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Edvardsson, B, Holmlund, M & Strandvik, T 2008, 'Initiation of business relationships in service-dominant settings' *Industrial Marketing Management* , vol 37, no. 3, pp. 339-350.

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INITIATION OF BUSINESS RELATIONSHIPS IN SERVICE-DOMINANT SETTINGS

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Abstract

Industrial companies today are becoming increasingly service-oriented and therefore need to shift from selling hardware to valuing services and managing customer relationships. A new and particularly significant challenge for these companies is how to initiate relationships which is an issue that has received surprisingly limited scientific attention. The aim of this study is to develop a conceptualization that explores the dynamics in the relationship initiation process in service-dominant settings. Narratives from three sellers of professional services, augmented with narratives from a buyer's view, form the empirical basis of the study. The dynamics in the relationship initiation process are clarified with three new concepts: status, converter, and inhibitor. The paper concludes with implications of the new conceptualization and suggestions for future research.

Key words: business relationship, relationship initiation process, status, converter, inhibitor, business-to-business professional services, executive education, narratives

INTRODUCTION

Manufacturing companies adopting service logic will increasingly provide not only services as part of their total product-based offerings but also service concepts as the basis for their business. Therefore with new competitors and changing customer strategies, industrial companies will need to understand how to manage co-creation of their offerings together with buyers and to restructure their existing buyer relationships. Some studies have shown [e.g., Neu and Brown, 2005; Oliva and Kallenberg, 2003] that industrial companies in this transformation are met with new situations resembling those of current service companies that provide complex professional services such as executive education and management consulting. “In manufacturing firms, services are often thought of as add-ons, and initial services (installation, commissioning, etc.) are frequently ‘given away’ during the negotiations to sell the product. At the core of this cultural transformation, then, the manufacturing firm must learn to value services and how to sell, deliver and bill them.” [Oliva and Kallenberg, 2003, p. 166] There is thus a need for industrial companies to understand how they as sellers can initiate new relationships or transform current relationships when hardware is no longer the key value-creating factor.

Relationship marketing and management research is mainly devoted to how relationships are maintained and developed [e.g., Grönroos, 1994; Håkansson, 1982; Ford et al., 1998; Gummesson, 2002]. There is some interest in how relationships fade and end. Surprisingly, little explicit attention from empirical studies is given to how business relationships come about or start. Still, from the sellers’ point of view, the ability to initiate new business relationships is crucial for business growth and survival. Morgan and Hunt [1994] stress the need for studies on the mechanisms determining the *establishment*, development, and maintenance of successful relational

exchanges. During the last decade, however, little scholarly research has explicitly focused on mechanisms in the initiation of business relationships. Time is ripe for studies on how relationships come about.

The key account management literature assumes that systematic analysis, planning, offering development, and sales performance will result in closing new business agreements [e.g., Millman and Wilson, 1996; Homburg et al., 2002]. Moncrief and Marshall [2005] synthesize studies on selling and present a model on relationship-oriented sales processes. Their model depicts various factors needed for relationship-oriented selling such as databases and problem solving, although not from a process or relationship initiation perspective. IMP-related research which has a less managerial-oriented approach has generated considerable insights concerning ongoing relationships but given scarce consideration to how relationships start or end. These studies view relationship development in terms of changes in experience, uncertainty, distance, commitment, and adjustment between two companies. They also emphasize the importance of social contacts among people while recognizing the role of chance in how relationships develop [Ford, 1980; Ford and Rosson, 1982; Dibben and Harris, 2001; Halinen and Salmi, 2001; Agndahl, 2005; Holmen et al., 2005]. The actual process that starts the relationship has not received explicit attention.

The paucity of previous interest together with the significance of the initial phase for what kind of relationships develop, justifies more research attention into why and how relationships come about. *The aim of this study is to develop a conceptualization of the dynamics in the relationship initiation process of business relationships in service-dominant settings.* In this paper, we will develop a new and tentative

conceptualization based on empirical findings from a professional service context. We focus on the dynamics in relationship initiation that starts when the companies in a potential relationship recognize each other and ideally ends when a business agreement is reached. The agreement denotes the end of the initiation process and the start of the business relationship. Our study focuses on competitive situations and primarily takes the seller's point of view.

The research approach is abductive in that we describe and analyze the initiation process by combining theoretical and empirical insights as close to real-life business relationships as possible [Pettigrew, 1997; Dubois and Gadde, 2002; Kovács and Spens, 2005]. Narratives from several professional business-to-business companies are used to develop and illustrate the conceptualization. We will specifically employ empirical insights from executive education services and management consulting services, but the interest is not on these as such but on relationship initiation in service-dominant settings.

Relationship initiation in service-dominant settings with a focus on professional services

“Transitioning from product manufacturer into service provider constitutes a major managerial challenge. Providing services require organizational principles, structures and processes new to the product manufacturer as well as a change in business models from transaction- to relationship-based.” [Oliva and Kallenberg, 2003, p. 161] We argue that manufacturing companies can learn from service companies, especially companies providing business-to-business professional services such as education, consulting, legal, health, advertising, marketing research, financial, and accounting services. Lian and Laing [2006, p. 3] argue that the nature of these services “leads to

the interaction being more relational in nature.” Professional services like executive education and consulting services which are used to develop the conceptualization in this study often result in project-type assignments. Halinen and Tähtinen [2002] label relationships which are established for a certain purpose or time period as episodic business relationships. Over time, however, the parties may engage in new mutual projects which mean repeatedly active episodic business relationships with potential intervals of no business. Manufacturing companies, especially those transforming into a service-based way of doing business, are often forced to operate in a project dominated manner as buyers increasingly tend to periodically re-evaluate their supplier contracts and ask for tenders, e.g., in line with buying policies or in order to reduce costs.

Since services are intangible and not easy to assess before purchasing the service, there is a need to tangibilize and create ways of ‘test-driving the service’ [Edvardsson et al., 2005]. Management consulting and executive education services are characterized by a high degree of intangibility and non-standardization, and they involve a high degree of interaction between the supplier organization and the purchaser. These services have strong credence qualities [Darby and Karni, 1973]. Professional services generally lack ‘search properties’, i.e., attributes that a client can verify. Surrogate indicators therefore must be used. Such indicators emanate from factual information about a provider or from vicarious experience. However imperfect, past performance is usually used as the predictor of future performance [Day and Barksdale, 1994, p. 47].

The similarities between professional business-to-business companies and transforming manufacturing companies are several. First, in both company settings

there is an increasing need to start viewing business in terms of initiating and managing relationships instead of selling and developing products and services. Second, many taken for granted selling techniques are not particularly sufficient or even helpful when the aim is to initiate relationships, since, together with the need for structural changes, the significance of social aspects, paying attention to details, listening to the buyer and his needs are highlighted. Third, intangible service elements constitute the core business for both company types and they operate in a project-dominated business world. Fourth, both deal with many different buyer situations, ranging from completely new buyer candidates to long-term buyers with whom the business is changing and typically becoming more competitive and challenging. Fifth, doing business without a time frame is becoming more of an exception than a rule even in the manufacturing companies as more and more buyers tend to have new purchasing policies demanding or allowing them to ask for and compare competing project offers on a regular basis. Also current sellers will need to cope and compete in this situation where the business does not automatically continue.

The rest of the article is structured in the following way. First literature in the marketing discipline is reviewed in order to describe and analyze what is known about how relationships come about. Thereafter the new conceptualization of the initiation process is developed and presented together with empirical illustrations. The paper concludes with research contributions and suggestions for future research.

A REVIEW OF THE LITERATURE

The start of business-to-business relationships has been denoted with many different concepts. In chronological order, some of these are as follows: pre-relationship state [Ford, 1980], initiation process [Frazier, 1983], new [Ford and Rosson, 1982], need

complementarity [Wilson and Mummalaneni, 1986], awareness [Dwyer et al., 1987], interest stage [Frazier et al., 1988], negotiation stage [Ring and Van de Ven, 1994], partner search and selection [Wilson, 1995], searching processes [Batonda and Perry, 2003], and pre-engagement [Leonidou, 2003]. Ford [1980] and Dwyer et al., [1987] are the most quoted and utilized by scholars.

In the purchasing literature, the initiation of a business relationship is typically depicted as a purchasing process model with a number of stages. Day and Barksdale [1994], for example, suggest a set of stages when analyzing the process of selecting providers of professional services: recognizing need or problem, defining purchase goals, identifying ‘the initial consideration set,’ refining the consideration set, and evaluating the consideration set before selection.

Regarding the combination of selling and relationships, Hedaa [1996, p. 509] suggests, based on a literature review, that selling can be described as a process with the following sub-processes: (a) pre-call planning, (b) getting into contact with prospects, (c) presenting the product or service, (d) persuasion and overcoming objections, (e) closing sales, and (f) following up. He uses 150 critical incidents in sales processes to identify the guiding principles for ‘establishing new relationships’. Even though he [Hedaa, 1996, p. 511] finds that it is “not easy to identify sharp boundaries for the establishment of relationships...” he is able to distinguish and describe the following phases in relationship establishment: pre-awareness, awareness being a precondition for contacts leading to potential relationships [in line with Ford, 1980 and Dwyer et al., 1987], presenting and getting acceptance for the offered solution, overcoming different objections and uncertainties, and finally closing the deal.

The overall conclusions of previous relationship-initiation related studies are the following:

- The initiation issue does not receive much attention but is rather seen as the first phase in the life-cycle of a relationship.
- Process descriptions contain phases or stages which are described in a fairly detailed fashion and neatly separated from each other. The focus is not on explaining why the relationship moves from one phase to another.
- Reasons behind change as well as the time dimensions of business relationships are not major issues in previous studies and theoretical frameworks. These issues are not problematized, especially in terms of pre-relationship activities and interactions.

A fundamental question considering relationship initiation is, when does a relationship begin? There are many different ways to approach and define this question. Some people choose not to define it and avoid providing a definition or point-in-time for it [e.g., Van de Ven, 1976; Frazier et al., 1988; Borys and Jemison, 1989; Oliver, 1990; Wilson and Jantrania, 1996; Ford et al., 1998; Holmen et al., 2005].

Definitions can be placed on a continuum from one-sided vague views or activities to working together in mutual agreement. Researchers have thus adopted a rather imprecise definition of when a relationship begins. One view is to take a need and a motive and form a relationship as the starting point [Frazier, 1983; Wilson, 1995]. Another definition close to this is to use interest as the starting point [Yorke, 1990] or to search for a partner [Styles and Hersch, 2005]. The most cited study suggests that

awareness, which is the first relationship phase, starts with ‘party A’s recognition that party is a feasible exchange partner’ [Dwyer et al., 1987, p.15]. That the two companies have not only considered each other but have also been in contact is stressed by others. For example, some researchers [Dibben and Harris, 2001; Halinen and Salmi, 2001; Agndahl, 2005] start with pre-existing social relationships in which business opportunities are explored which then leads to a business relationship, and some define the start of the relationship as when that initial contact was made [Batonda and Perry, 2003; Pedersen et al., 2005]. Still another starting point is when both companies have not only met but have also started to evaluate each other [e.g., Ford, 1980; Jap and Ganesan, 2000] or negotiate [Ring and Van de Ven, 1994].

In contrast to the aforementioned, another definition is to consider the beginning of a relationship when business exchanges start, i.e., after the business contract has been negotiated and signed [e.g., Ford and Rosson, 1982]. This paper similarly adopts business agreements as the demarcation between the relationship initiation and the relationship; from a seller’s perspective this point-in-time implies a desired and meaningful conclusion of the initiation process and the start of revenues.

EMPIRICAL STUDY USING NARRATIVES

We aim to develop insights and a new conceptualization of the relationship initiation process and have therefore chosen the narrative approach and what is called narratives from the field [e.g., Hummel 1991; Phillips, 1995; Czarniawska 1998]. The empirical material consists of narratives about relationship initiation in service-dominant settings. We first interviewed three key executives who were sellers and represented different small professional service organizations with different types of buyers. All executives had multi-year experience from various tasks in selling and realizing

executive education projects in Sweden and Finland. The interviews lasted approximately two hours each and were recorded for subsequent analysis. The narratives focused on specific relationship initiation processes and each informant was asked to describe up to four. In addition to conducting interviews with sellers, we decided to augment the empirical basis and add insights from a buyer's perspective on buying management consulting services. This executive represents a large company in the service sector. The triangulation complements and supports the pattern found in the sellers' views. Such a validation is justified as we are not interested in the specifics of the services but rather in the type of context for relationship initiation which we consider to be very comparable in management education and management consulting services.

The analysis was carried out using traditional steps in the analysis of qualitative data [Miles and Huberman, 1994; Pettigrew, 1997]. The approach is inspired by grounded theory and especially 'the constant comparative analysis approach' [Strauss and Corbin, 1990]. We directed our interest to the dynamics in the initiation process, i.e., how and why it develops the way it does.

As always, the empirical study has a number of limitations. One limitation is that large companies offering professional business-to-business services have not been included; their way of initiating business relationships may differ from smaller companies. In addition, we focus merely on one type of context of relationship initiation, we collect data from a limited number of informants, and we have the seller's perspective and one informant per company. Even if the chosen context should only be carefully generalized to other contexts, we believe that it represents a complex and demanding situation and a situation that is becoming relevant for

manufacturing companies in their transition to become service-based. We thus believe that our choice of setting gives excellent opportunities to explore relationship initiation processes with relevance for companies managing the transition from products to services.

Developing the new conceptualization of relationship initiation

It was apparent in the empirical material that relationships form in many ways and that efforts to develop relationships are more likely to fail than to succeed. Current relationship development conceptualizations and models do not acknowledge this, but we believe that this and the fact that most initiation processes tend to linger in different positions for even long periods of time needs to be incorporated into a new conceptualization. It was furthermore evident in the material, although not recognized in current models, that a seller strives not only to come closer to reaching an agreement but also to avoid falling backwards in position. Even if a seller obviously can make even detailed plans for his own activities, it is rather unpredictable how the process as a whole proceeds and why, how, and when it ends. It seemed as if the initiation endeavours lasted a long time, often more than a year, and stopped at times and, despite ongoing activities, did not proceed towards a contract but did not reverse or end. There was little automation in the process; it could not be programmed nor was it destined to develop in a certain manner.

We decided to build the new conceptualization around two aspects that emerged from the narratives. One aspect is that there are distinct, rather stable positions in the relationship initiation process which differ in terms of closeness to a business agreement. We classify these positions in a broad manner and label them as *status*. The notion of status, in contrast to phase or stage, does not presume that the process

automatically progresses with a certain speed, order, or outcome; it highlights that the process may linger at any time in a certain situation which means that it does not move closer or further away from an agreement.

The other key aspect in the new conceptualization captures the dynamics in the process and refers to different forces changing the status. We were able to identify two different types of forces: one that seemed to speed up or slow down the process, and one that hindered the process to proceed and reverse. We label the former force as *converter* and the latter force as *inhibitor* to reflect their effect on the process. These simultaneously draw the two companies apart and away from a contract and closer to an agreement and relationship, and the ultimate effect depends on the sum of them and is relative to each other. The new conceptualization is obviously a simplified and generalized model of how relationships occur. It nevertheless reveals key aspects of this complex phenomenon as it identifies and combines status with driving forces with different effect.

A NEW MODEL OF THE RELATIONSHIP INITIATION PROCESS IN SERVICE-DOMINANT SETTINGS

Figure 1 shows the model with key concepts Status, Converters, and Inhibitors (abbreviated C/I) preceding an agreement which in turn represents the start of the relationship. Three statuses were distinguished in the empirical material with increasing likelihood of leading to a business agreement: (1) Unrecognized; (2) Recognized, and (3) Considered. The labels reflect the seller's position in the process seen from the buyer's perspective.

“INSERT FIGURE 1 ABOUT HERE”

In the figure each status is depicted with dotted circles to show that the relationship initiation may involve a great deal of activities and continue, but it need not necessarily fundamentally change relative to an agreement. The dynamics in the process is shown as moving between positions, either backwards or forwards, and the forces causing this are Converters and Inhibitors (C/I). These are shown as equally significant elements as status in the model. Arrows for C/I show how the process is pressed to both advance and reverse between statuses, i.e., the converter effect. Lines across arrows indicate that forward and backward movement is dampened or hindered, i.e., the inhibitor effect.

The initiation of a relationship may not only start but also stop in each status. The seller unrecognized by the buyer is one starting point, but the seller may also be recognized, or considered an alternative from the start. A subsequent initiation process is affected by previous processes; the initial status and nature of converters and inhibitors are affected by these. Similarly the process may end in any status. A seller may never be recognized by a certain buyer, or may be recognized but not considered as a seller, or may be among the considered sellers but not chosen for a particular agreement. Furthermore, after receiving one agreement the seller may become considered for the next contract, but the seller may just as well fall back to being merely recognized.

The notion of status in the relationship initiation process model

We define the *unrecognized status* as the situation when the parties do not know each other, or most importantly, the buyer does not recognize the seller. In the model, unrecognized is seen as a status in itself in the process since it is fundamentally

different from when the process starts from a recognized status, and it is quite common and corresponds to the sellers' starting point for creating relationships. (See Table 1 which illustrates the statuses and how they shift closer to a business agreement.)

“INSERT TABLE 1 ABOUT HERE”

The unrecognized status turns into a *recognized status* when there is awareness, one-sided or two-sided, by the companies of mutual business possibilities. Although it is not uncommon for buyers to search for sellers it is typically the seller that is active with sales activities.

The shift from recognized to *considered status* occurs when representatives from both companies discuss and co-develop the objectives and scope of the assignment and fine-tune details. More systematically than earlier, it entails meeting to exchange information and get acquainted, and build and exhibit trust towards each other, primarily on a personal and company level. Tenders and negotiations tend to be part of this status.

The transition from the considered status to a business relationship happens with a business agreement. The business agreement often includes signing a contract but may also be a more informal gesture such as a handshake. In some businesses, signing a contract will automatically mean that the companies will do business for tens of years and financial rewards will be huge. For other companies a contract means less volume and commitment, but it will nevertheless be the start or part of a business relationship.

One case called Alpha from one of the studied sellers illustrates the transition from being un-recognized to being recognized and a further transition to be considered and end in a business agreement:

Case Alpha. Started one-and-a-half years ago when the seller for flight technical reasons got stuck in a city abroad. He had nothing to do so he contacted the home office to ask for addresses of personnel directors, and phoned a couple of these. The seller knew the company from a project many years back and had kept in touch since then. He introduced himself and the approach that they use by asking what you [the buyer] know about the approach, at which this particular buyer laughed and said 'Not that much, do you know more?' The buyer said that it was such a crazy start that the informant better come over and tell him about the approach. They had a one-hour discussion during which the informant described a relationship initiation process. The buyer thought that the approach fitted them and his needs, which was to rock the boat. More written material was sent later on. Then the buyer phoned the informant and invited him to his office to discuss the same thing and meet his support and assistant. The following meeting after a month was with a third person, senior director. The seller invited the potential buyer to visit us, and two key persons came for one day and one evening. During the dinner they found out that the buyer's senior director was born in the same small town in which the seller's MD had his family roots, and the buyer's trust in the MD and company seemed to grow immensely because of this. After that, in line with the policy, there was formal tender situation, with 4 tenders altogether. The seller put great effort into the written offer, and waited 2 months which were like a black box process. Then the senior director phoned and said that they have chosen to continue with the planning, but no deal was yet made. It took an additional month before the contract was signed, a very detailed one.

The process contained several actors on the buyer's side. As the buyer was very active, the ability of the seller to respond to the buyer's requirements was essential. Key factors leading towards an agreement were the persons involved on the seller side as well as the seller's service offering. It is not at all obvious why and how the relationship initiation process proceeds from an unrecognized status to a business relationship. In contrast, another case Beta indicates a situation where the seller has a 'considered status' based on earlier co-operation:

Case Beta. The program had its origin in 1996 when the seller was employed at the Business School and responsible for a first program of the Business Academy. In early 2004 after several programs with similar contents and

structure, the buyer wanted to change the program to be more customized, use more company internal resources and emphasize learning at the expense of teaching. The seller had meanwhile left the Business School and joined the seller company in this case. In joint discussions the seller came up with the idea to form so called teacher teams as the basis in the program. This was successful and became the starting point for the new program. The buyer asked for a couple of tenders but chose the seller – and it was clear that the personal relationship and trust were significant and the reasons for this decision. That the seller had been involved and done a good job in previous programs was important, as was also the fact that the buyer wanted to have the seller's stamp on the program.

A key factor was the particular person, an attractive basic offering in terms of competence, and a new service element idea which led to a business agreement in two months. In order to get a perspective on status from a buyer's point of view, we conducted an interview with a person in a leading position acting as a buyer of business-to-business professional services - more specifically, management consulting services. The interview covered the buyer's perspective on the process of how relationships with a management consulting company can form.

A buyer's view on status

From the buyer interview we find the following illustrations of how the conversion from an unrecognized status to a recognized status and further statuses happens. It seems that it might not be difficult for a seller to become recognized. Instead it seems as if there are different groups of recognized sellers in terms of potential to proceed further. Two excerpts from the buyer interview show how sellers are categorized as potential partners:

“Both the seller and the buyer may take the initiative to a contact. When sellers are not known to the buyer and make the contact, they are usually allowed to make an initial presentation of their services. It is very seldom that anyone has anything very different to offer compared to the competitors, but from the buyer's point of view it is good to know the market. Time is a limited resource, and the seller has to show some kind of unique competence compared to competitors. In order to get into the mental shortlist the new seller has to give an impression of reliability and competence. But, even if

they do, nothing usually happens at that occasion. The relationship is put on hold until a particular need arise and the buyer uses the shortlist to invite sellers to further negotiations.” (Buyer interview)

“Sellers can be categorized into several different categories. 1) New sellers that are met with a neutral attitude. 2) Sellers towards which the buyer has a positive attitude based on earlier experience. These are seen as important to ‘keep warm’ for future needs. 3) Sellers that the buyer has experienced, but that do not have anything more to offer than what already has been purchased. 4) Sellers towards which the buyer has a negative attitude, often based on experience. These may still get the opportunity to present themselves, basically because of courtesy.” (Buyer interview)

The seller might not perceive correctly how the buyer classifies them in respect to potential. Hidden pitfalls arise that may hinder proceeding to a closer status when the seller does not listen to the buyer or when the seller’s pricing is unrealistic. Going backwards in status is also possible:

“The seller can effectively destroy his position in the buyer’s preference list by showing that he does not understand the buyer’s problems. That a new seller at the second meeting does not show that he has listened (and understood) the buyer based on the first meeting represents a serious negative critical incident. ‘It is important that the seller shows that he has understood what it is all about and has done his homework.’ A serious mistake is to continue talking about his own solutions (without connection to the buyer’s problems) or to present a completely unrealistic project plan involving too many resources which in turn is reflected in a price that is too high .” (Buyer interview)

As the initiation process proceeds closer to a business agreement, the seller moves from a recognized status to a considered status. The previous excerpt already demonstrates that sellers are positioned in different categories. The buyer considers the resources it takes in time and effort to interact with potential sellers. Therefore only a few are selected to be considered:

“When the need arises to use consulting services the buyer scans the mental list of potential sellers. Often the need can be brought up when the sellers make their regular periodical calls. It is a question of months rather than weeks. A maximum of three sellers might be asked to provide a suggestion of how they could fill the need. Often there is only two or even one that gets the opportunity. It is very time-consuming to interact, and the buyer feels very confident about his own competence and has a vision of what he would like to

purchase. This means that the seller's suggestion is seen as starting point for negotiations and the final solution is based on co-creation between the seller and the buyer." (Buyer interview)

Projects might be strategic and thus the exact timing of a seller's activities in order to present themselves is not crucial; it is rather the impression they give, because everyone is put on hold until the need for a project arises. Being at the right place at the right time may occasionally provide results as shown in the following two excerpts concerning who to contact when a project was activated:

"In one case where three sellers were invited one was an old preferred seller, one had been very active in their sales work over a period of time and was allowed to try, and a third happened to call when the need arose." (Buyer interview)

"Another aspect is that it demands hard work, time and resources to 'teach the consultant' to understand our company, processes and problems. Therefore there is a reluctance to let new sellers in, because they cannot function in the interactions without doing a certain amount of homework first. 'An old acquaintance is an asset that can be built on.'" (Buyer interview)

This means that an achieved status as a considered seller might be stable even if there are no current business activities. When a new project need arises this seller starts from an advantageous position. According to the buyer, people represent key factors in upholding the position and creating the potential for proceeding towards a relationship. Another key factor is the risk that the project does not turn out satisfactorily. Trusted persons are risk-reducing factors:

"Persons are extremely important, especially in those cases when the consulting company is not a big international company. The competence and trust are seen to be inherently carried by the specific individuals that the buyer has met in the negotiations. The buyer even demands that those individuals also are involved in the project. A new seller always represents a bigger risk than an old seller. The buyer strives to minimize risk." (Buyer interview)

The buyer interview clearly indicates that a division of the initiation process in different statuses is warranted in order to understand what happens over time. It also

becomes clear that sellers have a latent position that is activated when a need arises. The transition from a recognized status to a considered status and further on to a business agreement, therefore, does not happen quickly nor is it related solely to a certain seller based on their current marketing activities. The transition is based on long-term experiences and demonstrations of suitability as a partner. Based on the analysis and interpretation of the interview with the buyer it became apparent that the initiation process may stop at a certain status or might even decline despite seller activities. Next we suggest that there are certain forces, converters (C), which drive the process forward and backward and other factors, inhibitors (I) that prevent the process from changing status.

Converters and inhibitors in the relationship initiation process

When interpreting the empirical data in the narratives, we found different forces that change the status of the relationship process and thereby reduce or increase the distance to a business agreement.

Converters

From the seller's point of view, two key factors that act as converters seem to be the seller's capability to handle the time factor trust in seller representatives and the seller company, and the service offering. We thus suggest the following labels for converters: Time, Trust, and Service offering. Cases from the sellers show how these converters may be present and influence the initiation process. Case Gamma, for example, shows how people are important as contact points and carriers of competence and trust forming the basis for assessing the service:

Case Gamma. In 1999-2000 the seller gave a lecture on competence development at an education centre. One participant was a HR person from the buying company-to-be who afterwards sent an e-mail asked if the informant

has something else to offer. A meeting was set up, and the HR director for one division joined them. The outcome was a smaller business project between the in seller and the company. After a while, the whole division was put down, also the contact person was fired. He would later be rehired. The seller was unable to find common ground with the new CEO, and therefore the co-operation ended, and there was no more contact. After some years the seller and the HR person met again, both in new positions, the seller was now the executive education program director. They found out that they had a common acquaintance, a colleague attending the program. The woman put great value on it, and next another colleague became part of it. These two persons have marketed the program further so that many more have attended it and it has become an established training program. The company normally has a strict buying policy, but it does not concern this program because they know it very well by now.

Converters were the buyer's favorable experience of the service offering as such, the growing trust in the seller's competence, and by evolution over time. The seller has not succeeded with sales efforts, but rather by genuinely demonstrating their quality. The seller had achieved a position as a considered partner. Implicitly this case shows that converters are based on consistency over time.

The next case, Delta, shows how an initiation process progresses but at the same time there is minimal insight into what is really happening in the process and where it will lead:

Case Delta. The buyer company had developed a new vision for the future and found that current education sellers, over 20 years as partners, did not have the key competence that this vision is about. Neither did their own resources reflect competence in the area; therefore they needed insights from a new partner. The first contact about 7 months ago happened by chance at a large business conference at which the seller gave a presentation which attracted the company's attention. They hadn't even thought about the program before this occasion, but knew of it by name and that it had a good reputation in the particular topic. Afterwards they got in touch with the seller who visited them, and they openly presented their own concept and situation, the seller merely listened and asked a few questions. The buyer-to-be said that they would like to continue and get a proposal, and gave certain specifications. Assumably other alternatives were also considered. The seller apparently said things that the buyer liked and recognized. Discussions have been on and off, and then came the summer break. They are close to a contract, but it has not yet been signed.

Again trust in the company, the service offering as such, and time seem to drive the conversion. In this case time is a question of correct timing (by chance) for the initial contact.

In Case Epsilon trust in a person carried the process further. This trust, in connection to the seller's willingness to adapt the service offering to the buyer's requirements, eventually resulted in a business agreement. The time factor does not seem to be in the forefront:

Case Epsilon. The seller had been in touch with the buyer four years earlier in connection with a training program that the business school offered, but that co-operation ended in 2000. The end was somewhat 'frosty' since the business school did not quite deliver what it had promised. A person phoned the seller in 2004; someone who had attended the program in 1999. The seller knew the person well from that time. They met at the office for discussions, and they met a couple of times to exchange ideas. The new program was formed and the content and financial aspects adjusted. After a while the personnel director joined the discussions. Some elements were very detailed and very important to the buyer, and others were specified later on during the program. The buyer was professional and very active in forming the program. The program was branded in the buyer's name. In total it took 6 weeks from contact to contract.

The reasons why these three factors act as converters is probably the need for adaptation when buying professional services. These services cannot be sold as standardized pre-conceptualized entities but must be seen as resources supporting the buyer's business activities [see, e.g., Grönroos, 2007, pp. 433-451]. The buyer is thus relying on trust in a key person or the seller company, requires co-operation and adaptation in forming a customized service offering, and is driven by their own timetable. People act as guarantees for a qualitatively acceptable process and outcome and simultaneously reduce uncertainty and risk. Service offerings are important as the buyer is usually aware of the competition and is constantly looking for improvements to their own business. The time factor is important as conversion is surfing on the buyer's timetable. The buyer's timetable might suddenly change, be delayed, speed up

or the project might be postponed or discarded. For the seller, the time factor is thus a challenge since it demands constant readiness and adaptation.

The converters may also act in a reverse way as demonstrated in the buyer interview where companies that have emptied their useful competence are considered further away from a new assignment. There might also be effects in terms of dropping from a recognized status to an unrecognized status, for example, when a key person in the buyer's organization moves to other positions. As we have only a limited number of companies and relationship initiations narratives in this exploratory study it is natural that not all types of effects can be empirically validated. This is clearly an area for further research.

Inhibitors

We found some factors, however, that prevent the development from one status to another in the relationship initiation process. These factors we label *inhibitors*. An inhibitor may cause the process to linger in a certain status for an undetermined length of time and prevent the change of a status. The empirical data revealed three types of these: Bonds, Risk, and Image.

The following cases demonstrate the effect of inhibitors in a relationship initiation process. In Case Zeta, the seller can be interpreted to have a considered status but does not in two separate instances reach a business agreement even if they had a good service offering and were adaptive regarding the time factor. The explanation might be the image or the risk factor. It is, however, very difficult for the seller to determine that based on available information:

Case Zeta. A governmental authority asked for help with specifying an education service. They had done the same about 2 years ago, and turned down the seller's offer. The seller helped the authority with the specification on what they called discovering pedagogy. Once again the seller was turned down, and a large quality management company got the deal. The buyer said the buyer is not yet mature for the seller's tool. The seller's price was the fourth highest of six tenders.

Moving from an unrecognized status to a recognized status might be easy but the process might stop there. Eta is a case of how the reasons for not proceeding further might remain unknown to the seller:

Case Eta. The seller thought that it would never work that someone else tells a potential buyer about them, but, based on a reference, they decided to try an appointment setting company. To their surprise the company was able to make about fifteen appointments with pre-set target companies. The seller went to meet with the new CEO of one of these companies. The first meeting was interesting because he did not give the seller anything or participate in the discussion except that he said that his challenge is to make the leader lead, looked unserious, wanting the seller associates to lay their ideas on the table. Not much came out of that meeting.

There might be inhibitors, such as the image of the firm, perceived risk, or the buyer having bonds to other current sellers, or the seller might be low on converter factors, e.g., trust, service offering, or the time factor. Based on the information given it is not possible to tell. This case, however, is not meaningless; on the contrary it tells us that a seller should be prepared to not only present themselves and their offering but also to try to analytically probe the buyer to reveal their status.

Inhibitors may not only prohibit a change in status forward but may also prevent a change backward. If a seller company has a good image they might be considered, where otherwise they would not have had a chance. Similarly a bad image or unknown image might prevent the seller from getting a contract. Image is thus related to a general perception of the seller's competence and service offering. Bonds bring inertia to the dynamics which is partly related to timing and timetable issues. Bonds

give preferred sellers an advantage as they might have better access to and insight into the buyer's plans and activities and are often also more quickly and easily accessible from the buyer's point of view. Risk is a factor that is related to both seller personnel and the seller company as such. The more the service is related to personal competence and cooperation among specific persons, the more the risk in the cooperation as persons might be replaced. On the other hand risk as an inhibitor is related to trust as a converter. It seems possible to argue that there are connections between the converter categories and the inhibitor categories that we have found but we would not make any stronger propositions based on this limited material. Further research is needed to find out whether converter and inhibitor categories can be merged or whether they should be expanded and refined as separate entities.

To summarize, Tables 2 and 3 contain descriptions and empirical illustrations of the three converters and three inhibitors.

“INSERT TABLE 2 ABOUT HERE”

“INSERT TABLE 3 ABOUT HERE”

DISCUSSION

The comparison of our conceptualization of the relationship initiation process in service-dominant settings with earlier models reveals several differences and contributions:

First, the process is not driven merely by the seller's marketing activities, nor does it proceed in the way that sellers would like. The seller's sales activities may act as

reminders to remain at an achieved status level or move forward in status. Status is important when the buyer decides to activate a project.

Second, the process does not resemble a life-cycle. The process may start from different positions, be on hold for an indefinite period of time, and progress based on how the co-operation between the parties succeeds. Consequently the initiation process (from a certain seller's point of view) proceeds only when certain factors are in place that we have labeled converters and inhibitors. Earlier life-cycle and stage models thus seem less adequate as descriptions of what happens in an initiation process than, for example, a garbage can model [March and Simon, 1958; Cohen et al., 1972]. Inspired by the garbage can model we suggest that at a particular point in time, a choice situation arises (the buyer's activated need) and certain problems are present (perceived by the buyer). At that moment, there are certain actors in the proximity (seller's recognized or considered), and certain solutions (service offerings) are available. These factors are inputs into a process with an unpredictable outcome.

Third, it is not a question of purchasing a pre-designed service offering that would be easy to evaluate based on a tendering process, where price would play a dominating role. The empirical material indicates that the basic service offering is important as a hygiene factor but what is essential is the capability and interest to adapt and develop the contents and delivery conditions in a process together with the buyer. The price tag is not essential according to the buyer interview in our study as long as it is within certain limits. The real price is counted in terms of personnel resources allocated to the project in the buyer's organization and the potential price in terms of risk that the project will be unsuccessful. Relationship initiation around such a knowledge-intensive professional service might therefore be different compared to the purchasing

of a physical product and similar to what transforming industrial companies are facing. When discussing the transformation of manufacturing firms into a service business, Grönroos [2007, p. 436] argues that adopting a service logic is a way of maintaining a sustainable competitive advantage and escaping price competition.

Fourth, the narratives show how important a few key people are for the development of the relationship initiation process. Buyers seem to judge the service contents and delivery based on assessing one or a few persons representing the seller. The complex and intangible service is not easy to 'test-drive' before a business agreement but people representing the seller are used as surrogates and buyers infer to the service and value in use. This is in line with the logic of service [e.g., Vargo and Lusch, 2004] and seems to have a strong impact on the development of the relationship initiation process for executive education and consulting services. The social network factor has been emphasized in earlier research but we conclude that from the seller's point of view it is not only a question of attending to the gatekeeper but also to an internal network in the buyer's organization.

Our conceptualization is similar to the relationship initiation process by Hedaa [1996, p. 509]. Our conceptualization not only contains statuses in the process, however, but it also explains why the process develops backwards or forward which is clarified by converters and inhibitors. Furthermore, our conceptualization is different from the relationship development model by Dwyer et al., [1987] for example, since we do not assume a pre-defined sequence of stages and it is close to Batonda and Perry's states [2005]. Our contribution is that we also describe and suggest how and why the initiation process changes or does not change. Our model of the initiation process is similar to what Turley and LeBlanc [2001] suggest based on a literature review, i.e., a

dynamic stage model of the following evoked sets: availability stage (all brands available to the consumer in the market), awareness stage, evaluation stage, choice stage, implementation stage, and post-purchase evaluation and reclassification stage [see, e.g., Turley and LeBlanc, 1995].

Previous models lack an explicit focus on the dynamic issues and mechanisms in the relationship initiation process. Our model does not focus on the status in that process per se, however, but rather on the energy or reasons behind the change or lack of change. We may thus conclude that our preliminary conceptualization adds a significant piece to the puzzle in understanding the dynamics of how buyer relationships form in business relationships in service-dominant settings. This is also related to the transformation of manufacturing companies into service providers working with service concepts. The physical products become platforms for services that are the mechanisms for creating customer value.

Managerial considerations

There are several interesting managerial questions that can be answered by our new conceptualization. For example, how can a new seller outperform an old established seller? First, it might not be possible for the new seller to know the status of the competitors. Similarly, changes in their status may not be easily detected. Based on our empirical material it seems possible to become recognized rather easily, as buyers might have an interest in constantly scanning the market even if no actual project is planned. In the first meeting the seller should focus on listening closely to the buyer in order to detect co-operation possibilities and at the same time display their basic service offering. As the buyer normally is aware of most competitors' offerings it is a question of being more interesting than the competitors. Still, nothing may happen for

a long period of time. It seems clear that showing a constant interest by communicating regularly may lead to opportunities to be included among the considered sellers when a project is activated. To reach a business agreement a further capability and interest in adapting the service offering is needed as well as a build-up of personal relationships. Price is, however, not a key issue as long as it is not out of an acceptable range; being outside the price range indicates incompetence.

Another question is when and why does a current seller lose ground? A seller that has a considered status may lose this status in many ways. One obvious reason is that a key person in the seller's organization or in the buyer's organization moves to other positions or other organizations. Another reason might be that the seller has used all his competence in relation to the buyer and is not capable or willing to renew this competence. A further reason might be that they have not been able to actively communicate with the buyer in order to preserve their status. Of course, less successful projects might also result in a reversed status. It should be noted that the buyer interview indicates that buyers may have a hidden quality classification of sellers with the same status category which might not be known to the sellers.

A third managerial question is what are the reasons for not progressing in the relationship initiation process? As our empirical material shows, the seller might not have information about how the relationship initiation process proceeds and what the reasons are for not being chosen. We discovered that there might be inhibitors that prevent a progression. Naturally, a reason might also be that the seller has not been able to sufficiently mobilize converters in terms of time, trust, and service offering. Our model might therefore be used by a seller as a tool to diagnose different relationship initiation processes.

As converters and inhibitors are proposed to be key factors creating the dynamics, it is essential for the seller to have both a strategy and operative capabilities for converters and inhibitors. By definition, converters and inhibitors are considered in this paper to be largely controlled by the buyer. We tentatively suggest some activities for sellers in order to improve efforts to initiate relationships with buyers taking into account converters and inhibitors. Each activity, for example, can be taken into account in terms of a) what research and monitoring activities it needs and b) what building and adjusting activities it warrants. In Table 4 we briefly present these suggestions which at this stage are tentative but form a basis for further development.

“INSERT TABLE 4 ABOUT HERE”

Future research

In future research, there are many issues we need to focus on to test and refine our preliminary conceptualization of the relationship initiation process. We suggest a more in-depth study of the statuses, converters, and inhibitors identified in this explorative study in two service contexts. We should at the same time be open to and actively search for other converters and inhibitors and carry out empirical research in other business-to-business service contexts but especially in industrial companies which have converted to adopting service logic.

The empirical findings in this study suggest that the initiation process is dependent on a few individuals representing the seller and the buyer. Their social contacts, personal networks, experiences and ‘power’ seem to be important for the initiation process. We need more in-depth research on how trust and risk are managed with special attention

to the role of the individuals involved. We have proposed that recognition is important and a necessity for relationship initiation. How is awareness created and how does the process develop from unrecognized status via the recognized status and considered status to a business agreement in different contexts?

We would also like to focus on issues related to the specific logic of services, e.g., that they are intangible, co-produced/co-created, and assessed on the basis of value in use [Edvardsson et al., 2005; Grönroos, 2006; Vargo and Lusch, 2004; Lusch and Vargo, 2006]. How do these issues affect the relationship initiation process?

We also suggest research on the role of leaders and leadership in the relationship initiation process. Cohen et al., [1972] note that leaders can make a difference in the 'garbage can' by (a) carefully timing issue creation, (b) being sensitive to shifting interests and involvement of participants, (c) recognizing the status and power implications of choice situations, (d) abandoning initiatives that get hopelessly entangled with others, and (e) realizing that planning is largely symbolic and an excuse for interaction.

SUMMARY

To summarize, we believe this study contributes with a tentative conceptualization of the relationship initiation process in service-dominant settings. The conceptualization is unique since it describes and to some extent explains dynamics in the initiation process leading to a business agreement. It is founded in empirical results from narratives about executive education services and management consulting services. The insights from this explorative study form one knowledge base for manufacturing

companies when managing the transition from products to services where the initiation of new service-based buyer relationships is needed.

The conceptualization is based on three new concepts: status, converter, and inhibitor. A converter gives energy and direction to the initiation process and moves the process closer to a business agreement while inhibitors block or hinder this development. The converters strive for a change from one status to another, either backwards or forwards. The converters are time, trust, and service offering. Inhibitors strive for status quo and may block or at least hinder change in status. The inhibitors are image, risk, and bonds. Converters and inhibitors are possible to identify and manage by both the buyer and seller. Furthermore, this new conceptualization of the relationship initiation process helps scholars and managers to better understand how to manage business relationships.

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Table 1. Excerpts from the narratives illustrating the status

Unrecognized status in the relationship initiation process

From unrecognized to recognized status in the relationship initiation process

When a buyer starts to recognize a seller for a relationship

- I presented our services at meetings in a network of human resources managers. Some weeks later the personnel director of the buyer got in touch. She knew us through one of the partners' wives. This was the connection which made her pick up the phone.
- I gave a lecture on competence development at an education centre. One participant was a HR person from the buying company-to-be who afterwards sent an e-mail asked if we have something else to offer.
- We decided to try an appointment setting company. The company made fifteen appointments with target companies. We went to meet with the new CEO of one of these companies.
- They [buyer representatives] hadn't thought about the program before this occasion, but knew of it by name. Afterwards they got in touch with me who visited them, and they openly presented their own concept. The buyer-to-be said that they would like to continue and gave some specifications.

Considered status in the relationship initiation process

When a buyer starts to consider a seller for a relationship

- They had a one-hour discussion during which I described a case. The buyer thought that the tool fitted them and his needs, which was to rock the boat. More written material was sent later on. Then the buyer phoned me and invited me to his office to discuss the same thing and meet his support and assistant. The following meeting after a month was with a third person, a senior director.
- These people had several requirements and new price negotiations. We also had to un-bundle their service – which demanded quite a lot of work and which is not normally done.
- There was formal tender situation, with four tenders altogether. We put great effort into the written offer, and waited two months which were like a black box process. Then the senior director phoned and said that they have chosen to continue with the planning, but no deal was yet made.

Relationship starts when a business agreement is reached/signed

Table 2. Definitions and descriptions of converters in the relationship initiation process

Converter	Definition	Description
<i>Time</i>	Timetable and timing of activities.	Time as a converter includes both control over timetables as well as timing of specific activities and events.
<i>Trust</i>	Trust in persons and company.	Trust functions as insurance in case of unexpected events, difficulties, and changes.
<i>Service offering</i>	Distinctive differential service competence and concept.	The service offering consists of competence and capabilities as well as ability and motivation to adapt this competence to the buyer's requirements.

Table 3. Definitions and descriptions of inhibitors in the relationship initiation process

Inhibitor	Definition	Description
<i>Bonds</i>	Explicit or implicit factors creating relationship inertia.	Bonds are structural or perceptual ties between the seller and the buyer that result in preference and stability.
<i>Risk</i>	The buyer's estimation of difficulties in the cooperation process and negative outcomes.	Risk is related to the seller's reliability in fulfillment of the service offering.
<i>Image</i>	The buyer's overall perception of the seller.	Image depicts the buyer's perception of the seller based on not only direct interactions and communication but also earlier experience and others' experience, and it may contain both facts and fiction.

Table 4. Managerial implications for the seller concerning converters and inhibitors

Managerial activities		
Converter	Advancing conversion forward	Preventing conversion backward
<i>Time</i>	<ul style="list-style-type: none"> • Keep yourself informed about buyer's activities and timetables, follow up on weak signals in the market place. • Be alert, and create ability to respond quickly. 	<ul style="list-style-type: none"> • Keep yourself informed about changes in the buyers' organization, mergers and acquisitions, and strategy changes. • Create bonds to the buyer organization.
<i>Trust</i>	<ul style="list-style-type: none"> • Do research about own and competitors' perceived trust positions. • Create references, co-operation with other respected companies, join respected network, select suitable account managers, and have consistent integrated marketing communication. 	<ul style="list-style-type: none"> • Figure out critical carriers of your trust, observe competitors' changing trust positions, analyze critical incidents in the interactions with buyers, and be alert when changing your own organization. • Create multiple contact points to each buyer and a system for following up complaints and problems.
<i>Service offering</i>	<ul style="list-style-type: none"> • Analyze buyer's key concerns and business processes, and identify gaps in the market. • Create systematic listening skills embedded in the sales process, create capability to co-operate and adapt to buyers, develop the core competence, and segment and select your buyers to create initial fit. 	<ul style="list-style-type: none"> • Monitor competitors service offerings and service innovations. • Constantly innovate core competencies, and co-create solutions and applications together with the buyer.
Inhibitor	Removing blocks for advancing forward	Strengthening blocks against slipping backwards
<i>Bonds</i>	<ul style="list-style-type: none"> • Diagnose what kind of bonds potential buyers have to your company and competitors and follow up on changes in bonds. • If buyers have structural bonds to competitors, then try to create comparable or better solutions. If they have perception based bonds, then try to benefit from changes in the market place 	<ul style="list-style-type: none"> • Diagnose explicit and implicit bonds that you may have with buyers. • Communicate regularly and frequently with buyer's personnel on many levels, keep them informed of relevant news, and promptly follow up buyer requests.
<i>Risk</i>	<ul style="list-style-type: none"> • Identify what potential buyers consider to be risk factors in your company. • Create reference cases that can be used to demonstrate solidity. 	<ul style="list-style-type: none"> • Identify factors and changes that are endangering or worsening your risk classification. • Create bonds to buyers and potential buyers.
<i>Image</i>	<ul style="list-style-type: none"> • Conduct qualitative in-depth studies on how you are perceived by different buyers, follow up on complaints, and measure your contact and 	<ul style="list-style-type: none"> • Observe changes in buyers' organizations since your image is grounded in their people, and observe competitors' strategies and activities. • Create a system that can handle

- interaction points with buyers.
 - Create an integrated communication strategy covering all contact points including sales, customer service, billing, etc., and keep buyers informed about relevant things in mutual processes in work.
- critical incidents and enforces suitable service recovery actions.

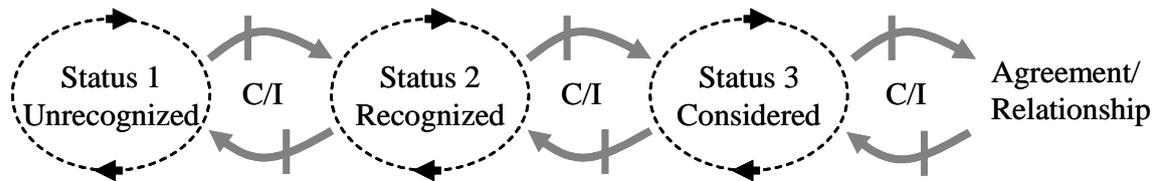


Figure 1. A new model of relationship initiation process for business-to-business professional services.