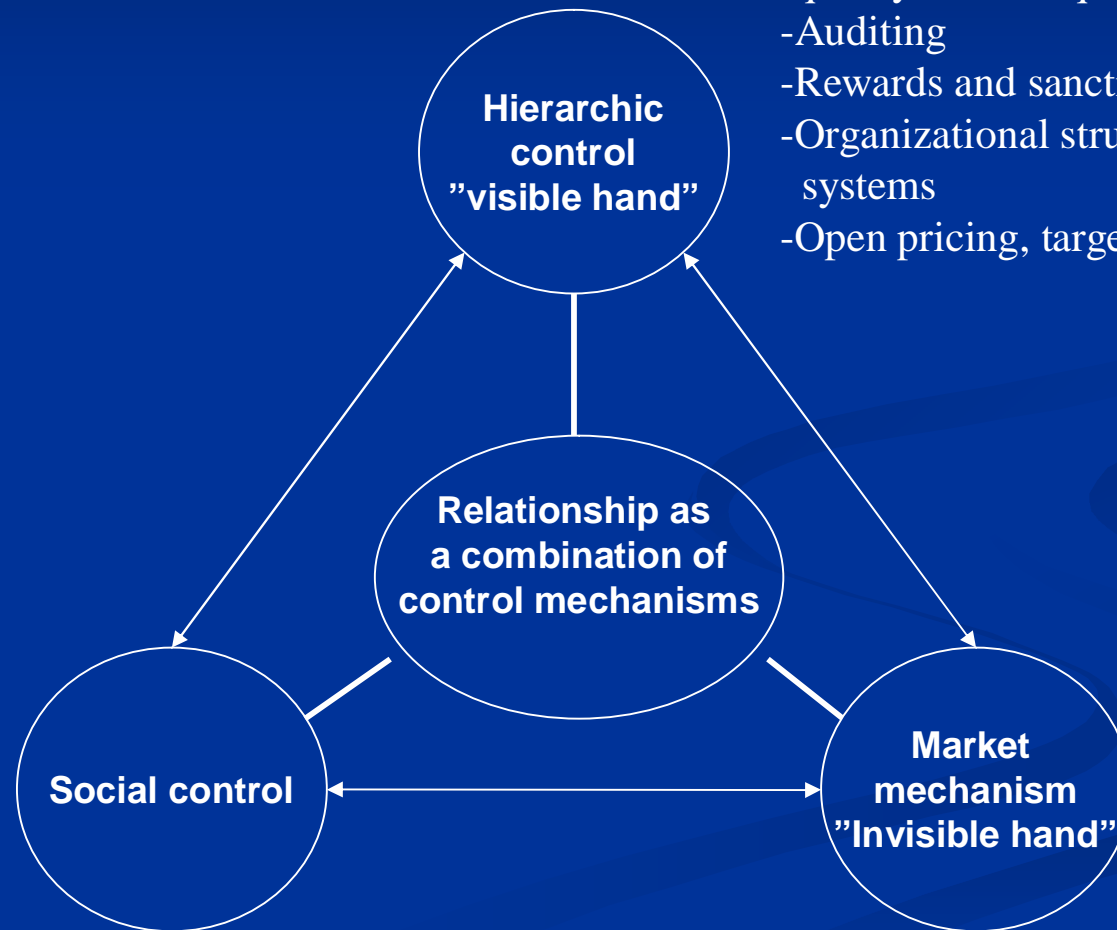
Three types of control



Hierarchic control

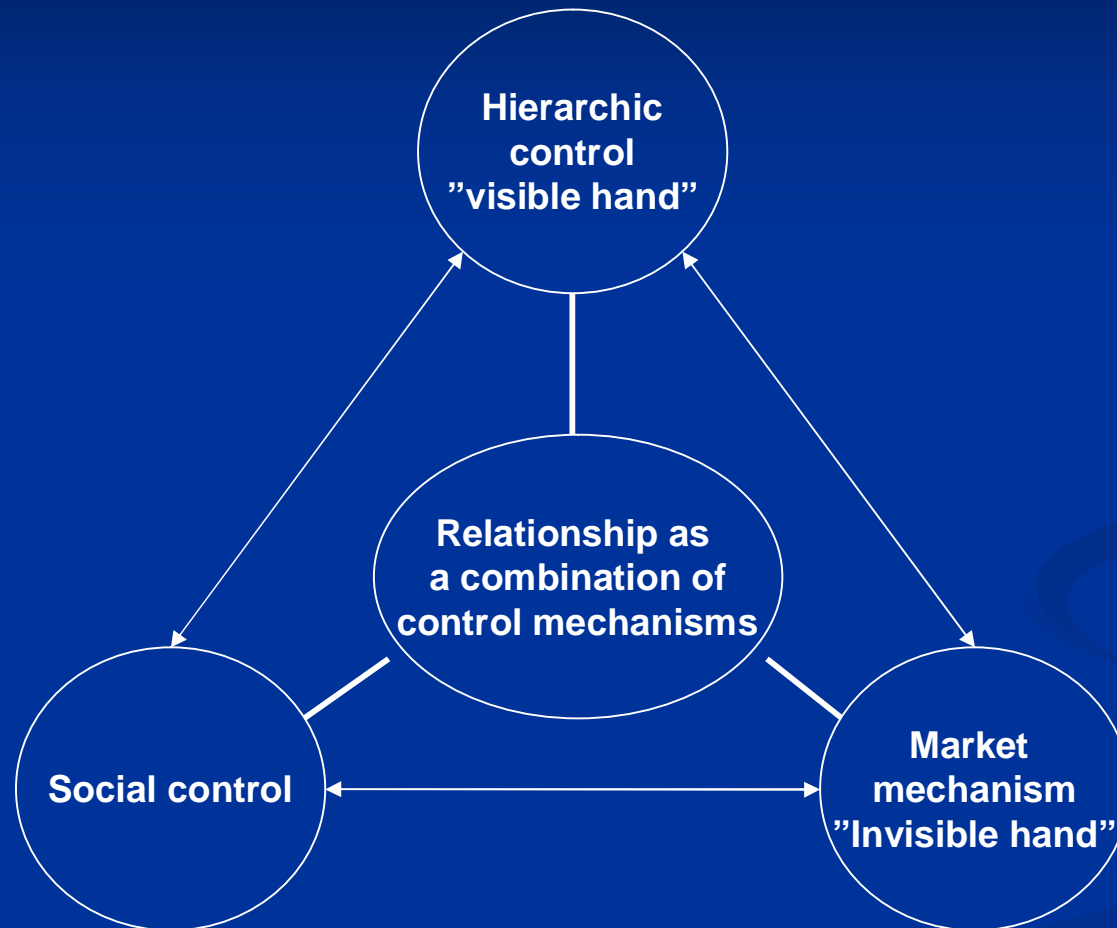
- the use of hierarchic mechanisms in order to control and manage the supplier relationships

- rules, contracts
- quality control, quality system
- Auditing
- Rewards and sanctions
- Organizational structures and systems
- Open pricing, target pricing



Market control

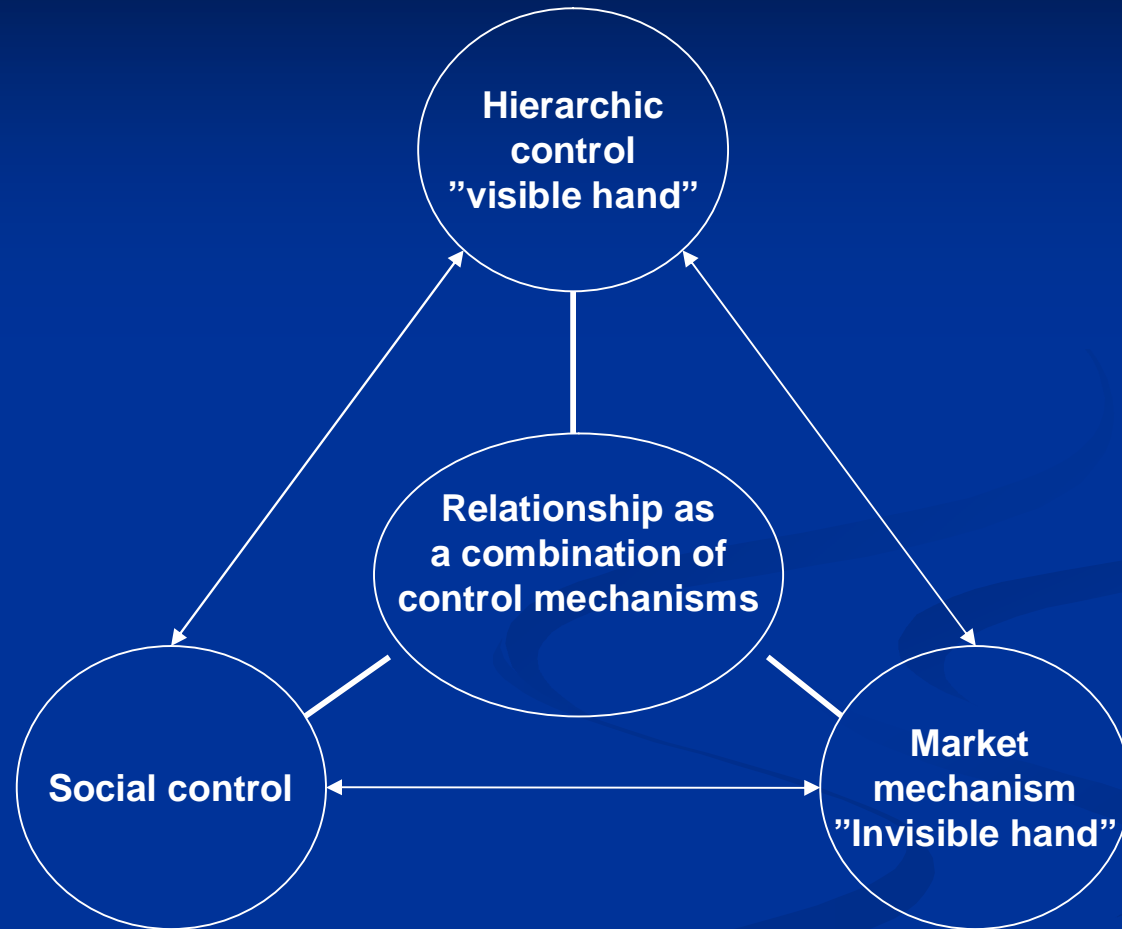
- use of the market mechanism in order to control the supplier relationships



- Continuous bargaining
- Price as the most important buying criterium
- Transaction based exchange
- Continuous search for new suppliers
- Many competing suppliers (rather dual than single sourcing)

Social control

-the use of social relationships in order to control the supplier relationships



- Trust
- Reciprocity
- Mutuality (common interests, the feeling of "we and us")
- Same "language"
- Social norm (trust based to deterrence, reputation as a hostage)

Paradoxes in extreme forms of control

Social relationships vs. hierarchic control

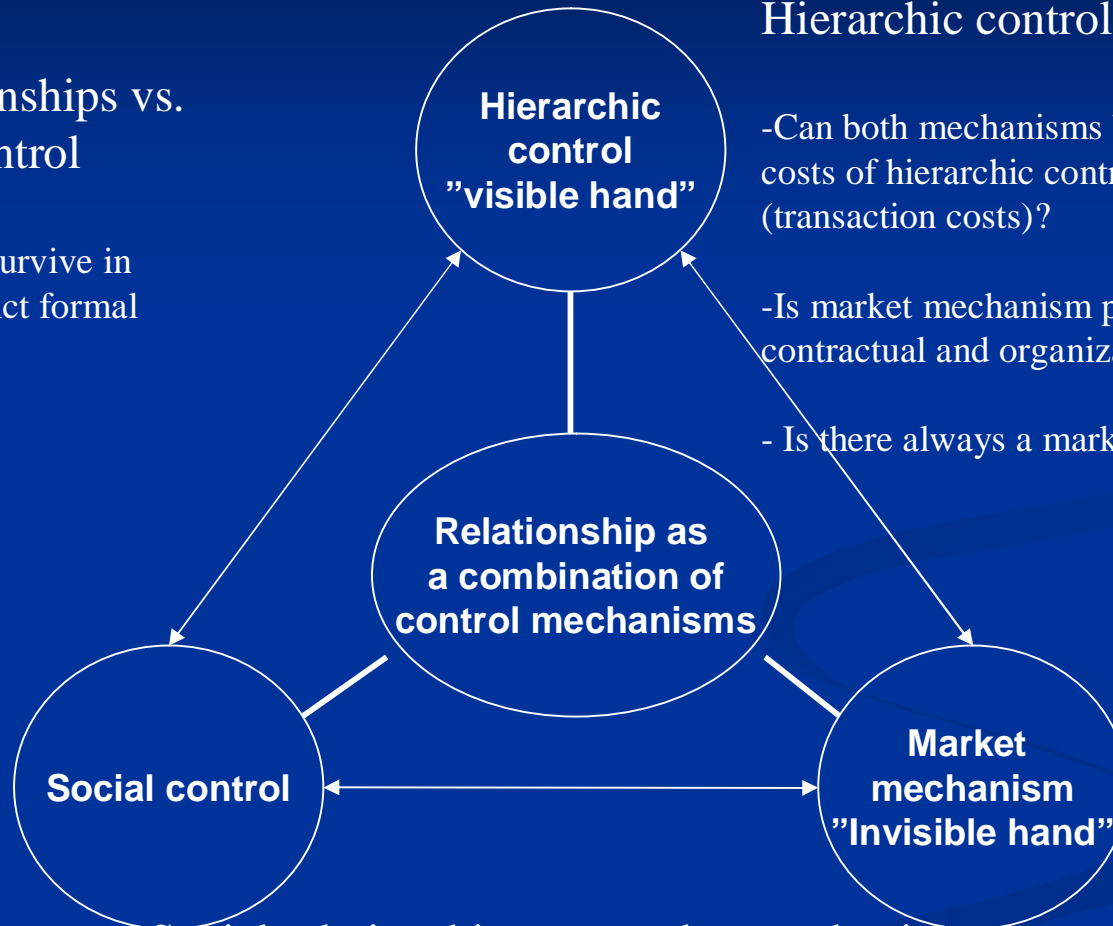
- Can mutuality survive in the context of strict formal control?

Hierarchic control vs. market mechanism

- Can both mechanisms be used because of the costs of hierarchic control and market control (transaction costs)?

- Is market mechanism possible in the case of deep contractual and organizational relationship?

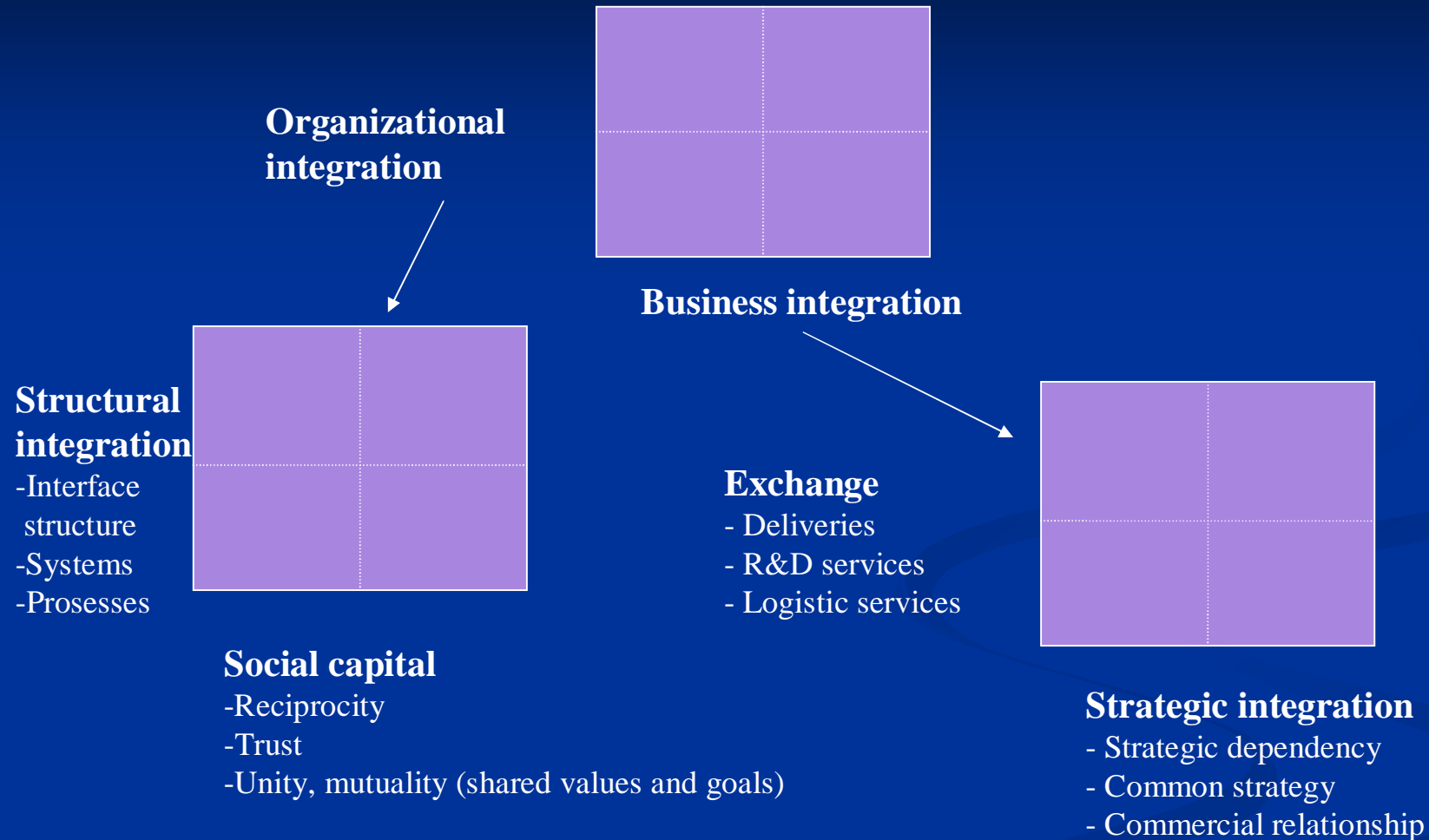
- Is there always a market?



Social relationships vs. market mechanism

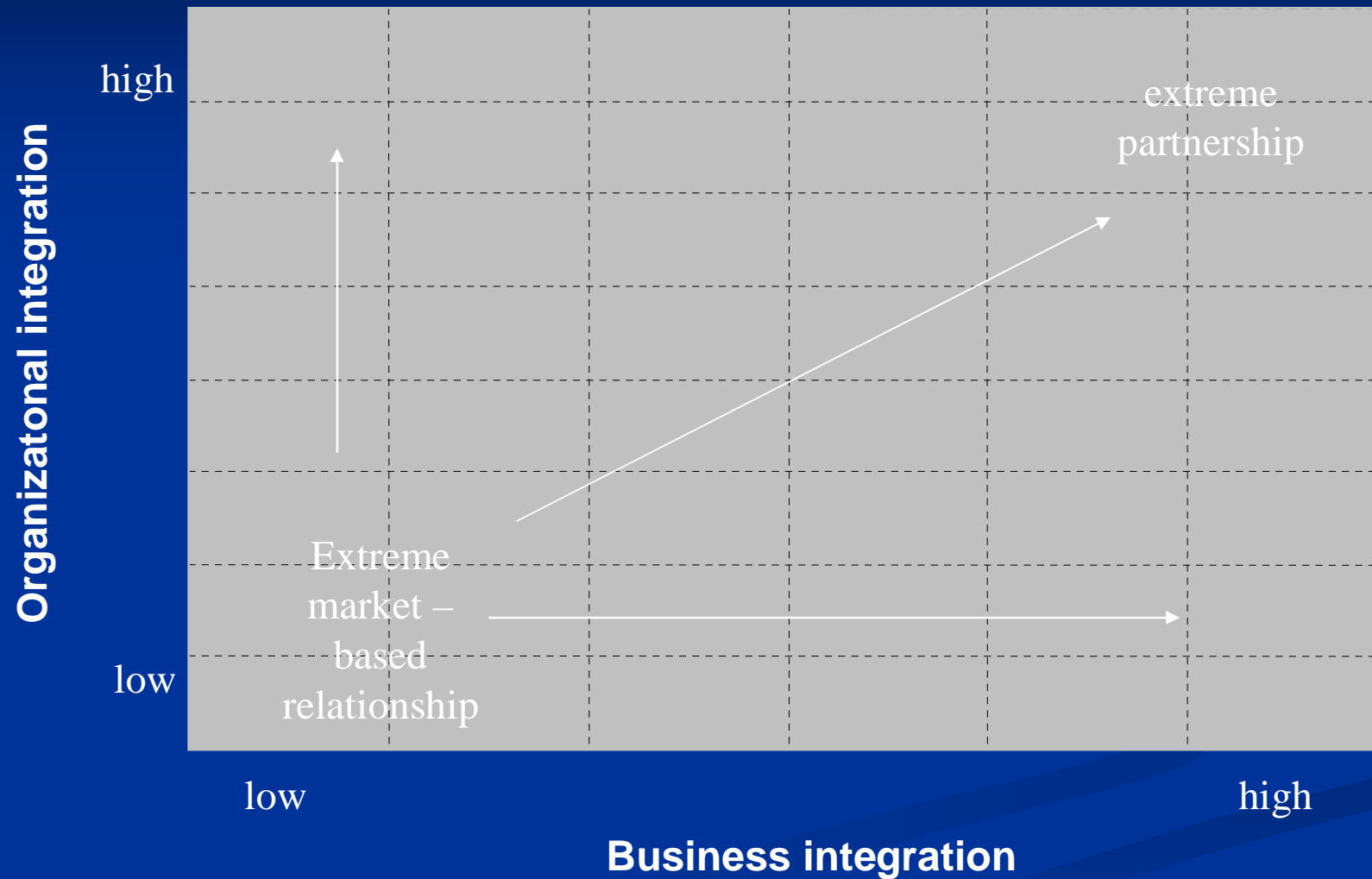
- Does trust develop in the strict use of market mechanism
- Is market mechanism possible in the case of deep reciprocity

The dimensions of inter-organizational relationship

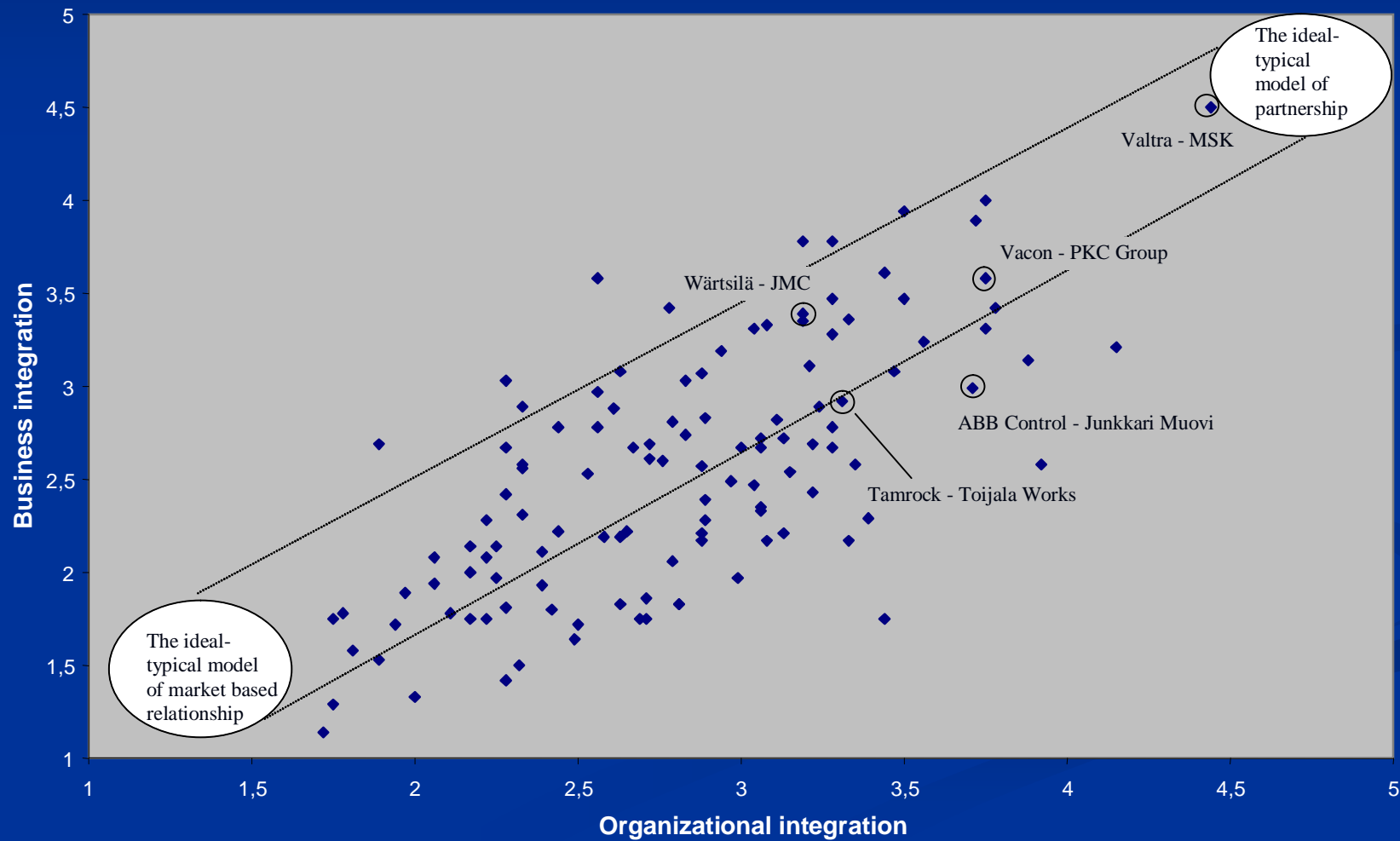


Partnership Monitor: A 44 item measure in four dimensions and 12 different areas

Measuring the inter-organizational relationship



A sample of buyer/seller relationships in the Finnish metal and electronics industry



Features of high level exchange in service business



Value added and customer focus

Service business

Value visible
to buyer: serving
the buyer organization

Value visible to
end customer: serving
end customer together
with buyer

Industrial
maintenance

Facility
management

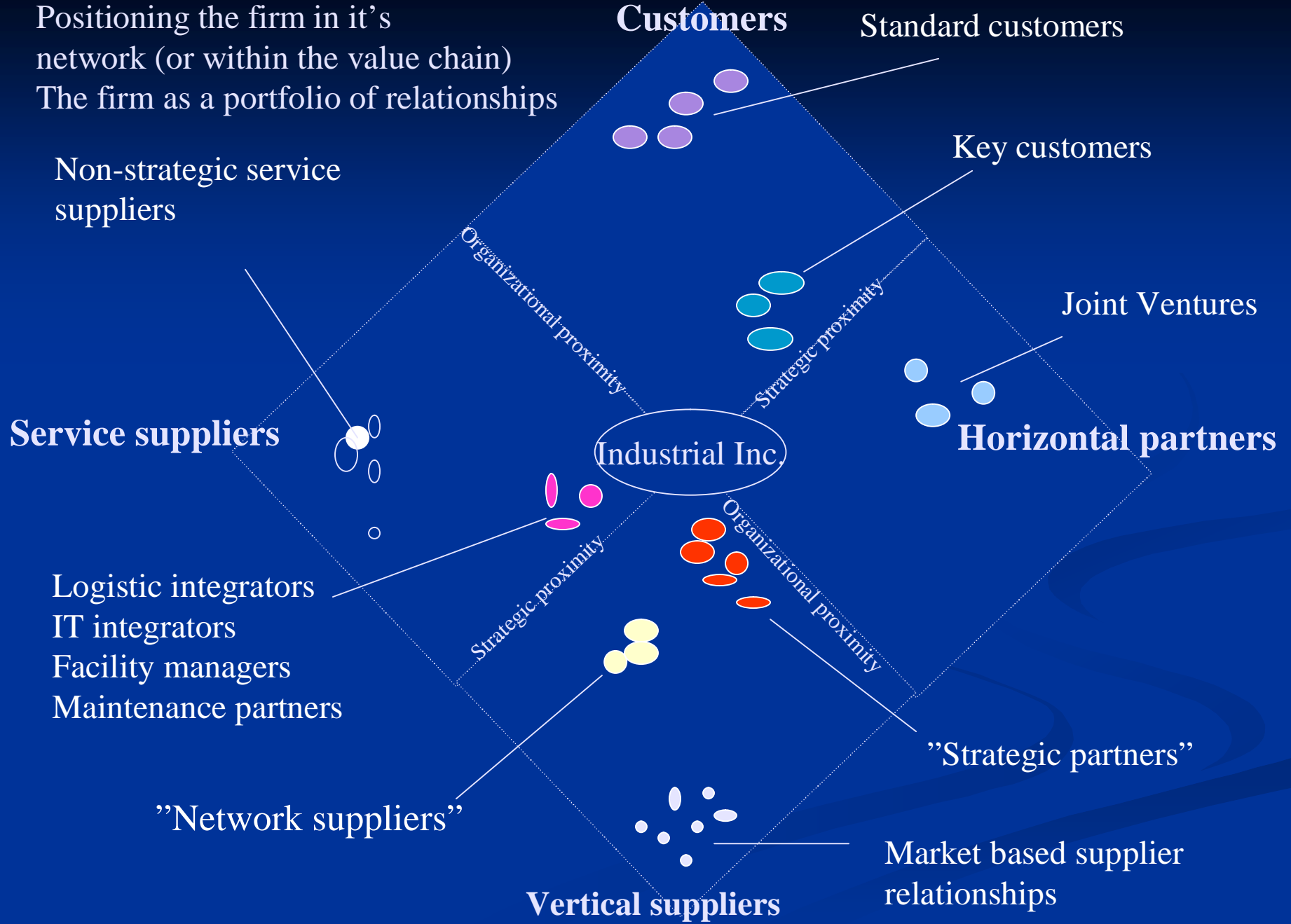
IT services

Logistic
services

Flexibility
Cost effectivity
Capital effectivity
Speed
Potential to develop
Availability of know how

Various end customer
values, which are jointly
produced by buyer and service
supplier





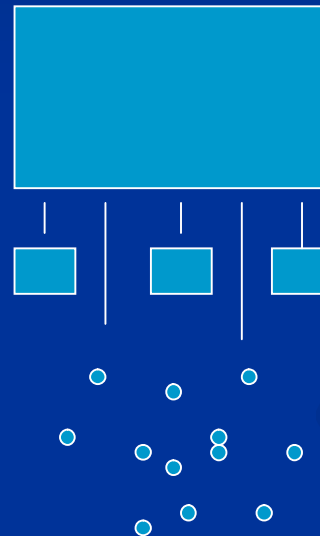
Service supplier's generic business models

Horizontally/ vertically integrated model



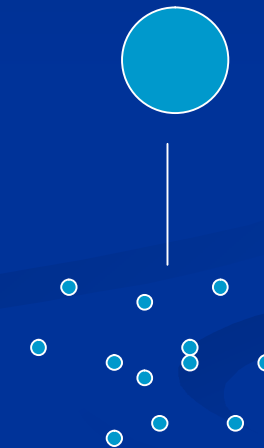
- Services offered on the basis of internalized (own) resources
- Horizontally broad service structure
- Hierarchically controlled production system

Hybrid model



- Certain services offered by own resources (related to core competencies)
- Other services sourced from partners or bought from the market

Management model



- No own service production
- Management as the core business
- Use of market mechanism on behalf of the customer
- Coordinating service production on behalf of the customer

Strategic options for the service supplier to build the whole business concept

Customers

Choices concerning the depth of customer relationships

- services offered and tailored
- customer specific investment policy
- structural links between organizations
- reliance on social capital

Choices concerning the depth of service supplier relationships

- sourcing strategy
- definition of types of relationships
- definition of control mechanisms used

Definition of company's own business model

- core competencies
- logic of earning money
- internal organization

Choices to build alliances

- value adding logic of alliance
- availability of partners
- definition of alliance model

Choices concerning the depth of supplier relationships

- sourcing strategy
- definition of types of relationships
- definition of control mechanisms used

Vertical suppliers

S

Organizational proximity

Organizational proximity

Organizational proximity

Strategic proximity

Organizational proximity

Summary: Opportunities (and challenges) of partnership in service business

- n A service supplier which knows and is capable to articulate the contents of a partnership relationship has a possibility to be understood amongst the potential customers
- n A service supplier which is capable to show the advantages and value added characters of a partnership has a possibility to be taken seriously by the customer
- n Trust and other elements of social capital are quite inexpensive means of control –who has the nerve to build business relationship on mere trust?
- n Organizational or customer knowledge makes it possible for a service supplier to act such ways, which are valuable to the customer
- n Partnership models are often related to outsourcing deals, which again are paths to rapid growth
- n Partnerships are not related only to customer relationships, but can be used as building blocks of overall business model of the organization
- n Partnership as such is not the key to success –a mutual understanding on rules of the game has to be there
- n Pure market relationships legitimate gaining of enormous high profit –in a partnership that kind of opportunism is not possible
- n Partnership is a situation specific arrangement –sometimes it works and sometimes it do not; it seems that the main determinant of a situation favoring partnership is a genuine will of both parties to follow the common agreed rules of the partnership