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HOW VALUE PROPOSITION (VP) AFFECTS KNOWLEDGE TRANSFER, INNOVATIONS AND VALUE IN B2B SUPPLIER-BUYER RELATIONS

Introduction: the b2b supplier-buyer relation and the VP culture of decision making

In b2b relation, both supplier and buyer (when making purchasing decisions) and supplier (when making both new product development and sales decisions) have the same goal – to increase their NPV(Rappaport 1986, 1996, 2006). Figure 1 presents the relation, the supplier and buyer goals, value proposition (the impact of the offer on buyer's NPV), three business processes: new product development (NPD), sales, purchasing and the main border in business processes: the organizational border between supplier and buyer. In the model, the buyer should expect that the supplier's offer impacts the buyer's business value (NPV) better than any competitive offer. The offer's influence on the buyer's business NPV is a base for creating and continuing both the competitive advantage and the seller-buyer relationship (Kłeczek 2014). The categorization (in terms of eight financial value drivers) and quantification of the impact is a task for an interorganizational accounting. We'll call the quantified impact of the supplier's offer on the buyer's business value, the value proposition (VP).

Supplier		**Buyer**
The goal = value (NPV) increase. Value drivers:		The goal = value (NPV) increase.Value drivers:
1. Sales increase		1. Sales increase
2. Increase of operation profit margin	-> Sales -> phf->nfvd[xU]->fvd[€]	2. Increase of operation profit margin
3. Reduction of tax paid	<-Purchasing<-	3. Reduction of tax paid
4. Increase of effectiveness of working capital investment		4. Increase of effectiveness of working capital investment
5. Increase of effectiveness of fixed assets investment	<- New product development (NPD)<-	5. Increase of effectiveness of fixed assets investment
6. Reduction of cost of capital	phf<-nfvd[xU]<-fvd[€]	6. Reduction of cost of capital
7. Extension of value creation period		7. Extension of value creation period
8. Launch of new business unit		8. Launch of new business unit

Figure 1. *The VP and business processes in b2b seller-buyer relation*

In the following parts of the article, the author presents two situations in which the VP culture and the specifications culture contribute in different ways to innovativeness and value creation.

How the usage of VP contributes to innovativeness and value creation?

A value proposition (VP) is a statement that translates the features (design attributes) of supplier offering into monetary impact on customer business value (Anderson et al. 2006) for instance: “feature X (for instance LED lighting) translates into maintenance time reduction by 2000 hours and, consequently, maintenance cost of €60000 per year (in comparison with the incandescent lighting)”. From the point of view of financial value drivers (Rappaport 1986, 1996, 2006) the statement describes the offering impact on the operating profit margin of the buyer’s business in comparison with the alternative one (the general formula of such a statement is: feature influences non-financial value driver [expressed in nonfinancial units] and financial value driver [expressed in monetary units]; the abbreviation: f->nfvd[xU]->fvd(x€]). Such a statement is crafted (as the sales presentation) by salespeople with the support of product manager that have introduced the product on the market before.

The opposite statement: “we are looking for the feature X of our future product to reduce a maintenance time by 2000 hours and, consequently, maintenance cost of €60000 for our client per year” (fvd(x€]->nfvd[xU]->f) translates the target financial impact into target feature of new product. Such a statement is crafted by the product manager (with the cooperation of salespeople) as a brief for the R&D employees. Both aforementioned forms of VP statements translate the different languages one into another: (1) the language of financial benefits for the clients (used by both supplier’s salespeople and purchasing decision makers on the client’s side) and, (2) the language of technical features (used by engineers in both R&D and production departments). The VP creates an interorganizational (supplier-buyer) accounting in both sales (Terho et al., 2012, Töytäri et al. 2011) and NPD processes (Wouters et al., 2009), Wouters, Roijmans, 2011, Wouters Kirchberger, 2015, Kłeczek 2017). In the VP, the offer’s financial impact on buyer’s business is described in terms of capital budgeting and the price of the offer is presented as an investment for the client. The VP makes s non-price competition possible. The translation function of the statements makes them the “boundary spanning objects” - the objects that bridge the boundaries: (1) between the supplier and the buyers (2) between salespeople engineers, product managers and R&D employees. The usage of VP (as the boundary spanning object) enables the knowledge transfer between the aforementioned actors in business processes. Knowledge transfer influences positively both innovativeness and value.

How the usage of specifications and target costing contributes to innovativeness and value creation?

Alternatively to VP, the business buyer can formulate the requirements for the offer in terms of: (1) the target technical features/specifications (“we expect the technical parameter at the level of…” or (2) the target price (“we expect the price we pay in not higher than…”). In the former case, the language that describes the requirements is purely technical, in the letter one – the target costing is used as the interorganizational accounting solution: the target costing starts with a buyer firm's internal manufacturing cost of a product and then is extended towards suppliers - the allowable manufacturing cost for a part sourced from an outside supplier constitutes the maximum purchase price that the buyer will pay the supplier (Elram 2006, Wouters, Kirchberger 2015). When the buyer formulates the technical specifications requirements, he limits the knowledge transfer and cooperation between the actors to the question of how to meet the specifications (there is a danger that the specifications are similar to: the “better incandescent lamps” requirements). When buyer uses target cost as a maximum supplier’s price (target costing as an interorganizational accounting), he limits the knowledge transfer and cooperation to one question: how to reduce the supplier offer’s price. I case of “better incandescent lamps for smaller price” buyer expectation , the buyer’s short term price reduction gain can be lost by long term maintenance costs increases that decrease buyer’s business value.

Practical implications

Managers/practitioners should include the VP concept into their decision making processes to increase the contribution of business processes (sales, purchasing, NPD) to both innovativeness and NPV. The decision makers responsible for institutions (tender procedures) relevant for buyer-seller relations should include the VP concept into the institutions.

Limitations and future research of the problem

The b2c-supplier-buyer relations have not been studied in the paper and should be investigated in the future research of the problem in question.

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