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Initiation of buyer–seller relationships: The impact of intangibility, trust and mitigation strategies

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ABSTRACT

The importance of collaborative buyer–seller relationships has increased with the transition from product sales to solution provision. However, the extant literature provides only limited evidence on how this transition affects the crucial phase of buyer–seller relationship initiation. This study explores how offer intangibility and the buyer's trust in the seller interact to affect this initiation. Based on a comparative case study of four software solution providers, the findings indicate that the riskiness of an offer, induced by its intangibility, sets a threshold level of trust that needs to be exceeded to cause the buyer to start a relationship with the seller. The data also reveals mitigation strategies that sellers can use to influence the buyer's behavior either by directly reducing the intangibility of the offer or by indirectly enhancing the buyer's trust in the seller.

1. Introduction

Many firms in industrial goods markets today offer *solutions* – integrated bundles of products and services – instead of standalone products (Davies, 2004; Jacob & Ulaga, 2008; Oliva & Kallenberg, 2003). Due to the solutions' inherent complexity, long life cycles, and economical importance, the transition from product to solution sales has resulted in a fundamental shift from transactional to collaborative buyer–seller relationships (Penttinen & Palmer, 2007; Sheth & Shah, 2003; Spekman & Carraway, 2006). As indicated by the service-dominant logic of marketing, successful co-production of value in solutions markets requires a long-term relationship between the buyer and the seller (Vargo & Lusch, 2004a, 2008).

However, this transition presents challenges for both buyers and sellers, who have traditionally engaged in transactional product sales (Spekman & Carraway, 2006), as the complexity of solutions makes ex ante contracting between the parties difficult (Williamson, 1979). In parallel, the benefits of solutions, similar to services, are difficult to assess prior to purchase (Jackson, Neidell, & Lunsford, 1995). In particular, these characteristics affect the initiation of new buyer–seller relationships, as information on the solution and the seller is limited prior to relationship initiation. The buyer is thus often forced to rely on an intuitive assessment of the offer and trust in the seller to deliver the promised outcomes.

This study seeks to understand how buyer–seller relationships are initiated in solution markets. As noted by Edvardsson, Holmlund, and Strandvik (2008), only limited research exists on relationship initiation. Although buyer–seller relationships have been studied extensively (Cannon & Perreault, 1999; Doney & Cannon, 1997; Dwyer, Schurr, & Oh, 1987; Ganesan, 1994; Heide & Miner, 1992; Morgan & Hunt, 1994; Wilson, 1995), this literature has three key limitations. First, the impact of the offer characteristics has been ignored. However, as argued by Sheth and Shah (2003), the buyer's preference between transactional and collaborative relationships depends on the nature of the purchase. Similarly, Cannon and Perreault (1999) find that the complexity and importance of the offer affect the nature of buyer–seller relationships. To transcend the traditional product-service dichotomy, this study uses the extended concept of *intangibility* as proposed by Laroche, Bergeron, and Goutaland (2001) to characterize the solution offer.

Second, the extant research provides no conclusive evidence on how relationship factors, such as commitment (Morgan & Hunt, 1994), trust (Doney & Cannon, 1997; Ganesan, 1994; Moorman, Zaltman, & Deshpande, 1992), and resource dependence (Anderson & Narus, 1990; Dwyer et al., 1987) are causally related. For example, *trust*, a central construct in the literature (e.g., Ganesan, 1994; Moorman et al., 1992; Morgan & Hunt, 1994), has been conceptualized as both an antecedent and a consequence of other relationship factors.

Third, much of the literature has disregarded the potential impact of the relationship lifecycle on the above factors (cf. Doney & Cannon, 1997; Ganesan, 1994). As suggested by Wilson (1995) and tested empirically by multiple authors (Claycomb & Frankwick, 2010; Jap & Ganesan, 2000), the impact of trust and other factors varies over the relationship's lifecycle.

Due to these limitations, this study adopts an inductive approach and uses case study methodology to study the initiation of buyer–seller relationships in solution markets. The study seeks to answer the

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following research questions: 1) how does offer intangibility and interorganizational trust interact to influence relationship initiation? and 2) what strategies can sellers use to mitigate the effects of intangibility?

This study contributes to the literature on buyer–seller relationships in four ways. First, the study improves our understanding of buyer–seller relationships in solution markets. Second, the use of the intangibility construct expands the analysis beyond goods-based offers. Third, the study yields additional insight into how offer characteristics and trust are causally related. Finally, this study provides additional evidence on the relative importance of these factors during the initiation of the buyer–seller relationship.

2. Literature review

2.1. Buyer–seller relationship initiation

The development and importance of buyer–seller relationships have been studied extensively in the marketing literature. The extant research has identified a number of factors that affect the relationship (Wilson, 1995), how these factors affect the choice of relationship type (Cannon & Perreault, 1999; Sheth & Shah, 2003) and the long-term orientation of the relationship (Ganesan, 1994), and the typical lifecycle of a relationship (Dwyer et al., 1987; Wilson, 1995). Similar and complementary research on organizational buying has explored factors that affect the short-term transactional decision to buy a supplier's offer (Johnston & Lewin, 1996; Kauffman, 1996; Sheth, 1996).

The initiation phase of a buyer–seller relationship, corresponding to the awareness and exploration phases proposed by Dwyer et al. (1987), and the partner selection and purpose definition phases as defined by Wilson (1995), is crucial for the development of a long-term relationship. During relationship initiation, the potential buyer and seller engage in early interaction and consider the possibility of an exchange by weighing the potential benefits, costs and obligations entailed in the relationship. The phase ends when the partners have established an initial relationship, including settling on the tentative norms and expectations of the relationship.

Most of the conducted research has explored the organizational and environmental factors that affect the development of buyer–seller relationships. As listed by Wilson (1995), these factors include seller reputation, trust, power and interdependence, social bonds, mutual goals and performance satisfaction. Further factors include commitment (Morgan & Hunt, 1994) and communication (Duncan & Moriarty, 1998). However, as indicated by Wilson (1995), factors that develop over time, such as investments, adaptations or commitment, cannot influence relationship initiation. Instead, factors such as reputation, trust, social bonds, power and mutual goals are important during relationship initiation. Therefore, this study concentrates on trust as a potential explanatory factor for relationship initiation. However, it is not immediately clear how other factors affect relationship initiation.

Unlike the literature on organizational buying (Johnston & Lewin, 1996), research on buyer–seller relationships has largely disregarded the impact of the offer (Sheth & Shah, 2003). However, as indicated by recent research on solutions, offer characteristics clearly have an impact on the nature of these relationships (Penttinen & Palmer, 2007; Spekman & Carraway, 2006). As solutions differ significantly in many ways from traditional manufactured products (Sawhney, 2006), there is a need to understand how offer characteristics affect relationship initiation.

Beyond the contributions of the IMP school (Ford & Håkansson, 2006), only limited empirical evidence exists on how relationships actually evolve over time (Edvardsson et al., 2008; Narayandas & Rangan, 2004). Much of the extant research on the effects of the relationship variables has ignored the relationship lifecycle (cf. Doney & Cannon, 1997; Ganesan, 1994). As suggested by Wilson (1995) and demonstrated by Jap and Ganesan (2000) and Claycomb and Frankwick (2010), these effects depend on the relationship phase.

Furthermore, there is some confusion about how the relationship factors are causally related. For example, trust has been characterized as both an antecedent (Ganesan, 1994; Moorman et al., 1992) and consequence of other factors (Doney & Cannon, 1997; Moorman, Deshpande, & Zaltman, 1993). More recently, Claycomb and Frankwick (2010) explored how seller reputation moderates the impact of communication quality and conflict resolution on buyer uncertainty. In contrast, Whipple, Lynch, and Nyaga (2010) tested the impact of a wide range of factors on relationship performance and satisfaction without specifying the causal relationships between these factors. In summary, there is little consensus on how buyer–seller relationship factors are causally related.

2.2. Offer intangibility

Given the increasing popularity of solutions that consist of both goods and services (Jacob & Ulaga, 2008; Oliva & Kallenberg, 2003), the traditional definition of industrial products fails to adequately characterize the entire offer. Furthermore, as proposed by the service-dominant logic of marketing, all offers can be considered to provide service to the customer (Vargo & Lusch, 2004a, 2008), creating a need for a holistic definition that applies to a wider range of offers.

Intangibility has been used in the service marketing literature to describe that services “cannot be seen, felt, tasted, or touched in the same manner in which goods can be sensed” (Zeithaml, Parasuraman, & Berry, 1985, p. 33). Intangibility implies that it is difficult to obtain information about an offer, in particular about its value, prior to purchase and use. The notion of intangibility has been most commonly used in relation to consumer markets (Bebko, 2000; Levitt, 1981); less is known about how intangibility affects purchasing in industrial markets. However, recent research has suggested that intangibility is not limited to services, but can be applied to any type of offer (Lovelock & Gummesson, 2004; Vargo & Lusch, 2004b). Hence, the generalized concept of intangibility as proposed by Laroche et al. (2001) and Laroche, McDougall, Bergeron, and Yang (2004) that transcends the good-service dichotomy is used to characterize solution offers. This generalized concept has three components: *physical intangibility*, *mental intangibility* and *generality*.

Physical intangibility refers to the impossibility of receiving information about the offer through human senses and is what service marketing has traditionally considered “intangible” (Zeithaml et al., 1985). Mental intangibility refers to how easily the offer can be cognitively understood by customers and is a function of the complexity and novelty of the offer. This indicates that physical tangibility does not always ensure a mentally tangible representation of an object (Laroche et al., 2001). For example, a new product based on a novel technology is likely to have high mental intangibility because a customer has little prior knowledge about the product, its use and potential benefits. The generality dimension refers to how general or specific an offer is perceived by a customer. An offer is considered general if customers cannot recall precisely its identifiable definitions, features and/or outcomes (Laroche et al., 2001). In contrast, an offer has low generality if customers can specify in detail its features and outcomes. For example, an offer may be considered general if it has no clear purpose and can be applied in many contexts.

As indicated by Laroche et al. (2004), offer intangibility increases the riskiness of the offer as perceived by the buyer, as the buyer cannot be sure that the solution will deliver the promised value prior to its purchase and use. Because a priori information about the performance of the offer is limited, the decision to purchase the offer and initiate a relationship with the seller inescapably becomes a risky one. Intangibility thus requires the buyer to *trust* the solution seller (Doney & Cannon, 1997; Gao, Sirgy, & Bird, 2005; Johnston & Lewin, 1996).

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