

# **EVOLVING VALUE PROPOSITIONS IN KNOWLEDGE-INTENSIVE BUSINESS SERVICES**

## **Abstract**

**Purpose** - The purpose of this study is to explore 1) what value dimensions and related value components are highlighted in the value proposition of knowledge-intensive business services, both at the relationship and project levels, 2) how value propositions can differ between new and established customer relationships, and finally 3) what is characteristic to the evolution of value proposition in the knowledge-intensive business service (KIBS) context.

**Design/methodology/approach** - This study utilizes a comparative, qualitative multiple case study method.

**Findings** - Our aim is to offer a comprehensive picture of the variety of value components in KIBS relationships, likewise, how the nature and composition of value proposition changes as a relationship evolves from conducting a single project towards a more established customer relationship. Individual experts seem to possess a crucial role in that development.

**Originality/value** - This study contributes theoretically by providing insights into the current literature on core dimensions and components of value propositions in this specific context, and differences there can be between new and established customer relationships. The study also offers much-needed, context-specific knowledge of knowledge-intensive services for managers. Empirically, these findings reflect the perspectives of both the service provider and four of its customers, ensuring a multi-sided description of the phenomenon.

**Keywords:** Knowledge-intensive business services, project business, business-to-business, customer relationships, value proposition.

## 1. Introduction

In today's business market, an innovative service offering is not enough. The value of a product or service must be crystallized for the customers (Olavarrieta & Friedmann, 2007). Thus, a competitive advantage in a service-based business depends, to a large extent, on its ability to develop a *value proposition* focusing on the customer's value-creation needs (Tokman & Beitelspacher, 2011). That proposition is further tested by its ability to attract targeted customer segments and also by its clarity to guide the service organization in the right direction (Rintamäki et al., 2007). It has been suggested that value propositions should be a fundamental part of an organization's business strategy (Anderson et al., 2006), moving the strategic focus from internal planning to customer experience and value creation. For example, according to Wouters & Kirchberger (2015), the process of crafting a value proposition stimulates an organization to consider their products, services, and technology from the customer's perspective, supporting, representing, learning about, and transforming prevailing knowledge.

The diversity of value propositions increases with a firm's desire for a competitive advantage (Perrey et al., 2004), and the distinctiveness of a value proposition determines whether customers choose to buy or not. In business-to-business (B2B) markets, value propositions can be context- and/or relationship-specific (Ballantyne et al., 2011), and they should reflect the length and history of the relationship between the organization and the customer (Kowalkowski, 2011). Indeed, there is no single picture of B2B relationships; they can vary from simple, standardized and transactional purchasing to close, long-term, collaborative relationships. These established relationships typically involve close interaction, mutual adaptation, dependency, reciprocity and trust (Cannon & Perreault, 1999; Ford et al., 2003) that is not characteristic to new or transactional, more superficial relationships in their early development stage. All these relational characteristics naturally influence the nature of an

attractive value proposition for the customer, and how the value proposition is communicated in general.

Knowledge-intensive business services (KIBS), or professional services, are a type of service that is strongly based on the expertise of the individuals working for the organization (Løwendahl, Revang & Fosstenløykken, 2001; Von Nordenflycht, 2010). The services these firms provide are characteristically complex and customized; thus, intensive interaction with the customer is often required when delivering the service (Dawson, 2000; Malhotra & Morris, 2009), in both established relationships – and also potentially when collaboration first begins. High levels of interaction are needed first and foremost because of the abstract and complex nature of the service in question. For the customer, it might be challenging to form expectations for an upcoming service experience because of the knowledge asymmetry between the parties; indeed, often the customer him/herself is not an expert in the area, but has to rely on a professional at work. This potentially creates implicit or sometimes unrealistic expectations. Furthermore, in addition to a professional's capabilities, the customer possesses an important role in value co-creation; for information on context, their field-specific expertise etc. is a valuable asset in service co-creation (Aarikka-Stenroos & Jaakkola, 2012). However, in this, the challenge lies in customers being often unable to describe their needs and desires (some of which are subconscious and/or still hidden), let alone objectively compare all the competing options (Ojasalo, 2001). Thus, professionals need to 'teach' their customers to see the value they can gain in the long run. In this context, the importance of value propositions becomes highlighted.

As mentioned, in the best case, value propositions can also serve as a company-internal guiding force, developing capabilities to internally coordinate, accumulate, and codify knowledge,

which is crucial in the value co-creation with the customer (Greenwood, Li, Prakash & Deephouse, 2005; Lara, Palacios-Marques & Devece, 2012). For example, in firms offering knowledge-intensive services, it is important to possess the ability to combine a variety of knowledge types into innovative, novel offerings for the customer (Cavusgil et al., 2003; Larsen, 2001; Payne et al., 2008). However, this ability is not necessarily considered a strength, instead more as a typical ‘weak point’ for professional organizations because of the lacking common direction, lacking knowledge codification, and fragmented and individualistic culture characteristic to these organizations (e.g. Kerkhoff et al., 2003; Nätti & Ojasalo, 2008a, b; Nätti & Still, 2007; Von Nordenflycht, 2010). Organization-level knowledge coordination practices may be underdeveloped and hinder efforts to combine a variety of types of expertise into a single offering for the customer (Nätti and Ojasalo, 2008; Larsen 2001). Furthermore, this challenge that knowledge coordination represents may cause fragmented and incomplete services to be delivered to customers (Nätti & Ojasalo, 2008a). Thus, in the optimal case, strong value propositions may serve as an important organizational “schema”, guiding customer cooperation towards the same direction in an otherwise fragmented professional and collegial environment. Indeed, this is one reason why a knowledge-intensive service relationship is a fruitful and interesting context to explore the nature of value propositions.

In recent years, there has been an increasing interest towards conception of value proposition. However, detailed and practical understanding of value propositions seems to be lacking (Truong et al., 2012). This is also true in the field of knowledge-intensive services. Although there are valuable studies of value co-creation and value outcomes in KIBS (e.g., Lapiere, 1997; Aarikka-Stenroos & Jaakkola, 2012; Mustak, 2008), the current literature is scarcely related to how different value elements are stressed in different types of KIBS business-to-business relationships. Thus, a research gap can be found in exploring value propositions in

customer relationships of KIBS firms, and especially what kinds of value propositions firms create (or should create) for their customers, or with their customers at different stages of the relationship. Against this backdrop, this study seeks to contribute to the extant literature by exploring 1) what value dimensions and related value components are highlighted in the value proposition of KIBS firm, both at the relationship and project levels 2) How value propositions can differ between new and established customer relationships, and finally 3) what is characteristic to evolution of value proposition in the KIBS context.

This study proceeds in the following manner. First, we discuss the relevant research on value propositions and customer relationships for knowledge-intensive firms, forming our tentative framework. Next, we explain the research setting and data collection, and likewise define our findings. We then conclude our study with a discussion of the theoretical and managerial implications of this research.

## **2. Varying value propositions in varying customer relationships - literature review**

Today's business market is tough. Customers are becoming increasingly demanding, which means that issues, such as an ability to offer the right resources for the customer, value creation, perceived trust, commitment, and economic satisfaction, become crucial criteria for firm representatives to consider when deciding with whom they want to cooperate in the industrial market. In this environment, the meaning of value proposition is highlighted in initiating new customer relationships, likewise in developing existing ones.

*Nature of value proposition.* A value proposition is a promise of reciprocal value between organizations and their customers (Kowalkowski, 2011; Truong et al., 2012). Because the organization cannot create or deliver value independently (Vargo & Lusch, 2004), it always requires the responsibility of a service system, i.e. collaborating network of suppliers and customers taking on interchangeable, initiating, and participating roles (Truong et al., 2012; Chandler & Lusch, 2015) Thus, the formation of value propositions should not happen in isolation but instead in collaboration, forming value for both the service provider(s) and the customer(s) (e.g., Ballantyne & Varey, 2006; Aarikka-Stenroos & Jaakkola, 2012; Mustak, 2018). In a knowledge-intensive professional environment, this mutuality is even further highlighted, because, as mentioned, in such an ambiguous and abstract environment, value proposition can offer more solid grounds for collaboration, likewise common cognitive schema to guide professionals in their work.

According to Anderson et al. (2006), there are three kinds of value propositions: (1) all benefits, (2) favorable points of difference, and (3) resonating focus. The 'all benefits' proposition lists all benefits the organization *believes* the offering provides, and value propositions are developed without much customer interaction, for example in a new customer relationship

where collaboration is not developed yet. The ‘favourable points of difference’ proposition stresses how value propositions are *distinguished* from others, and thus requires a more profound understanding of the customer value-creation process and related challenges (e.g. Storbacka et al., 2008). The ‘resonating focus’ proposition is often realized in established relationships, since it acknowledges the customer’s desire to do business with organizations who *understand* the critical issues of the customer’s business, and it delivers value propositions that are *distinct* and captivating (Anderson et al., 2006). At this point, and considering the specific knowledge-intensive context of this study, we would assume that the last “type” of value proposition resonates with what we would think is the ideal state in developed professional service relationships.

*Dimensions of value proposition.* Taking another and more-detailed perspective, Rintamäki et al. (2007) identify four key *dimensions of value* in value propositions: economic, functional, emotional, and symbolic. *Economic value propositions* emphasize potential cost savings and price-related issues, for example. *Functional value* propositions are based on, for example, trained personnel, practical know-how, and project management capabilities, to mention a few, that can be beneficial in value formation with the customer. *Emotional value* propositions focus on feelings - like the feeling of safety and security, or perceived trust in the relationships. Mustak (2018, see also Lapierre, 1997) refers in his study of KIBS value outcomes to relational value, which refers to similar value components (named emotional here). Because, in this study, relational vs. episodic (project) aspects are considered, we chose to use “emotional” here to avoid conceptual confusion. Finally, in consumer markets, *symbolic value* propositions can emphasize self-expression through socially interpreted codes; but in industrial markets, they can be seen, for example, as a willingness to cooperate with firms with good credibility and reputations (Lapierre, 1997) or firms using preferred technologies.

It has been proposed that economic and functional value propositions are more likely to represent points of parity, being elements that feature the same performance or functionality as alternatives (e.g., Anderson, 2006), whereas emotional and symbolic value propositions may represent points of difference: elements that can really make the organization's offering superior or inferior to the alternatives, seeking real differentiation from the elementary competition and an aim to gain a more lasting and genuine competitive advantage (Rintamäki et al., 2007).

*Value proposition – reflection of the relationship in question?* According to Patala et al. (2016), close interaction is required to identify the customer's key value creation processes and forming value propositions to represent consistence between supplier and customer. As mentioned, this can be especially the case in knowledge-intensive services, where customer's resources are constantly intertwined with service provider's resources to form services (Bettencourt et al. 2002; Aarikka-Stenroos & Jaakkola, 2012). Naturally, close collaboration and the related availability of their context-specific knowledge favor the development of solutions that better meet their needs. (Falasca et al., 2017; Ballantyne et al., 2011), bridging the cognitive gap and knowledge asymmetry, which often exists between partners in a knowledge-intensive context (Preikschas et al., 2017). Thus, considering this interactive nature of problem solving, it is assumed that value propositions are characteristically co-created, or “co-formed” in the KIBS relationships (Bettencourt et al., 2002; Mustak, 2018). Customers are ‘knowledge carriers’ participating in the reciprocal exchange of knowledge in the proposition formation (e.g., Kowalkowski et al., 2012).

Naturally, and as mentioned, this sharing and integrating of knowledge to form value propositions is facilitated by a long-term cooperation with the customer, suggesting that in established relationships, the process of creating mutual value propositions would be easier. In line with that, Kowalkowski et al. (2012) point out that long-term partners are likely to actively participate in joint innovation and learning activities, whereas short-term customers are less willing to enter into close relationships. In addition, learning outcomes, like better understanding of the strategic environment of the relationship (Mustak, 2018), can be facilitated in an established collaboration. Hence, it can be suggested that the nature of value propositions, likewise how those value propositions are created, reflect the length and history of the customer–firm relationship, as well as the specific context in question, in addition to the nature of the offering at hand.

We recognize that customer work in knowledge-intensive environments often takes the form of projects (Ojansivu et al., 2015). This is especially true for many knowledge-intensive services, also in technical consulting, which is our empirical context. Thus, we chose to analyze our research questions on two levels: 1) customer relationships and 2) projects. When focusing on a single project, temporal focus and limits of service encounters can be defined, since the aims of the project and its management form natural starting and end points for service episodes, which is seen in our empirical material, too. Projects can be seen as sequences in the relationship (see e.g., Holmlund, 2004; Lindgreen et al., 2012), influencing the long-term relationship and its development. Thus, these two levels are intertwined, and there is a constant dynamic between them. With the same customer, there can be many projects going on at the same time, but the business relationship can be seen as the one and only, including these sequences. The business relationship stays even though there are no active projects going on.

From the literature, we found value dimension, such as economic, functional, emotional, and symbolic, divisions (Rintamäki et al., 2007). Those viewpoints are also utilized in our analysis to understand how value propositions are formed in the context of knowledge-intensive business relationships, and what kind of value practical components these dimensions can include (for example, a value component of good project management skills in a functional value dimension). Value components are something we search for and finally were able to categorize to value dimensions to understand the difference between new and established relationships, likewise evolution that can happen. In the following, these main points are gathered in the form of tentative framework.

**---INSERT FIGURE 1 HERE---**

### **3. Methodology**

This study uses a qualitative *case study* method to produce the most comprehensive description of the research phenomenon (Gummesson, 2005; Johnston, Leach & Liu, 1999). Case studies go beyond providing a static snapshot of events and cut across the temporal and contextual reality. Like other qualitative methods, case studies are basically concerned with the researcher's interpretation. We have chosen to apply this method because of the complex nature of the research phenomenon, its need to be studied in a natural context, and the fact that we have little theoretical knowledge of the phenomenon (Bonoma, 1985) which has also led us to the exploratory approach (Yin, 2003). This study investigates projects and relationships among multiple organizations, which are phenomena that especially benefit from a case study as they take place within a very specific KIBS context. As the evolution of the relationship is also scrutinized, it is important to understand the dynamic and temporal dimensions.

As this study is inductive and theory-building in nature, the multiple case study method allows for the cross-case analysis needed considering the aim of the study (Yin, 2003; Perry, 1998). This study is built around cases which, in practical terms, are projects of a knowledge-intensive service provider with four of its customers. These specific customer projects were selected to get a possibility to scrutinize different types of relationships, both new and established (for more detailed information, see table 1), to gain understanding of the nature of value components in different types of relational situations and dynamics between relationship and project levels, likewise evolutionary aspects of value proposition in this specific context. Every project examined (and related customer relationship either in its initial or established phase) is considered as one case. Both service provider and customer perspectives are analyzed within each case.

### **3.1 Data gathering**

The service provider of this study is a global, knowledge-intensive service organization that offers engineering services to business customers. This study employs personal interviews as a primary data source. Altogether, 26 interviews were conducted in Finland, from February to May 2013. The interviews consist of 16 interviews with representatives of the service provider and 10 interviews with representatives of four of its customer firms, which specialize in metal, chemicals, water supply, and security services. Focusing on dyadic view, i.e. interviewing both the service provider representatives and customer representatives allowed us to gain a sufficient data set considering aim of the study. So, wider networked view on how interviewed customers collaborate with their own customers was not in our focus, although most of them were in direct contact with their own clientele.

The interviews were supplemented with multiple other, secondary data sources, such as meetings and workshops (and related memos), internal memos, company web sites and brochures. All these serve as means of triangulation and provide a more in-depth picture of the phenomenon (Bonoma, 1985).

**---INSERT TABLE 1 HERE---**

Research project was conducted in close collaboration with companies, so member checking of data and related findings happened in many occasions. For example, this happened in variety of workshops organized and when final report was written to the service provider in question. For that report representatives of service provider also had possibility to give feedback. All the interviews used in this study were audio taped, as this allowed us to check our notes afterwards. The transcribed interviews include 230 pages of written script. More than one person was interviewed in every organization, which is additional form of triangulation (Perry, 1998).

### **3.2 Data analysis**

Our data analysis logic was abductive in the sense that theoretical understanding and empirical analysis happened simultaneously to find new viewpoints (Dubois & Gadde, 2002). We began the analysis by reading all the transcripts thoroughly to obtain a first impression of the data. Coding of value dimensions (functional, emotional, economical, symbolic) and finding related themes helped us to further categorize concrete value components. After we got a holistic picture of value dimensions and related components, we moved towards trying to understand the evolutionary aspects of relationships by comparing value propositions in different types of relationships, at the project and relational levels. This kind of research setting allowed us to do within-case and cross-case analyses. Above described analysis procedure enabled us to strengthen the chain of evidence in present research. In addition, in the following section defining our findings, quotations from interviews justify conclusions about the differences between cases in the cross-case analysis (Perry, 1998).

#### **4. Forming value propositions in KIBS - analysis of the data**

As mentioned, there was one service provider involved in this study and four of its customers, each relationship representing one of cases of this study. According to the service provider's representatives, general value proposition of this KIBS is based on its ability to provide a wide range of engineering services. In addition, the size of the company and its global operations are emphasized - both in service provider and customer interviews - as one important mean to offer functional value.

'If we think about our strength against competitors, it lies in the fact that we are able to provide the whole scale of services, from evaluation to the implementation phase. That is our strength in a nutshell. And we are a large firm, operating globally.' *Service provider, head of department*

In the following four customer cases are described. Customer case 1 involves a new customer, customer case 2 involves a novel customer with a strictly defined contract (customer from the public sector), and customer cases 3 and 4 involve more-established accounts. These cases are examined to reveal how and why value propositions differ between the different customer relationships, and what kinds of value propositions customers perceive there to be.

##### **4.2 Customer case 1- New customer**

This customer is an SME providing a wide range of security and other support services for industrial companies. The customer is a *new customer* for the service provider. The implemented project concerned the renewal of pumps and the isolation of sanitary water in an industrial area. Customer 1 has a potential to become an established account, because it values having one partner who would be able to co-create value with the customer by delivering a wide range of projects, depending on the customer's needs:

'We have rather thought that we would have one reliable partner with whom to negotiate case by case --- depending on what we want.' *Customer 1, CEO*

For the value proposition of the first project together, the service provider firm relied on *promises to deliver quality and savings*, representing foremost economic value. Additionally,

related to project in question, the seller's value propositions emphasized the *understanding of the special features of the customer's industrial context, like safety issues*, representing functional value. Likewise, the *co-creative process of planning and managing the project* (representing functional value) was brought up in the value proposition in these early stages of the relationship:

'I had good experiences (with the service provider's work) --- their work was accurate, and they questioned and took care of issues.' *Customer 1, CEO*

The price for the service was somewhat higher than those of its competitors, but the proposition included good *references and utilization of existing reputation (representing symbolic and emotional value)*, thus strengthening the trust among customer representatives in the early phase of the collaboration. References created a basis for evolving trust (emotional value) in the situation of still lacking experiences in the collaboration. What is interesting, however, is that those references do not relate to the service provider organization only but are also related to individual experts:

'Often the customer wants references from the key persons on the project – and it might influence their decision.'  
Service provider, water facility engineer

In this case, the following key dimensions were present:

**---INSERT TABLE 2 HERE---**

#### **4.3 Customer case 2 – New customer**

This customer is a public, city-owned organization providing water supply and wastewater drainage and cleaning. The service provider was chosen to be a supplier based on competitive bidding that entered into a longer general agreement. The implemented project, in this case, concerned planning a water supply in a new suburban area.

In this first project for the new customer in question, customer representatives were very happy with the service provider's competence in water supply planning, i.e. their *understanding of the special features of the customer context in question* (representing foremost functional value). This capability played an important role in the value proposition formation. According to the customer, in practice, this competence is realized in constant, *everyday co-creation of quick solutions* with the customer:

*'Along the way, there are many small issues where we need to say that we cannot do that in a certain way. And then it is done in a different way. And we need to make such decisions in the field; we don't have time to call the project designer to take a look and start making changes. We need to take care of it instantly by the professionals on the field.'* Customer 2, head of organization

*Contracts clarifying service components* were issues that increased the customer's sense of safety (representing emotional value), which is quite understandable in the knowledge-intensive environment, where the service package is not necessarily easily defined considering the abstract nature of the services.

The customer also acknowledged that the quality of the service provider's work and related intensive co-operation is highly evaluated, likewise trustworthiness, all being more important than the prices:

*'Everyone has the same price level, but the costs do not come from the prices, they come from the hours worked.'* Customer 2, CEO

A smoothly running IT (functional value) and the fact that the service provider was able to co-operate well in *planning and managing the project* create functional value to the customer in question:

*'If co-operation works and their IT enables a smooth operation, it goes well, and also if we get the most competent people working on our project.'* Customer 2, head of organization

Further related to projects, what seems to be important for the customer relates to delivering quickly when needed, minimizing mistakes, and sometimes even compromising or "stretching" the organization for better performance to ensure customer satisfaction:

*'If you have a good customer relationship, and you have done your work well, the message spreads in the customer organization --- When we operate in the industrial sector, there comes a need and it means that we quickly need to deliver what the customer wants. We cannot say "let's see if we have the resources". Usually, we always say,*

“Yes, we have the resources; let’s see how we can arrange it.” If the customer has an urgent need, it means that it is a serious need, and we need to be able to make it happen.’ *Service provider, head of department*

As we can see from the end of the previous quotes, again, *meaning of individual experts* is recognized as an important value component, also in the early stage of collaboration. References are evaluated mostly at the individual level, although the service provider’s organization should be in order as well:

“ ... Which consults are best for us based on their earlier references, that counts” *Customer 2, Engineer*

**---INSERT TABLE 3 HERE---**

#### **4.4 Customer case 3 - Established customer**

This customer is an *established, large account* of the service provider and operates in the chemical industry. The implemented project concerned the modernization of a dam utilizing pre-made concrete elements. The project was demanding and expensive, however, the service provider succeeded in staying on schedule and even undercutting the budget.

In this relationship, the service provider acknowledged its inability to compete with the prices of its competitors. Thus, professionals tried to genuinely understand the value creation of its customer and create functioning interaction. The related value proposition promises value to the customer’s business based on that understanding, representing functional value and (thus) further strengthening perceived trust and perceived emotional value. In this kind of established relationship, it is not about discussing projects only, but seeing the bigger, long-term picture of the collaborative relationship itself:

‘I think it is important to have a meeting once or twice a year and go through what has happened and what is coming. --- Reciprocal interaction is crucial also in that way.’ *Customer 3, development manager*

The customer emphasized the seller's ability to create economic value in the form of constant savings. In addition, the seller's capability to create alternative solutions (based on an understanding of the customer's specific context and characteristics) created functional value, something "that was worth paying for":

*'The service provider should provide something that would convince us that if we pay 10 euros, we save 20 euros from somewhere else.'* Customer 3, development manager

This is also recognized at service provider side: a high level of *trust is created, first, when customers are constantly satisfied with the conducted projects:*

*'I believe that we have kept our head above water since we have anticipated issues and we have done our work well. Or is it a coincidence that we have had projects? It is not a coincidence; it is planned and systematic selling which we have prepared for.'* Service provider, head of unit

Again, the importance of individual professionals was raised. If, in the preliminary phases of the relationship, organizational and individual experts' references play a role, here in established relationships, trust is based on existing contacts with experts (creating emotional value in the form of trust):

*'A sense of safety and security comes from the fact that we use people we know. There is no point to start trying (new people) for fun and then find out that something went wrong. This is pretty dangerous business if you don't do it properly.'* Customer 3, development manager

The meaning of individuals and "personification" of knowledge-intensive services was recognized also at service provider side:

*'In professional work, when there is trust, it is very easy to do business; it all comes down to relationships. --- You have to know how to influence people's decisions and recognize how they perceive their needs and know how they think.'* Service provider, head of unit

Related to the project episodes in the relationship, the seller's strong project know-how, including the capability of selecting other contributing network actors, good pre-planning, anticipation of risks, planning and monitoring of the implementation of the project, and the ability to stay on schedule, were all highly appreciated by this customer, creating functional and also emotional value (in the form of a feeling of safety). Also, the customer viewed active

communication within the network being valuable, likewise, creating functional and emotional value.

Economic value was not highlighted, but it is evident that this aspect is implicitly involved in all the other aspects represented, especially in functional value. In the well-functioning relationship, it is easy to collaborate and also save money:

*'It was easy to work with the contractor and vice versa, when we both knew each other- There was no tension, and in such a short time, we cannot build a relationship. We need to have a good relationship from the start.'*  
Service provider, head of the region

**---INSERT TABLE 4 HERE---**

#### **4.5 Customer case 4 - Established customer**

This customer is a large metal manufacturer and *an established account* of the service provider. The implemented projects concerned the construction of large underground warehouse facilities in a mine and building a warehouse for rubble, and a crushing plant in a mine. Both projects were awarded as a result of tenders, but the customer was influenced by the fact that the service provider was familiar with the site and that they had a long-term relationship with the customer. The customer highlighted the seller's competitive price level creating economic value.

*'In principle, the project came through tenders. In this case, we recognized that there was no need for tenders, because there were no similar service providers available. In addition, the service provider's price level was normal, so there was no need to consume time for tenders in the beginning of this project.'* Customer 4, head of department

This customer appreciated the context and customer-specific expertise of the seller (functional value) as well as the commitment they had shown (emotional value). Again, like in earlier cases, in the value proposition formation, the meaning of committed and trustworthy experts was emphasized, trusting that they will manage projects successfully according to the needs and wishes of the customers.

'The service provider has nice, co-operative, and professional personnel. --- I think it was a personal-level issue and we had the enthusiasm to do the project.' *Customer 4, manager*

This customer was very satisfied with the success of the project, which was based on active communication. All in all, the customer felt that in the collaboration, good project management capabilities were in place, generating foremost functional value. For example, there were regular meetings organized by the service provider:

*'Co-operation, technical successes, and meetings at the site with all the documents ensured success.'* *Customer 4, head of department*

For this specific customer, the possibility to optimize the usage of their own resources with the help of collaboration was important and created economic and functional value.

*'Our goal is to get experience from this kind of co-operation and purchase this kind of service outside our organization to optimize our own usage of resources.'* *Customer 4, head of department*

**---INSERT TABLE 5 HERE---**

#### **4.6. Gathering from empirical findings**

In the following Figure, the findings from these four cases are combined to form a holistic illustration of 1) different elements of value proposition in 2) new and established relationships, 3) at relationship and project levels, and 4) how those elements relate to different value dimensions (functional, economical, emotional, and symbolic).

**---INSERT FIGURE 2 HERE---**

Based on the cases, it is not easy to choose to which value dimension each component of value proposition would go. Dimensions are overlapping and one component can represent different dimensions (for example, functional value often represents economic value). Thus, researchers have used their own judgment when choosing "a class" for each pragmatic example.

Indeed, it is interesting to analyse why functional value dimension is so well-represented in these KIBS cases, although this “over-representation” is also in line with earlier studies (e.g., Aarikka-Stenroos and Jaakkola, 2012; Mustak, 2018). This becomes understandable when we think of the context in question: Technical professional service. In this specific context, also economic value is often bound to functional value, not to discounts or alike. This is because in the core of professional service, there is the idea of functionality bringing the savings in the relationship in the long run. For example, in projects minimizing mistakes is bound to idea of savings, similarly, ability to stay in schedule. From the functionality point of view it is quite easy to find value components, because there are so many important perspectives on functionality in this context, especially related to conducting project management, which is in the core of creating services. Emotional value is strong, too, but it is realized in fewer components, like in importance of known and trusted expert contacts.

As mentioned and defined in the earlier theoretical section, Anderson et al. (2006) defined three kinds of general approaches for value propositions: (1) all benefits, (2) favorable points of difference, and (3) resonating focus. In the data, we can see how, in knowledge-intensive business, value propositions characteristically focus on interplay (along the development of the relationship) between favorable points of difference and resonating focus. All benefits are out of our focus, since this type of proposition formation does not suit to this kind of environment of tailoring customer specific solutions and case companies in question seemed to be well aware of that.

At the relationship level, when collaboration starts, the focus seems to be on forming service-provider-initiated propositions and the focus is on a functional and economic value proposition dimension. Emotional aspects are seen in initial aims to form elementary trust in the

relationship. In this context, there organizational references, and also references of single experts, play a significant role, likewise the existing good reputation of a service provider. However, at its best it is “only” about favorable points of difference. What does it then mean if we suggest that value proposition formation moves towards resonating focus as the business relationship develops? For example, this means an evolution towards focus on the emotional value in the form of reciprocity of interactions and value creation (for example, it is not about “delivering” the project anymore, but about conducting it together). Another interesting viewpoint is even more highlighted, the meaning of individual experts and how much emphasis the customer puts on these known expert contacts in value propositions. This is in line with known fact (e.g., Bolton et al., 2003) that personal relationships are important in industrial markets. In KIBS context this importance seems to be further highlighted, because abstract nature of services in question makes customers even more reliant on professionals. However, although these emotional aspects of value propositions are becoming more and more important as relationship develops, economic value is not without its meaning; also, in the long-term collaboration, constant savings and a competitive price level are noticed with a high priority, although they are not in the front, in a dominating role anymore, but seen as a natural consequence of functioning collaboration, intertwined with functional value components.

When looking at value components in established relationships, the service provider’s developed role in the customer’s value creation can be seen in value propositions in many ways. Understanding the customer’s unique context is important, both in early and later stages of the relationship. But emphasizing very functional issues, like “smooth IT supporting the project,” “contracts clarifying service components involved,” “delivering/reacting quickly when needed,” “minimizing mistakes” are, in a developed relationship, replaced with notions of “project know-how,” “capability to choose other network actors for projects,” “capability to

plan and monitor the project,” “active communication throughout the project,” “anticipation of risks”. All of these seem to reflect the increasing role of the service provider in the customer’s processes, likewise increasing responsibility the customer is ready to give to the expert service provider. All this is collaboratively coordinated and an emphasis on reciprocal interaction, value creation, capability to create alternative solutions, individual-embeddedness (all mentioned being relationship-level value components) reflect the deepening relationship between parties, movement towards value proposition co-creation. Indeed, in addition to evolving from emphasizing favorable points of difference towards resonating focus, value propositions in developed relationships are based more on interaction and proposition co-formation than on being created and delivered by the service provider and then “handed in” to the customer.

## 5. Conclusions

In the present study, our contribution lies mainly in defining the elements of value proposition in knowledge-intensive business services, in new relationships compared to established ones. In addition, we managed to make a division between project-related components of value proposition and more relationally focused elements. Consequently, evolution of value propositions can be defined as follows.

**---INSERT FIGURE 3 HERE---**

When looking at components highlighted in value propositions, it is easy to see that in new relationships project-focused, short term needs and demands are emphasized. At its best, it is about favorable points of difference, mostly functional and economical issues. Value proposition is not “negotiated” or co-created with the customer, but it is more about service provider “handing out” their value proposition for the customer, defining basic characteristics of organization and its service offerings. This is needed to offer customer a feeling of safety needed with the new knowledge-intensive service provider, in the situation where their abstract professional services are not known yet by the customer. Organizational and individual references further facilitates this preliminary trust and feeling of safety. Project-related components hold at this stage a remarkable role, highlighting what can be promised in the first project, value proposition focusing on what can be understood being important procedures and principles of conducting the project in question. Thus, long-term relational perspective is still missing. This notion challenge the idea that value proposition would be always co-created. For the co-creation, in this specific context of knowledge asymmetry between actors, more developed relationship is needed.

As the relationship evolves, the nature of the value components changes. It becomes more about interactive composition of value propositions, “reciprocity” recognized on both sides of

the relationship, and is even more strongly embeddedness of single experts. From the single project conduction, the emphasis in the relationship moves to constant value creation logic, where relational engagement (e.g., Chandler and Lusch, 2015) to single experts seem to hold a crucial role and these relationships also become a scene for value and value proposition co-creation. In established relationships, value proposition related to single projects gets yet another tone: the service provider's genuine responsibility to conduct the project "on behalf" of the customer is emphasized. It is not about being a project subcontractor anymore (from whom "quick reactions," "minimizing mistakes," or "compromising when needed" are expected), but value proposition is gathered around the idea of the service provider being responsible for constant value creation for the customer. In line with that, along the relationship development, the border between single projects and the long-term relationship itself becomes very blurred. Nature of value proposition is more fluid and under constant negotiation, not a narrow representation of service provider's core competence only.

Indeed, what is interesting and very specific in the knowledge-intensive context is the crucial role of individual experts, and how those experts seem to influence the evolution of the relationship, thus, also, how the nature and components of value proposition evolve. Right from the start, a value proposition that would be persuasive for customers (in this specific knowledge-intensive context) relies on good organizational references and also on references of individual experts. Later on (in established relationships), the commitment to certain known experts can be seen, and that seems to be an overriding force in the relationship development, perceived trust and value proposition co-creation.

Another specific aspect, also understandable considering the knowledge-intensive B-to-B context, is the role of symbolic components of value proposition. That stays very implicit. At

its best, symbolic value can be seen in choosing partners, or in the early stages of the relationship when relying on company reputation or references. Working with a distinguished service provider can potentially offer some sort of symbolic value for customers, however, in this research, this was not emphasized.

### **5.1. Managerial implications**

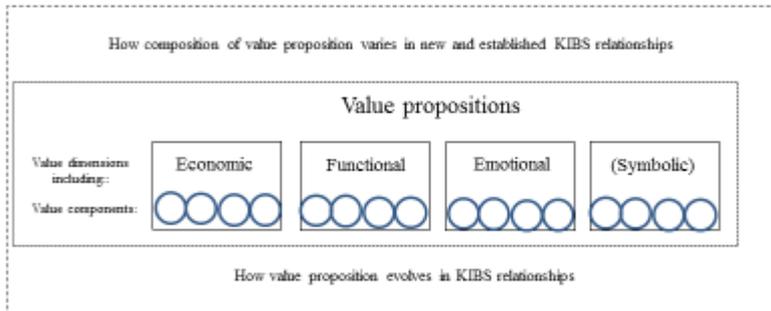
Our study shows that for managers in knowledge-intensive businesses, understanding the state of the customer relationship and how it influences the composition of value proposition, likewise its communication, is crucial. We suggest that the role of the individual experts is remarkable in the evolution of customer relationships in this context. How can managers in companies tackle prevalent challenges and risks following from that? When customer relationships are highly “personified,” as it seems in this environment, how is organizational customer “capital” maintained and developed? This is a dilemma for from the value-proposition development perspective. Expert-embeddedness of knowledge-intensive services has many implications that should be noticed managerially.

As we saw from the research, and not surprisingly, in established accounts, emotional value played a central role in value propositions whereas in early stages functional value intertwined with economic value got a bigger role. It is interesting, however, that in addition to emphasizing emotional values, the long-term accounts also appreciated functional and economic value. Managerially, this means that organizations cannot rely simply on trust and the feeling of safety in long-term customer relationships; they need to work to win projects, maintain constant savings for their customers, and maintain a competitive price level to ensure the continuity of their businesses. For example, in practice, value propositions targeted at long-term accounts should emphasize that the price level is normal compared to the competitors’ price levels. For

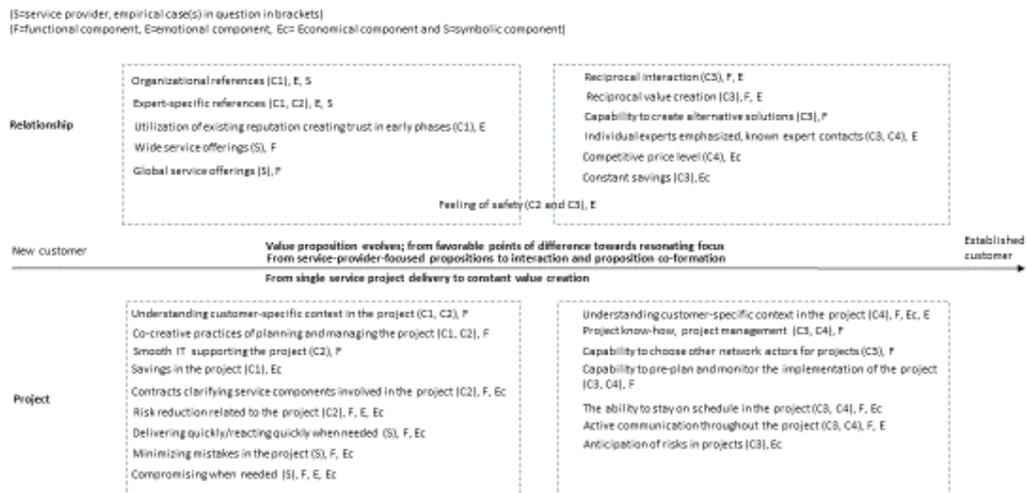
example, the service provider should not be the cheapest, but the price level should not be too far from competing companies to be arguable in customer organization, although the relationship is already strong.

## **5.2. Limitations and future research avenues**

As in all research, there are limitations to this study. Its findings might not be generalizable beyond knowledge-intensive service firms considering their varied knowledge-bases, and the single-country location of the data set might further limit generalization. In addition, it is noteworthy that this research was conducted in a certain type of KIBS, which do not necessarily represent all KIBS organizations: technical professional services. Results from more creative environment (like advertising agency's projects), for example, might be quite different considering contextual differences (see e.g., Malhotra & Morris, 2009). Nevertheless, the findings of this study clearly show that firms should emphasize different value dimensions in their value propositions targeted at different customer segments to improve their chances of survival in competitive B-to-B environments. Since there has been very little research on value propositions in the field of industrial marketing (Ballantyne et al., 2011), and the current literature is scarcely related to how different value elements are stressed in different types of B-to-B relationships, more research is definitely warranted on the area. In addition, network level view on value propositions of knowledge-intensive service systems or even ecosystems (e.g., Frow et al., 2014; Chandler & Lusch, 2015) is scarce in present research, including this one, forming one more interesting avenue for future research.



**Figure 1. Tentative framework of the study**



**Figure 2. Empirical findings: Components of value proposition at relationship and project levels, in new and established customer relationships**

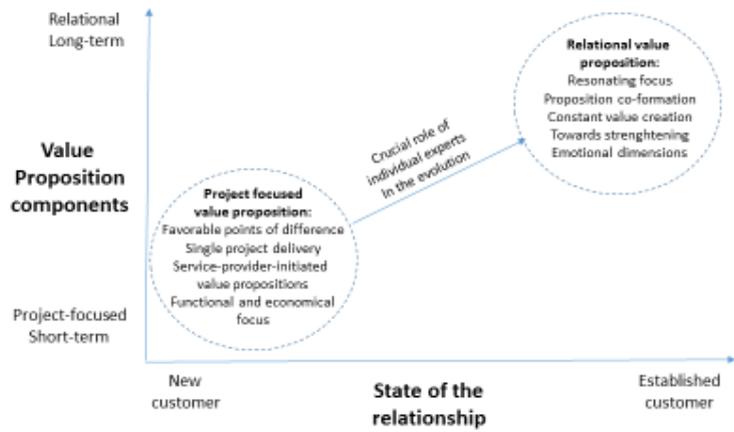


Figure 3. Evolution from project-focused value proposition towards relational



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