Value Based Differentiation in Business Relationship for Capital Products and Complex Solutions: A Conceptual Framework in Egypt

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ABSTRACT

Value based concepts are widely viewed as a way that enables companies to escape the price competition. In this case benefits and values start to have a great role. The main objective of the research is to develop a conceptual framework for building relationship value in the B2B context of capital products and complex solutions in Egypt. We complemented the literature review with twelve in-depth interviews with different buying center members who are involved in the purchasing decisions of complex solutions or capital products in medium and large organizations. The relationship value drivers were categorized as benefits and cost drivers. The benefit drivers that creates value for B2B capital products are (after sales service, product quality, time to market, supplier brand name, risk reduction, salesman role, and supplier market orientation). On the other hand, the model constructed the cost drivers as (direct cost, operation cost and payment methods).

KEYWORDS
B2B, Capital Goods, Complex Solutions, Egypt, Value Based Differentiation

1. INTRODUCTION

In the B2B context, firms are striving to differentiate their offering and acquire a distinctive position in the buyer organization selection criteria. From the buying organization perspective, they need to select only one supplier from several qualified suppliers (Ulaga and Eggert, 2006). Academically, differentiation in B2B is studied based on relationship value creation concepts in sales and marketing (Ulaga and Eggert, 2006; Terho et. Al. 2012). Scholar work of business markets is lacking researches to understand how B2B suppliers can persuade their customers to purchase a higher value yet higher price offering (Anderson and Wynstra, 2010). When purchasing a capital good or complex

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solution, many employees from the buying organization are involved in the purchasing decision as there is a high degree of risk (Töllner, Blut and Holzmüller, 2011). These employees participating in the purchasing decision are forming what is academically known as the buying center (Webster and Wind, 1972). Thus, value creation has to be in the mind of different buying center members. The majority of scholars in the past were assuming that B2B buying decisions are mostly taken rationally (Leek and Christodoulides, 2012). The decision makers rely to a great extent on functional and performance elements to take the purchasing decision. Ulaga and Eggert, (2006) constructed a popular framework for relationship value, formulating relationship value as benefit and cost drivers. This framework is investigating relationship value in B2B context for routinely purchased products. Purchased components like spare parts, motors, springs and surgical instruments, they did not include risky solutions and capital goods. Recently, researches started considering the emotional aspects like brand name as an important value driver in risky products or services (Jensen and Klastrup, 2008). Purchasing decisions in capital products or a complex solution involves a high level of risk and the buying center role is more obvious (Tollner et al., 2011). Also calling for bidding is a common practice to choose among different providers before signing the contract (Cova & Salle, 2007; Töllner et al., 2011). Several researchers highlighted the importance of the salesman role like Hass et al. (2012). The supplier market orientation is also another driver that can contribute to relationship value (Singh and Koshy, 2011).

Very rare empirical studies in the B2B relationship value research focus on developing markets especially in the Middle East. Egypt presents the trade and political hub of the Middle East and Africa (Nafie, 2012). Cultural values have great effect on the strategies and priorities of business decisions (Brett, 2000, Singh and Koshy, 2011). Thus, cultural characters of the Egyptian society like strong uncertainty avoidance can have an effect on the purchasing decision of Egyptian buying center members (Hofstede, 2001). Thus there is a need to have a comprehensive model for relationship value in the B2B risky solutions and capital goods market with a focus on the Egyptian market. The paper contributes highly to our understanding of relationship value in the complex solution and capital products context with a focus on the Egyptian market.

According to our research objectives the rest of the manuscript is organized as follows: In the next section we will review the scholar literature that tackles value in the B2B context, building on the work of Ulaga and Eggret, (2006) as the well-established framework, adding other value drivers that are widely mentioned in the scholar research in the B2B context, as well as shedding light on the buying center concept and capital goods as main subjects in our research. This will be followed by the study we conducted, explaining the methodology that we followed in the interviews with the B2B buying center members who participates in the purchasing of capital or complex solutions. Then the findings of the interviews will be collapsed into an overall conceptual framework for relationship value. Finally, discussing the key findings, managerial implications and avenues for future work.

2. LITERATURE REVIEW

2.1. Capital Goods and the Role of the Buying Center

Literature lacks consensus on a definition of B2B customer solution (Töllner et al., 2011). Recently (Evanschitzky, Wangerheim, & Woisetschläger, 2011) gave the following definition “are individualized offers for complex customer problems that are interactively designed and whose components offer an integrative added value by combining products and/or services so that the value is more than the sum of the components”. Capital goods in the B2B involves a high level of risk that the decision makers in the buying organization experience during the purchasing process (Töllner et al., 2011). Purchase risk
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