Available online at www.sciencedirect.com
ScienceDirect
Industrial Marketing Management 37 (2008) 59 – 68
INDUSTRIAL MARKETING MANAGEMENT

Adding value in global B2B supply chains: Strategic directions and the role of the Internet as a driver of competitive advantage

Peter G.P. Walters *

College of Professional and Continuing Education, The Hong Kong Polytechnic University, Hong Kong

Received 1 September 2006; received in revised form 1 May 2007; accepted 1 June 2007
Available online 24 October 2007

Abstract

The Internet increases the likelihood of "disintermediation" in global B2B supply chains. At the same time, opportunities for intermediaries to generate incremental value for other channel members are opened up. The discussion highlights three such strategic directions — "information rich", "relational exchange" and "joint-learning" — with the focus on the role played by the Internet in the implementation of these strategies. Particular attention is also given to the experience of a leading Hong Kong intermediary to illustrate the alignment of the Internet with each of these strategies for enhancing the competitive position of intermediaries in global supply chains.

The rapid advances in information technology (IT) that have occurred in recent decades have resulted in innovations, such as the Internet, that have triggered new thinking in respect of marketing theory and practice. Internet enabled electronic communication between customers and suppliers, for example, opens up opportunities for new channels of distribution and novel business models that threaten the activities of traditional channel intermediaries (Saloner & Spence, 2002).

"Disintermediation" is a particular concern in business-to-business markets (B2B), arising when current channel members become redundant and are either replaced by new intermediaries or simply by-passed. In this environment, traditional channel members will perish unless they offer a portfolio of services that add significant value for both their suppliers and customers. Fortunately, the Internet offers opportunities for intermediaries to pursue this objective since it facilitates access to, and the exploitation of, information and know-how. Therefore, besides opening up the "disintermediation" route, exploitation of IT provides a platform for intermediaries to add value to the services offered to other members of global supply chains. In particular, the IT revolution empowers intermediaries to learn more about other channel members, thereby allowing them to generate incremental value through service customization and relational exchange.

The potential of information technology (IT), particularly the Internet, to restructure B2B global supply chains is highly relevant in Hong Kong where around 100,000 trading firms play a key role in bringing together industrial buyers and sellers in international markets. Most Hong Kong intermediaries source products, mainly on the Chinese mainland, for foreign wholesalers and retailers in industries such as textiles, watches and toys (HKTDC, 1996). These firms, commonly called "merchandisers" in Hong Kong, play a key role in managing international sourcing and distribution. They undertake activities such as managing procurement, production, quality assurance, warehousing and shipping (Chunsun, Yip, & Chang, 1996), with marketing support, design and financing services also offered by many merchandisers.

China's accession to the World Trade Organization (WTO) in 2001 has added to the challenge facing many Hong Kong intermediaries. As China moves toward playing by the same rules as other trading nations in the WTO, the Chinese economy will become more transparent and easier to understand and negotiate. Consequently, potential importers of goods sourced in China will need less assistance when seeking to identify, and do business with, potential suppliers on the mainland. As the knowledge and experience of Hong Kong merchandisers becomes less valuable, overseas customers will seek to deal

* Tel.: +852 3746 0003.
E-mail address: pfpgpwal@inet.polyu.edu.hk.

0019-8501/$ - see front matter
doi:10.1016/j.indmarman.2007.06.010

directly with Chinese manufacturers. In this scenario, suppliers are also likely to seek out customers without assistance. “Disintermediation” thus presents a real threat to the existence of many Hong Kong based intermediaries.

In the textile business, in particular, the demise of the global quota control system in 2005 presents a special challenge due to a rapid decline in manufacturing in North America and Europe. Increasingly, suppliers in these markets are sourcing from overseas, particularly China. They are also more likely to import from fewer producers because of the ending of quota restrictions, and many will be tempted to cut out middlemen and deal directly with overseas manufacturers. The implication of this trend has been spelled out by one senior manager as follows;

“They (US producers) are cutting out the cost factor and taking more control, because it is becoming more of a core competency. In the past, maybe if you’re sourcing 5% offshore it wasn’t a big deal. Now if you’re moving 20% to 30% of your manufacturing offshore, that’s a huge impact…….. It’s easier to do business in China directly than ever before, because companies in China are larger and more sophisticated and have the where withal to deal directly with overseas companies. Trading companies in Hong Kong are probably feeling a lot of pressure to come up with new services and larger packages, because some of their traditional work is going away. In response, the middlemen have to get more creative and expand the role they’ve been in historically.” (Casselle, 2004: 4).

Importers are becoming more demanding in this tough competitive environment. This is clear from these comments regarding the future role of Hong Kong based suppliers: “Vendors that offer a wide variety of services will continue to service Liz Clairborne …vendors need to manage inventory and ship to our customers and invest in technology; services are becoming an expectation just to stay in the game; we must be a partner to our customer” (Shih, 2005:3).

As noted above, the Internet not only threatens old established business models, it also provides intermediaries with important opportunities, and its role in support of strategies to meet the threat of “disintermediation” provides the focus for the discussion in this paper. The notion of “value creation” by intermediaries in global B2B supply chains is central to the analysis, and three strategic directions for generating incremental value are evaluated. These are “information rich”, “relational exchange” and “learning” strategies.

Although not mutually exclusive, these strategic orientations have distinct characteristics which are highlighted. A primary objective is to identify ways the Internet, can be utilized to support each strategy in international markets. The discussion draws upon the experience of a leading Hong Kong trading firm to illustrate the alignment of IT practice with each of these strategies for enhancing the competitive position of intermediaries in the global supply chain.

This discussion has particular relevance for international channel intermediaries facing a harsher competitive environment where their position in global supply chains is threatened. A common denominator between the strategies reviewed is the importance attached to information and knowledge as a critical organizational resource which can be mobilized to generate value for customers. The study therefore contributes to the international channel business literature and also examines the relevance of knowledge based strategy for the competitiveness of firms operating in global markets, an area where relatively little research has been undertaken (Yeniyurt, Cavusgil, & Hult, 2005).

1. Customer value and the Internet

A number of common dimensions can be discerned in most definitions of the customer value construct. Typically, value is defined as involving a subjective assessment in terms of the multiple costs and benefits associated with consumption activity (Monroe, 1990). Anderson, Narus, and Van Rossum (2006) emphasize that value perceptions are normally arrived at in a competitive context where it is important to understand how available market offerings compare, in the eyes of the consumer, in respect of both needs satisfaction and cost factors now, and in the future.

Despite the importance of value creation for long term survival (Woodruff, 1997), relatively little empirical work has been done on the measurement of value creation in customer–seller relationships in industrial markets. Lapierre (2000) has identified product, service and relationship benefit dimensions, along with price and relationship cost as key “sacrifice” factors; and Walter et al. (2003) review cost, quality, volume and safeguard elements as primary components of value.

In this discussion, particular attention is given to the results of a qualitative study identifying nine value drivers (Ulaga & Eggert, 2006). These drivers are classified under three sources: the “core offering” in respect of product quality, delivery performance and direct costs; service support, personal interaction, acquisition costs in the case of the “sourcing process”; and supplier know-how, time to market and operations costs for “customer operations”. The analysis highlights the power of the strategies reviewed, in harness with the Internet, to generate value in terms of these drivers.

The focus on the Internet reflects its potential contribution, as a key IT tool, to generate superior value for both suppliers and customers in the global marketplace. McAfee (2006) has delineated three categories of IT with distinct characteristics and benefits. “Function” IT allows for more efficiency in executing stand-alone tasks; “network” IT allows for better communication; and “enterprise” IT promotes restructured working relationships. Although the Internet’s most obvious contribution is in terms of networking, it also has important “enterprise” implications, most notably for managing customer relations (CRM) and the supply chain (SCM).

As a channel for communication supporting the capture, integration and distribution of information and knowledge, the Internet has tremendous virtues, in a global context, as an asynchronous, personalized medium which is flexible, interactive and relatively inexpensive (Poon & Jevons, 1997; Quelch & Klein, 1996). Although electronic interchange (EDI) has been used for many years to transmit electronic data between customers and suppliers over dedicated, proprietary networks,