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Triadic interconnectedness in indirect sales:
Value creation and strategic positioning

Abstract

The paper conceptualizes interconnectedness as a combination of interaction and interconnection in the triad and how these concepts relate to the actors' intent. A framework is developed and subsequently applied to a qualitative case study of indirect sales.

Key results

The application of the framework to qualitative data indicates that it enables a rich and multi-dimensional understanding of the interplay between value creation and positioning which exist in triads as well as other actor constellations. Therefore it may assist managers in understanding, assessing or balancing different aspects of interconnectedness in indirect sales.

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Introduction

Distribution systems are often described as channels or chains and the literature on distribution is defined as channel literature. But distribution is an open and complex exchange system, constituted by mutual relationships between at least three parties, embedded in an interconnected web of relationships (Bagozzi 1975). As such, it is more than its constituent dyads and actors (Håkansson, Snehota 1989). It is part of a pattern of vertical and horizontal integration, which is better described as a network rather than a chain (e.g.) (e.g. Achrol, Reve & Stern 1983, Håkansson, Snehota 1995). But a network approach to distribution is rare in the channel literature. The core of channel literature traditionally is based on economic arguments and not strategic considerations, no matter whether the school of thought is micro-economic, functional or behavioral (Gattorna 1978). The dominating perspective is a dyadic manufacture perspective focusing on the relationship between suppliers and their middlemen (Gadde, Snehota 2001, Frazier 1999) which is the perspective applied by agency theory. The manufacturer is regarded as the principal and dominant party in the relationship who depends on another party (the agent) to undertake actions on his behalf (Antia, Frazier 2001). Until the 1980's research in supplier-distributor relationships was dominated by a power and conflict perspective, which gradually changed towards interdependence, co-operation, and trust in the 1980's and 1990's (Johanson, Silver 2003).

The opposite perspective; the middleman acting as the buyer's provider (Ferber, McVey 1960) has become more visible in the B2C markets, due to consolidation of intermediaries and growing retail power (Blois, Reynolds 2000). Moreover this approach to the middleman's function and role is closely linked to the study of value, which is claimed to be the most addressed topic in B2B marketing (Komulainen et al. 2005). "The issue does not seem to be whether an organization should compete on customer value delivery, but rather how it should do it" (Woodruff 1997 p. 140). The underlying rationale is that competitive advantage implies delivering superior customer value, based on market orientation (Slater, Narver 1994). Value is inherent in the market offering and does not change because the price changes (Anderson, Narus 1998). Being so, the middlemen can only add value if they represent the buyer and solve his problems. If not, they are of no use to the buyers, and consequently of no use to the suppliers (Anderson, Anderson 2002). Consequently, indirect sales is a *ménage à trois* involving the buyer, the middleman and the supplier. It is a triad and ought to be studied as such.

In spite of the claim that the middle-man must represent the buyer in order to add value, a third position as "the man in the middle" exists. This role or function as an integrator or coordinator may be a more accurate description of some intermediaries. Middlemen are important actors in the co-ordination of complex logistic arrangements (Dubois, Gadde & Mattsson 1999, Gadde 2004, Huithén, Gadde 2007), facilitators of cross-cultural interaction in internationalization (Fung, Chen & Yip 2007, Peng, Ilinitch 1998, Peng, Ilinitch 1998, Peng, York 2001) and as information agents (Wuyts et al. 2004, Narayandas 2002, Popp 2000). This position of the middleman emphasizes that middlemen can be more than the "hired hands" of the suppliers or the distributors, and more than a cost-efficient extension of either the supplier's or the buyer's organization. They have the potential to act as specialists adding value that neither the supplier, nor the buyer creates or alternatively to act as market-makers (Spulber 1996, Casson 1997, Karpik 2000, Odorici, Corrado 2004).

Because the channel literature is primarily actor-focused or dyadic, a triadic approach to a study of indirect sales has to draw on other fields. And as the smallest network unit is the triad, it is possible to apply network theory and concepts to the study of triads. A core concept in networks is interconnection. Interconnection is a matter of contingency; i.e. exchange or non-exchange in one relationship depends on exchange or non-exchange in another relationship (Cook, Emerson 1978). The effect is referred to as the secondary function of relationships, whereas the primary function is efficiency in the activity links, resource ties and actor bonds (Anderson, Håkansson & Johanson 1994). This paper suggests that the analysis of triads can profit from a preservation of this dual perspective; the instrumental related to the interaction in the dyads and the strategic related to the interconnections.

The paper is structured as follows: The first two sections discuss the triad as the unit of analyses and the level of analysis in a study of triads. The following section conceptualizes and builds a framework for the study of interconnectedness as a matter of both interaction and interconnection. Then follows a brief introductory case description which forms the foundation for the final sections in which the framework is applied in the description and interpretation of the organization of intermediated sales arrangements in the Danish building articles industry and the conceptual and practical applicability of the framework is discussed.

Triads – a complicated simplification

The term triad is used for various constellations of three actors and their relationship. The triad's ability to illustrate complicated network features in a simplified format makes the triad interesting as unit of analysis. Weick & Penner (1966) argues that organizational researchers should study triads as

“most processes that occur in groups of three or more people can be found in triads but not in dyads. And the additional properties that emerge when three persons are put together are especially important for the investigation of organizational behavior” (p 191)

Studies of triads in sociology and conflict research are often designed as laboratory experiments in which three persons play a variety of games under various circumstances in terms of initial power, reward structure etc. The purpose is to study and obtain empirical verification of phenomenon most often associated with power (Weick, Penner 1966) such as coalition formation (Caplow 1956), conflict behavior versus cooperative behavior (Hartman, Phillips & Cole 1976), and importance of personality traits of group members for communication processes and performance (Lampkin 1972). It is posited that “it seems likely that generalizations developed in the three person group will be applicable to situations where the interacting units are organized groups” (Caplow 1956). Likewise social network analysis profits from the relative simplicity of the triad for structural analysis based on counts of non-valued relations (e.g. Wasserman, Faust 1994), with the purpose of linking micro-structural tendencies to empirical macro-structural patterns. Consequently the triad can be applied as the minimum unit offering maximum potential for simplification of inter-organizational network analysis (Smith, Laage-Hellman 1992, Ritter 2000) and may support generalizations from micro-unit to a wider network (Easton, Lundgren 1992).

Whereas the triad offers conceptual simplification, it entails empirical complication when combining dyads into triads. To choose the triad as the unit for field studies implies that instead of studying actors and/or relationships between two actors, you are facing a research unit consisting of three actors, their relationships, the resulting activity pattern, resource constellation and web of actors as well as interconnections between the relationships. Nevertheless the applicability of an explicit triadic perspective has been tested and emerges clearly in a number of case-studies resulting in localized and specific empirical data (Komulainen et al. 2005, Narayandas 2002, Odorici, Corrado 2004, Andersson, Mattsson, Cunningham, Pyatt 1989, Jaaskelainen, Kuivalainen & Saarenketo, Pardo, Salle 1994, Ronström 2005, Trimarchi, Hu, Tsai 2007, Havila, Johanson & Thilenius 2004, Havila 1996, Madhavan, Gnyawali & Jinyu He 2004). But conceptual papers on business triads are rare (Smith, Laage-Hellman 1992, Ritter 2000).

Whether constellations of three actors are regarded as business triads depends on the conceptualization and the underlying definitions. Two approaches are applied for defining business triads. Blankenburg & Johanson (1992) apply the term triad, whether or not there is any direct interaction between the first partner (the supplier in the context of this paper), and the third partner (the buyer in the context of this paper). Triads in which there is interaction between all three actors are defined as closed and those in which this is not the case are defined as open triads. The same approach is used by Ritter (2000) and Smith & Laage-Hellman (1992). The other approach focuses on the interaction among the parties as the feature defining the existence of a triad (Havila, Johanson & Thilenius 2004). If all three parties have some degree of contact with each other, then the business relationships are group-like and triadic by nature and should be studied as such. If there is no direct contact between two of the three parties, they define the relationship as series-like and argue that a dyadic approach is appropriate.

This difference in the conceptualization of triads is based on the underlying definitions. Interconnections are related to the ways that actors and their relationships connect and influence each other, whereas communication is related to the interaction among the parties and the outcome in terms of activity links and resource ties.

- “An exchange network is a set of two or more connected exchange relations. Two exchange relations are connected to the degree that exchange in one relation is contingent upon exchange (or non-exchange) in the other relation.” (Cook, Emerson 1978 p. 725)
- “A triad is said to exist, when three individuals are observed to interact on successive occasions. These three are seen to come together repeatedly or to be in communication often, conversing, exchanging products, and so on” (Thibaut, Kelley 1959 p. 191)

The purpose of a triadic analysis also directs the choice of interaction or interconnection as the defining feature of triads. Focus on the interaction of actors, activities, and resources” increase the understanding of how [international] business relationships and the role of the intermediating actors within them change over time” (Havila 1996) p. 200. It is a way to study the division of labor between the parties and how they develop their relationships. A study focusing on interconnections instead analyzes how relationships influence each other and relate to the surrounding network. And in this study we define interconnection as a situation “when a given relationship affects or is affected by what is going on in certain other relationships” (Håkansson, Snehota 1995). This approach maintains the structural perspective that triads are networks although embedded in wider ones. And as such they are not exclusively a special variety of division of labor, and of efficient and effective deployment of resources. But as a relationship is a function of interaction, interconnection is linked to the existence of interaction, indicating the necessity of including both in a study of interconnectedness.

The level of analysis in a study of triads

As all other networks triads are also political organisms defined by power, influence and trust (Thorelli 1986); a feature which is highly visible when the concept of interconnectedness is extended to interconnections of various market relationships including non-commercial intermediaries and public authorities, (e.g. Singh et al. 2005). But power, influence and trust are not unambiguous indicators of the level of analysis as these features are not exclusively applied in network studies. They are also included in the study of business relationships and distribution channels (Frazier 1999, IMP Group 1982). Likewise the activity and resource-related interaction and communication are included in the analysis of networks, but in varying degree depending on the perspective. This is illustrated by Easton (1992) pointing towards four angles for the analysis of networks:

1. Networks as relationships (mutuality, dependence, bonds, atmosphere)
2. Networks as structures (division of work, boundaries, complementarity, structuredness in terms of interdependence)
3. Networks as positions (function, identity of net, importance of firm, relationships)
4. Networks as processes (power, competition/cooperation, stability/change, innovation)

As dyadic concepts are used for the analysis of networks and vice-versa, there is no final and definite coupling of level of analysis and approach. The isolation of a unit, a level of analysis and perspective is an abstraction, however, “the different levels of analysis must be treated as quasi-isolated but as complementary connected in our efforts to understand the overall picture” (Wilke, Ritter 2006 p. 51). The triad neither represents the macro level of societies or industries, nor the micro-level of a relationship as the focal unit. It is something between the dyad and the network, and therefore better described as an intermediate level of network analysis. This level has been referred to as the meso-level of network analysis (Mattsson 1997) of which the unit of analysis is the net; a notion which refers to a focal actor and all its relationships (Wilke, Ritter 2006). Although the triads in this study are not representing focal actors and their relationships they are equaled with the meso-level of nets, something between the micro and the macro level of analysis.

Conceptualizing interconnectedness as a matter of both interaction and interconnection

The specific patterns in actual triads are modeled in triangles as the one depicted below in figure 1 which illustrates the possibilities of combining the interaction and interconnections in one model illustrating the expanded conceptualization of interconnectedness. The actors and their relationships create the outer frame of the triangle. The circles represent the actors; the only element in the model which has agency in terms of intent, purpose, motivation and the ability to make sense of and interpret the world. The straight lines represent the dyadic interactions between intentional actors. Open triads are illustrated by removing the relevant straight line. Interconnections between relationships are plotted as curved lines in the triangle and can be further refined by adding value (0/+/-). The illustration can be further refined by the width of lines to indicate degrees of interconnection and interaction.

The interpretation of the figure is important because it can support the proposition that interconnections are the outcome of interactions (straight lines produce curved ones) which is a general approach to the study of interconnections (Ritter 2000),

but it can also illustrate the opposite approach – interconnection as the preceding determinant of interaction (curved lines influence straight ones). Both perspectives are possible as interconnections in a specific triad at a given point in time is

- A result of prior episodes and relationships preceding the present interaction
- Influenced by the present interaction which potentially may change the constellation of interconnections
- Conditioning the future interaction through the constellation of interconnections

Being so, the inclusion of the time dimension illustrates that interaction can influence the interconnection and vice-versa which supports the approach that the study of triadic interconnectedness will profit from the inclusion of interactions as well as interconnections.

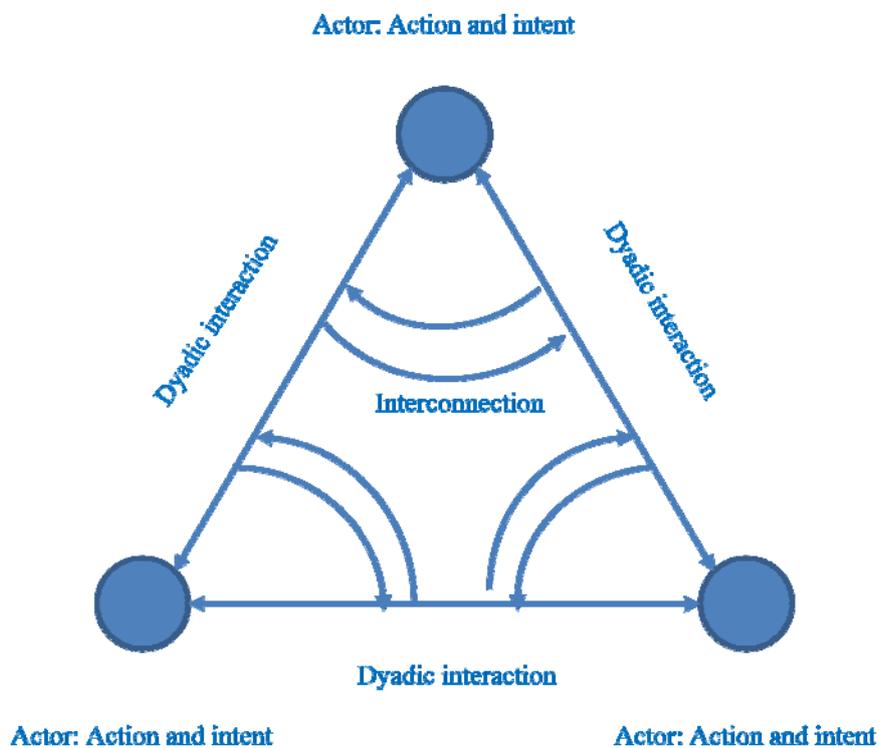


Figure 1: Basic framework for analyzing triadic interconnectedness as a matter of interaction and interconnections

Another important matter of attention when applying this model is the spatial separation of the triad as a closed system which is an abstraction. But it is a necessary simplification for empirical purposes when focus is on the processes and not on the structure. The addition of a few actors to a triad increases the number of possible interconnections enormously. Even so, when the possible triadic relations are reduced to one specific type; the mutual dyad illustrated in the below table 1. The scope of the exercise involved in the mapping of interconnections of the net of a single focal actor is illustrated in Hu & Tsai (2007). If a similar exercise is attempted for three focal actors the complexity augments to a level where the patterns become confused. Consequently this study does not attempt to map the full structure surrounding the triads and the network interconnections influencing it, but recognizes and includes network effects as elements influencing specific patterns of triadic interconnectedness.

No. actors	No. possible dyads	No. possible interconnections
x	$r=x(x-1)/2$	$i=r(r-1)$
1	0	0
2	1	0
3	3	6
4	6	30
5	10	90
6	15	210
7	21	420
8	28	756

Table 1: The number of possible relationships and interconnections in a network: Every interconnection can have one of three values (0/+/-)

A further dimension of triadic interconnectedness concerns the motivation for formation of closed triads (Madhavan, Gnyawali & Jinyu He 2004). One is clustering which refers to the cooperative motivation for the formation of triads, aiming at combining resources from multiple partners. The other is countering; the concept used to describe a competitive motivation for the formation of triads, aiming at reducing the appropriation of value by another actor in the triad. This categorization resembles the distinction between cooperative behavior and strategic cooperativeness in the study of conflict and survival in triads (Hartman, Phillips & Cole 1976), as both studies point to the possible motivational duality of cooperative behavior, which seems to be related to either an instrumental or operational activity/resource aspect (clustering) or a strategic actor/position aspect (countering) of triad formation and behavior. This distinction and interplay between a strategic actor-related and an instrumental activity and resource related level is apparent in a number of studies related to network change and strategic positioning, e.g.

1. The distinction between activity-based connections as network stabilizers and actor-based connections as the source of change in networks (Smith, Laage-Hellman 1992)
2. The distinction between changing activity patterns as adaptation to conditions in the environment and changing activity patterns as actor initiated drivers of change and development processes in distribution channels (Gadde, Hakansson 1992)
3. Interdependence as related to task performance and power as related to the role of members in a channel (Reve, Stern 1979)
4. The distinction between position interrelation as a matter of resource interdependencies in the production system and position interrelations as a matter of the actors' intentions and interpretations at the network level (Johanson, Mattsson 1992)

A replication of this separation in the framework of this study entails that the instrumental activity and resource related level is part of the interaction aspect whereas the strategic actor-related level is part of the interconnections. This separation is difficult to handle within an interaction and network approach, because relationships are defined as dyadic combinations of actors, resources and activities (Håkansson, Snehota 1995). Being so, interconnections, which are a matter of how relationships affect each other, relate to all three elements. Another way to approach the apparent underlying distinction between agency and

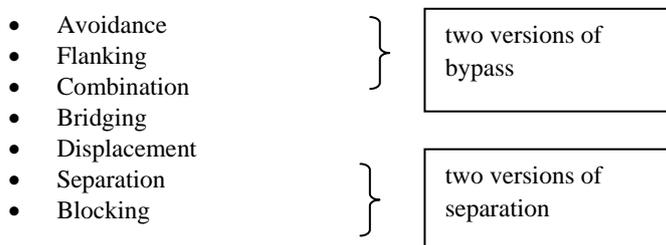
structural interdependence in the above four sources is through position. If applying the Johanson & Mattsson (1992) limited definition of position as “a matter of the exchange relationships of the actor and the identities of the counterparts in those relationships” (p.212) it is possible to interpret relationships as an expression of an actors’ motivated intent or agency. A relationship does not come into existence because relationships and activities link themselves. It is a result of a choice or decision made by two actors to interact, thus the relationship is also an expression of agency as a condition for a relationship to form.

Using agency as the criterion which explains why interconnection is not exclusively a matter of interdependence makes sense in relation to the two existing typologies of business triads (Ritter 2000; Smith and Laage-Hellman 1992) which both relate to interconnectedness, but with different perspectives. Ritter (2000) approaches interconnectedness as constellations of interconnections and develops a typology, which consists of ten different types of interconnectedness applicable for open and closed triads illustrating that ‘An inter-organizational relationship can hinder, weaken, strengthen or enforce another relationship’ (ibid p. 321). The concept is built on three possible effects of interconnectedness: a positive, a negative or a zero influence, and whether they are unilateral or bilateral. The typology for unitary (closed) triads includes four types of interconnectedness:

- Unitary neutrality effect – no effect of interconnections
- Initiation effect – one actor has relationship with two others and initiates direct contact between these two actors
- By-pass effect – one of the actors is isolated or left out by two others
- Hierarchy effect – one of the actors is able to exclude another one from direct interaction with the third actor

The use of the term “effect”, for the description of various constellations of interconnections signals that the interconnectedness is not a product, but a determinant or influent of the context for interaction.

Smith and Laage-Hellman (1992) focus on the resultant pattern of the interaction in their typology and offers concrete patterns of interaction, which are easy to identify, and therefore functional in the first step of an empirical analysis. The typology consists of the following patterns:



Although the concepts are developed for the analysis of change or transformation, avoidance, flanking, and bridging are instructive concepts for the description of the rather stable triadic relationships observed in the data of the study described in this paper. Avoidance is the ultimate by-passing of the merchants occurring when indirect channels are substituted with direct ones. Flanking describes a situation where the merchants are involved as little as possible. It is at two step version of by-passing: e.g. the buyer and the supplier interact directly in preparing an exchange. When the deal is settled between the two parties, the merchant is notified, and he takes care of the formalities related to the change of title, where upon the actual exchange is handled directly between the buyer and the supplier. Bridging occurs when the buyer and / or the seller has insufficient connections to network members with which they would like to get contact; this is the situation which traditionally motivates the involvement of a merchant. These three patterns of interaction relationships are the ones which it is possible to recognize as existing or potential constellations in the data, and therefore this conceptualization is applied for the analysis of the data in this study.

But both typologies apply a terminology, which indicate that interconnection is a matter of agency. Ritter (2000) describes specific constellations of interconnections as e.g. initiation effects, or by-pass effects, implying that somebody initiates something or by-pass someone. Likewise Smith and Laage-Helmann (1992) apply terms like avoidance and flanking indicating that someone has intent of escaping the involvement of an actor. When referring back to the discussion of triads as an intermediate level of analysis the relevance of including both interaction and interconnection in the understanding of

interconnectedness is obvious, but Ritter (2000) and Smith Laage-Hellmann (1992) indicate that the actors have to be included, too. Being so, the empirical analysis of triadic interconnectedness is multi-dimensional. The triad is an expansion of interaction in the smaller dyad because three relationships are included. And it is a reduction of the larger network, because it only focuses on three actors and their relationships. But neither the relationships and the interaction taking place in them, nor the interconnections and their influence on the triad escape the underlying agency of the actors. Consequently the conceptualization of triadic interconnectedness presented in this paper is an attempt to understand the interplay of interdependence resulting from a choice made versus interconnection as an expression of the possibilities and restraints of the actors' agency resulting from this choice.

The remainder of the paper will focus on the applicability of the framework which has been applied for the analysis and interpretation of the interconnectedness of triads in indirect sales of customized building articles. The following section will briefly describe the case and categorize the observed triadic interconnectedness using the Smith and Laage-Hellmann (1992) typology. The subsequent section applies the above framework to the analyses of two selected triads and a final section discusses the applicability of the framework.

Case description

The data for the case consists of interviews which have been collected as part of a study of value creation in indirect sales of customized building articles in Denmark. The first stage of the data collection focuses on the value creation through intermediaries as perceived by the professional customer. A number of professional customers (builder's companies) were interviewed in order to get to an understanding of what value is created, how and with whom? The second stage of the data collection focuses on the value creation, too, but from the perspective of the merchant and the supplier. The two stages are closely linked as the respondents in the second stage are the two persons interacting on a regular basis with the customer interviewed in the first stage. Together the three persons prepare, and follow up on exchange episodes among the actors. The data is collected on the basis of a common framework built on a review of studies on B2B value and intermediation in indirect sales.

The merchant business in Denmark is dominated by three major chains of which one is voluntary, and two are capital chains. Apart from these chains a number of voluntary purchasing organizations exist, which serve a small number of independent merchants. The tendency is towards consolidation both among merchants and suppliers and the number of independent merchants decreases. The exclusivity agreements in merchant sales of building articles allow suppliers to sell to all merchants in a district, no matter to which chain they belong, if only the suppliers do not sell directly to the construction companies, builders and private consumers. In return the merchants can sell products from multiple suppliers within a product line. Consequently the relationship between suppliers and merchants tends to be dominated by a competitive and transactional price-orientation both locally and at the level of chain, and presently there are no signs that a more committed cooperation is developing. In 2005, the Danish Competition Authorities scrutinized the building articles industry. They concluded that the prices for building articles in Denmark were among the highest in Europe, partly because competition had been cropped by the un-official trade-terms, "all-or-nothing" (Andersen 2005). This referred to a condition, which the authorities claimed to exist, implying that if suppliers established direct channels, the merchants would not sell their products; a claim which was countered by the merchants.

The focus of the study is customized building articles. Basically there are two groups of building articles; one including bulks (e.g. tiles, insulation and timber) and commodities (e.g. nails, fittings, tools, small electrical tools), the other including various types of customized building articles, such as windows, doors, staircases, kitchens, wardrobes and specialty tiles, bricks etc.). Bulk and commodities are articles which are purchased by the merchants through large chains to which they belong, either through formal ownership by the chains or through voluntary membership. In standardized bulk and commodities the customers are satisfied with their merchants. They are active in all functions; information, logistics and risk-taking, and add to the value of the customers as cost-economizers and match-makers offering an assortment based on the customers' demands. Compared to this the merchants' contribution to the value creation related to the exchange of building articles made to order is sparse. The merchants' knowledge of this kind of articles is insufficient. Often they refer their customers directly to the suppliers for the acquisition of such articles, without involving themselves in finding the solutions for their customers, resulting in increased acquisition costs both for the buyers and the suppliers. Moreover, the logistics of deliveries are handled

by the suppliers, too, resulting in a situation where the merchants are excluded or have excluded themselves from two major functions regarded as value creating dimensions by the buyer; product knowledge and logistics.

For these reasons the customers consider merchants to be valuable partners assisting the value creation and cost-economizing in standardized goods, but they have reservations as to their role in customized goods. Within this line of business they are regarded as potential cost-drain, because they leave the problems of value creation through customization to the supplier and buyer, and only join in when the value appropriation in terms of commission is to be retrieved through the invoicing. That the merchants are rather invisible in the value creation, but visible in the appropriation makes the customers question the contribution of merchants. And the weak ties between supplier and buyer which normally are expected in exclusive distributorships as the ones in this industry are off-set by the close cooperation between supplier and buyer in the information and logistic function. The aggregate effect is that value and quality decrease in the buyer-merchant relationship and increase in the buyer-supplier relationship.

Various patterns of interaction exist which can be categorized according to the degree of customization and the size of orders. As described above the merchants are very active as middlemen in the sale of standardized building articles (bulk and commodities) and this applies to large as well as small orders. The triads are open with no contact between suppliers and buyers, and the merchants are bridging this gap acting as the customers' purchaser. In the triads related to semi-customized goods the situation is different. The merchants are avoided in large projects based on public tenders, but they participate in the handling of minor orders, however not in a bridging function. Often the supplier and the customer interact directly especially during the acquisition phase of the exchange and the involvement of merchant is limited to a number of administrative functions and the financial risk on debtors. This pattern which is referred to as flanking; the supplier and the customer flank the merchant and interact directly is also dominant in project involving a large number of customized goods whereas bridging, the traditional function of the merchant still prevails in small orders of customized goods. These patterns are depicted in the below table 2.

Degree of customization	Standard	Partly customized	Customized
Size of order	<i>Supplier A</i>	<i>Supplier B</i>	<i>Supplier A</i>
Large	Bridging	Avoidance	Flanking
Small	Bridging	Flanking	Bridging

Table 2: The structure of the observed triadic relationships as depending on order size and degree of customization.

This pattern is interesting because the interviewed customers, no matter whether they are large or small, expressed that they would prefer their suppliers to organize a direct channel for the sales of customized and semi-customized building articles . But only large orders within semi-customized offerings display a pattern of avoidance indicating the existence of direct channels. Being so, the existing patterns must reflect some supplementary considerations other than optimization of perceived customer value.

Interconnectedness as combined value creation and strategic positioning

The purpose of this section is not to make a full analysis of triads included in the study on which the case is based, but to indicate the way in which the framework can be applied for the analysis of a specific interaction pattern. To illustrate that a pattern of flanking may be differently motivated, large orders in customized goods and small orders in semi-customized are exposed to the framework in the analysis below.

Flanking in large orders of customized building articles

Supplier A has two product lines – a standard line and a highly customized product line. The customized product line is a typical example of products for which the merchant lacks sufficient knowledge to guide and help the customer during the acquisition phase. In this product-line the total number of varieties exceeds 60.000 and consequently it is difficult to handle for a merchant. The complexity involved in large orders for such type of customized building articles implies that an intermediary, who is not absolutely knowledgeable, risks creating confusion. When the items are individually specified the logistic plans for delivery on site become very detailed, too, implying that every item may be specified not for a building site but for a specific section and floor of a defined building at a building site. To make sure that this is handled successfully the interface between production, logistics and the construction has to be calibrated precisely and monitored constantly. This is what the customer value, and it is very difficult for the merchant to deliver. Consequently bridging is substituted with flanking which enables and demands the involvement of the supplier. All preparation and the continuous adaptation of the offering are handled by the customer and supplier in direct interaction. The customer may even involve the supplier in the guidance of the future proprietor as to what varieties and specifications to apply for a specific purpose. And only the administrative function in terms of order confirmation, invoicing, guarantee on debtors to the supplier and on products to the customer is the handled by the merchant. The result of this flanking is an offering of a very high value for the customer, which the merchant would not be able to handle. In this way flanking is a way to create value. And this ought to be the underlying reason for any interaction pattern.

However, the flanking is not exclusively a matter of optimization of the perceived customer value. In this type of exchanges the customer would prefer not to make business with the merchants. And the suppliers acknowledge that they prefer the merchants to step aside and leave the preparation, execution and follow up to the suppliers. There is no obvious interdependence between merchant, supplier and customer in this case. On the contrary the involvement of the merchant has been removed. Therefore the obvious question is: Why do the suppliers and customers flank the merchant instead of establishing a direct channel resulting in avoidance? The answer is that the supplier fear that the all-or-nothing conditions do in fact exist. The suppliers perceive that they may risk the merchant's willingness to function as distributors of the standardized product line that supplier A also offers. It may not be the case in the specific triad included in the study, which was characterized by a very open and trusting relationship between the three parties. But the chain to which the merchant belongs may decide to exclude standard product from supplier A in all departments, if flanking is substituted with avoidance through direct sales of the customized product line, and this is a risk which supplier A does not want to take.

So the flanking has to be understood both as value creating interaction between supplier and customer, and as the supplier's strategic positioning vis-à-vis a structure in which merchants are linked in powerful consolidated chains.

- The supplier's intent to protect and preserve his business in standard lines, combined with his
- perception of interconnections between the merchant-supplier relationship in customized product lines and the merchant supplier relationship in standard lines are additional factors for the understanding of why he
- chooses flanking instead of avoidance as the way to organize a value creating interaction

in spite of his customers preference for a direct supplier-customer relationship. Below the modelling of the present pattern and the suppliers perception of avoidance as an alternative is illustrated.

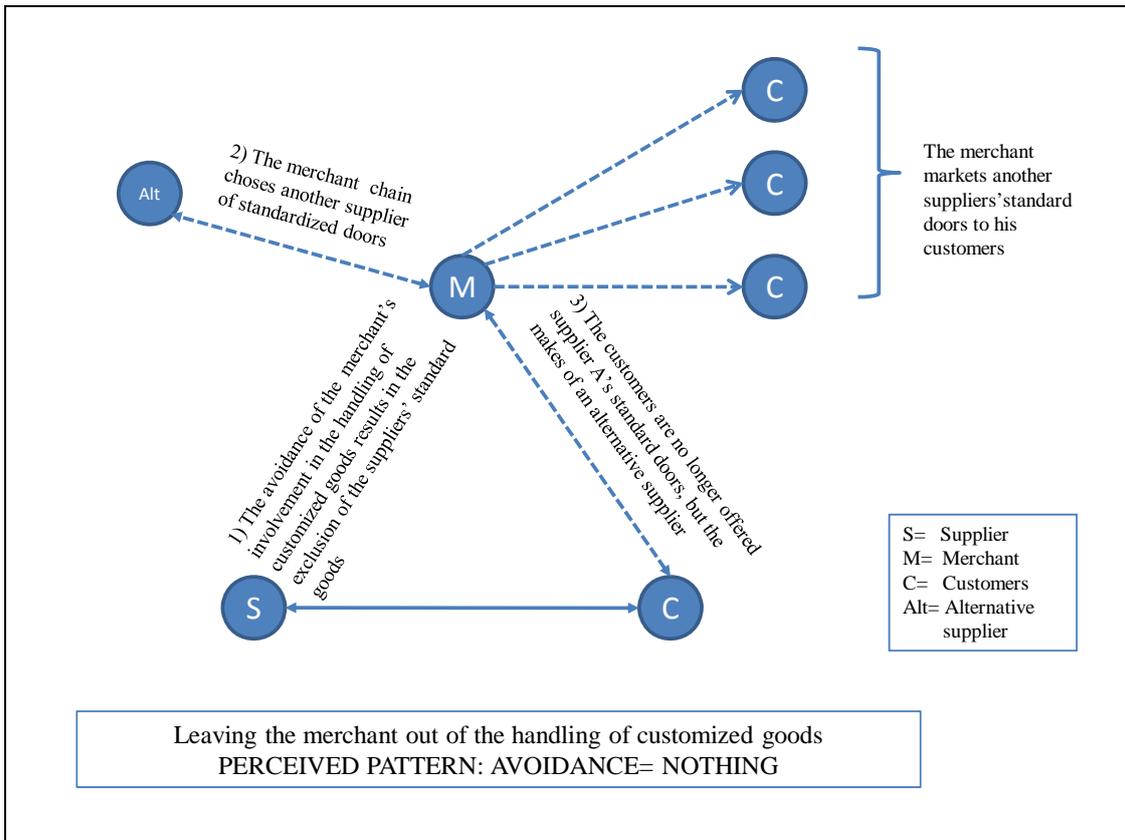
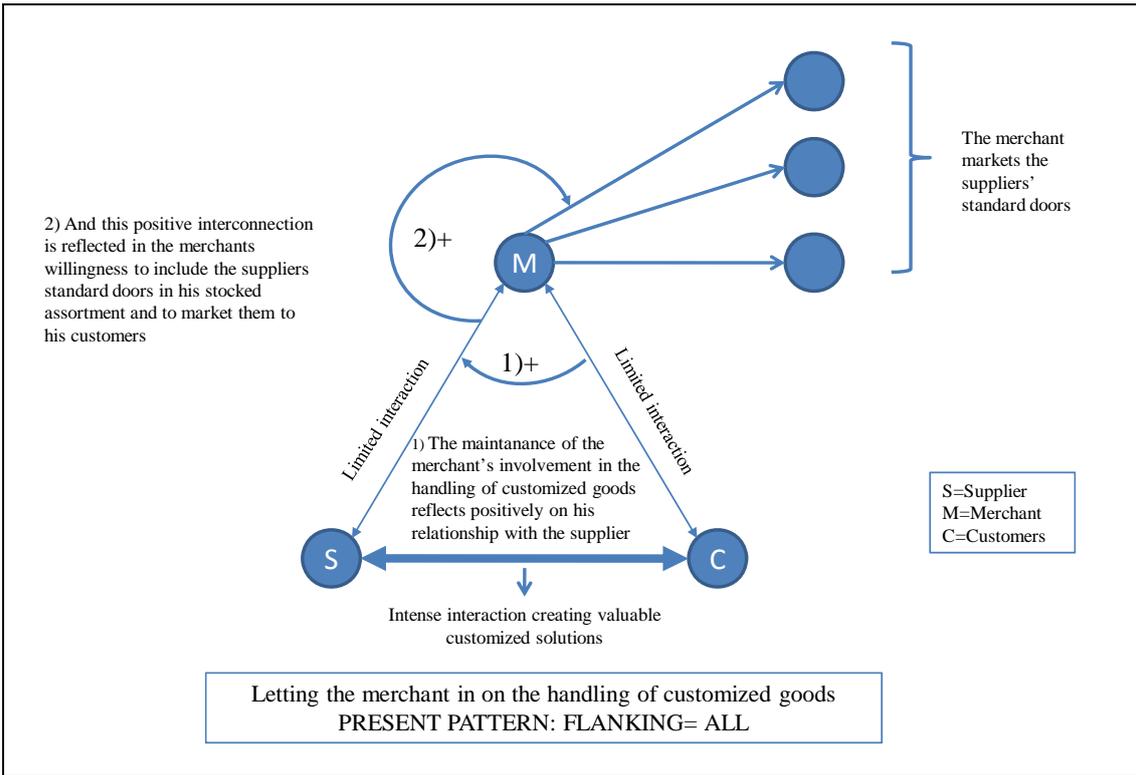


Figure 2: Illustration of underlying interconnectedness motivating flanking in large orders of customized building articles

Flanking in small orders of semi-customized building articles

Basically the mechanism of flanking in this pattern involving supplier B is the same. The professional customers find that the assistance they get from the interaction with the supplier’s representative instead of the merchant during preparation of the order and adaptation of the offering results in a high perceived value. The supplier’s representative assists the customer in the measuring, the specification and the design needed to full-fill the end-users demands and expectations, and this is valuable for the customer. In this respect flanking is a value creating interaction pattern in this business, too. But this is not the whole story.

Supplier B’s product line differ from supplier A’s in one important way. Multi-channeling is wide-spread in the distribution of supplier B’s product line, and the merchants have accepted that large orders based on tenders are handled directly between customer and supplier. And supplier B has the defined intent of achieving the position as an inescapable alternative to the dominant supplier in the market. Therefore flanking is not exclusively a matter of creating value. It is also one of more strategies applied by the supplier in his quest to maximize the number of access points to minor professional and private customers. The importance of reaching private customers is related to the product features of supplier B’s semi-customized product line. Whereas supplier A has a standardized product-line which a DIY consumers is able to handle, this is not the case for supplier B. Supplier B’s products do not exist in many varieties like supplier A’s, but the customization is partly a matter of geometry, and this has to be exactly right for the product to fit into a construction or renovation of a building.

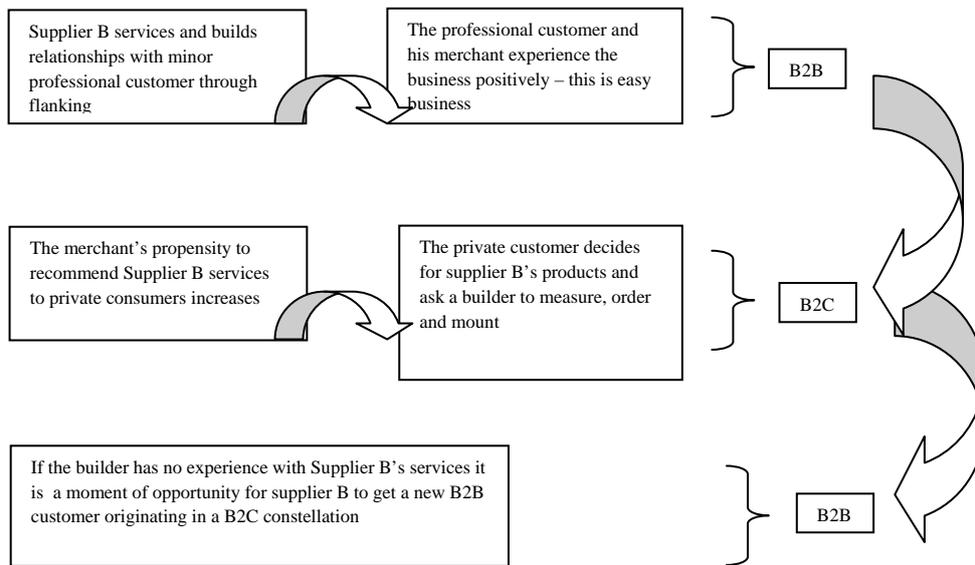


Figure 3: A B2B-B2C-B2B sequence related to flanking in small orders of semi-customized building articles

Therefore many private customers depend on professionals for the mounting of supplier B’s product. This creates a specific type of interdependence between the activities in the construction industry and the building articles industry. An interdependence which may be described as a B2B-B2C-B2B sequence as illustrated above in figure 3. The reasoning goes as follows. Flanking is easy business for the merchant and his customer (the customer perceives high value and the merchant earns a commission with a minimum effort). Consequently the merchant’s propensity to recommend this supplier to a private customer is high. If the private customer chooses supplier B and then ask a builder who has no prior experience with supplier B to mount this building article, the B2C sequence involves a window of opportunity for supplier B. If he satisfies not only the private customer, who has chosen supplier B’s products, but also the builder, then a potential new business relationship results from what is basically a retail sale. Below the modelling of the present pattern and the supplier’s perception of the results of the alternative interaction pattern of avoidance is illustrated (figure 4). Please note that the actors are situated differently in this figure compared to figure 3.

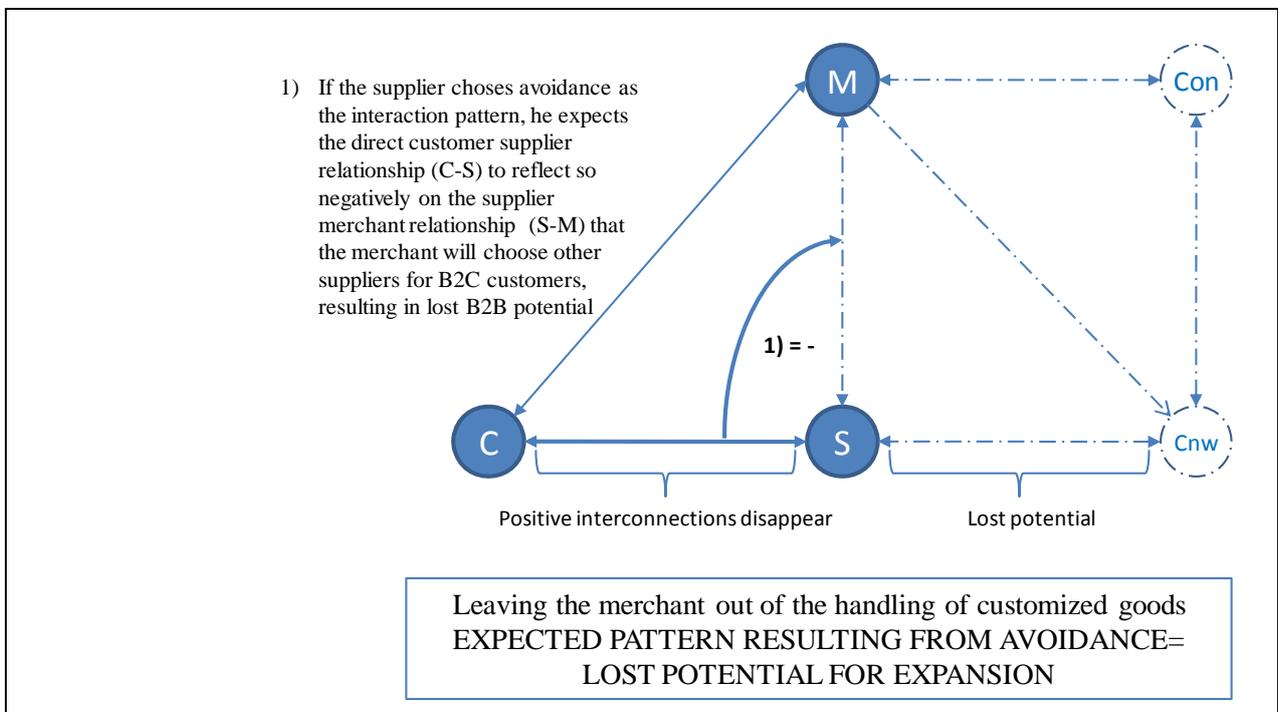
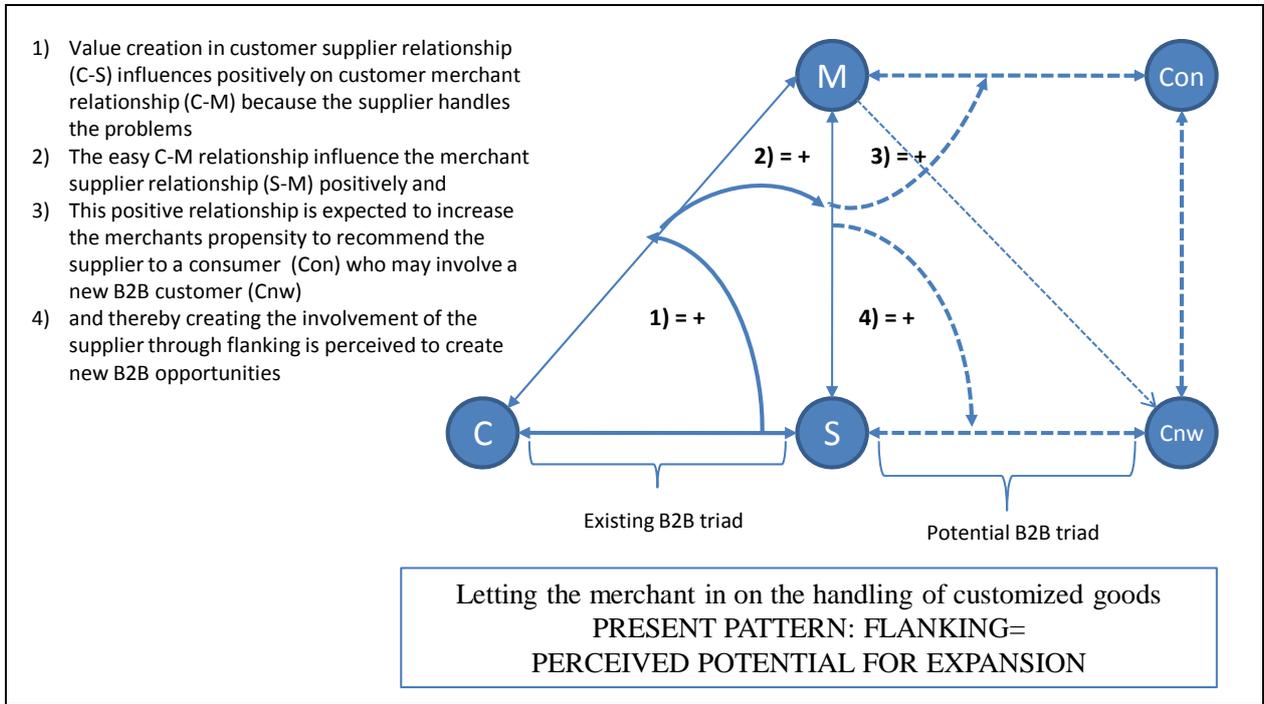


Figure 4: Illustration of underlying interconnectedness motivating flanking in small orders of semi-customized building articles

This way of thinking may sound speculative, but the possibilities in this patterns was conveyed by supplier B's seller who is nursing all these possibilities. The importance of pulling the craftsmen to supplier B's business through this sequence is related to the fact that this type of building articles has a life-cycle of app. 20 years. So the chance of re-buy in B2C is small, but the chance of establishing the platform for interaction with a builder who will buy on a continuous basis has to be considered.

So once again the observed interaction pattern of flanking is motivated by a combination of the perceived interconnections between relationships and the importance of creating high degrees of customer value. Consequently flanking in this case is based on the

- supplier's intent to expand business and therefore
- the servicing of the customers through an intense interaction in the supplier-customer relationship is offered as a way to create superior value delivery by making business easy for the customer and the merchant, moreover the choice of flanking is based on
- the supplier's perception of strong positive interconnections between a highly satisfying supplier-customer relationship and the propensity of the merchant to expand business in the supplier-merchant relationship

Furthermore this interaction pattern is influenced by an ongoing change in the demand patterns for customized building articles. Private customers involve themselves much more in the choice of designs and technical specification. Consequently they attempt to get closer to the suppliers. Therefore the suppliers have to be present and positively recommended at the merchants' outlet which is one of the access points for consumers to the building articles industry.

Applications - conceptual and practical

The application of the developed framework for the analysis of a case taken from the Danish building articles industry indicates conceptual as well as practical applicability. This composite concept allows a detailed and nuanced interpretation and understanding of the observed patterns in the studied triads in intermediated sales. Moreover it situates the value creation for customers as one of more considerations related to specific interaction patterns. On the one hand value creation alone cannot explain specific patterns in indirect sales. But on the other hand strategic positioning cannot be released from the underlying activity patterns and resource constellations if the study of triads and other small networks are to circumscribe the relevant elements of interconnectedness.

The concept can capture some of the dichotomies involved in practical business and therefore it may assist managers in understanding, assessing or balancing the different aspects of interconnectedness. Not only in triads, but also in more elaborated alliances and strategic networks. The concept is not a tool for action, but for description. And on the assumption that: "Better description in the hands of an intelligent practitioner is the most powerful prescriptive tool we have because that is what allows managers to act on the problems" (Gosling, Mintzberg p. 21) 21 the concept may inspire analysis, reflection and action.

The study is in an early stage and a number of avenues exist for future research. One is to develop a more detailed conceptualization of the elements of interconnectedness e.g. to include division of labor versus division of profit, clustering versus countering, and direct versus indirect value creation as defining elements of triadic interaction and interconnection. Moreover the proposed linking of interconnection of relationships and interaction in relationships as expressions of actor agency needs to be more fully researched and conceptualized.

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