

From Channel Management in Sales and Distribution to Co-Evolving Service Ecosystems

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The aim of the study is to discuss the service network, its actors and their roles, benefits and limitations, and the emergence of service ecosystems. The research question is: Which factors facilitate and hinder the networked value co-creation on service network level? The study used qualitative single case study methodology, and the research data was collected from a manufacturer and six dealer companies. The case provided empirical insights on the current level of systems thinking in service ecosystems. The paper aims to contribute to the literature on service (multi)channel management by systems approach, particularly from the viewpoint of the business networks and ecosystems in the downstream dimension.

1. Introduction

It is common for companies to utilise intermediary actors – such as dealers and distributors – in their global sales and distribution to carry out responsibilities like distribution of products, customer relationship management, marketing and after sales services. As early as the beginning of 2000s, the growing importance of channel intermediaries became recognised due to their increasing size, improved level of product knowledge, technical competence and specialisation, among other issues (Kalafatis, 2000). The channel structure through which end-customers are served is case-specific, depending upon the ability of the company and its intermediaries to create value relevant to end-customers (Kalafatis; 2000, Payne; Frow, 2004).

The multichannel management literature has often focused on the competitive advantage of channel strategies from the viewpoint of a single company (Gadde, 2016, Frazier, 1999, Kalafatis, 2000, Olsson et al., 2013, Skarmas et al., 2008). However, as is highlighted in the service ecosystem literature, a focal company and its intermediaries integrate resources in interaction with each other and the (end-)customer (Vargo; Lusch, 2008), and thus, all changes in any of organisations influence others. It can be stated that *the actors form a sales and distribution network*. Co-evolution between network actors – as a key characteristic of the ecosystem approach – is a baseline for this study.

The offerings of manufacturers are becoming increasingly digital, knowledge-intensive and complex. Alongside this trend, servitisation has had an effect so that offerings now contain more intangible resources, such as service and knowledge, which increases the importance of customer focus (Baines et al., 2009, Oliva; Kallenberg, 2003). As the nature of offerings evolve, network actors' roles and responsibilities may change, and as a result for example manufacturers may be pres-

sured into reconsidering their sales and distribution networks and rethinking also their channels and intermediaries, their roles and responsibilities.

This case study explores a sales and distribution network from the viewpoint of a manufacturer (the focal company) and its intermediaries. In the case, the ongoing change and evolution of the manufacturer's offering is resulting in the manufacturer company considering taking more responsibility for solution sales, especially in the case of more demanding customers, and reclaiming some selling activities and returning others to its subsidiaries. The aim of the study is to discuss the service network, its actors and their roles, the benefits and limitations that the current network model sets, and the emergence of service ecosystems. The research question is: Which factors facilitate and hinder the networked value co-creation on service network level? The paper aims to contribute to the literature on service (multi)channel management by systems approach, particularly from the viewpoint of the business networks and ecosystems in the downstream dimension.

The paper begins by presenting the current understanding of the main themes of the study. The materials and methods chapter elaborates on the background of the study and the data collection. This is followed by a brief discussion of the case findings, after which the paper concludes with a final discussion, outlines lessons learnt, and presents further research suggestions, and limitations.

2. Current understanding

The change from traditional channel models to networked value co-creation systems is driven by market forces such as increasing complexity of products and variety of customer needs, and is enabled by new technologies and business practices (Christopher; Ryals, 2014; Gadde, 2016). The future direction of academic research on channel management in distribution and services needs to address these changes in the business world. Therefore, the focus should be broadened from the strategies of one company to network actors operating as an entity.

Furthermore, it is important to note that systems thinking in itself is not a new concept in the research stream of supply chain management, where structures have been regarded as multi-level sub-systems, i.e. tiers of suppliers and customers (Lusch, 2011). However, although the systems approach is not a new concept, most studies have a rather traditional view of distribution organised through channels (Kalafatis, 2000, Olsson et al., 2013, Skarmeas et al., 2008) with few studies perceiving it as a network phenomenon (Gadde, 2014).

The following discussion proceeds from multichannel management, which typically discusses distribution from the perspective of one actor at a time, to systems thinking, which emphasises networks and ecosystems and their co-evolving nature. This paper looks at the downstream side of the focal company's (manufacturer) network.

2.1. Multichannel management

In his review, Gadde (2016) sums up that the roots of channel management approach have "evolved through influences from marketing management and the socio-

behavioural view of distribution". In the course of time, the perspective on the organising and management of distribution have shifted and evolved: first, manufacturers were seen as channel captains controlling the behaviour of their business partners and the entire distribution system, later the concepts of power and control mechanisms were discussed, after which the literature focused on the increasing importance of intermediaries and collaborative relationships. (Gadde, 2016.) Typically, channels research has taken manufacturer's perspective, and studied, for example, how channels should be organised and how the channel relationships should be managed from the manufacturer's viewpoint (Frazier, 1999). However, in recent studies, the main emphasis has been on inter-organisation coordination of distribution network constellations (Gadde, 2014, Gadde, 2016).

Multichannel management is manufacturers' answer to the diverse needs of customers: developing a variety of ways to reach out to customers, and in this, utilising the resources of various types of intermediaries (Kalafatis, 2000, Gadde, 2016). The channel structure appropriate for an organisation depends upon the combination of approaches that can best attract the final customers, which in turn will depend upon the organisation's and intermediaries' ability to create value relevant to those customers. Besides considering customer needs, circumstances such as capacity, competencies and capabilities together with business ambitions play a role in the decision-making concerning channels. For a focal company to be able to decide on which channels to use they need to understand the nature of channel types, i.e. how they function and their benefits and limitations. (Kalafatis, 2000, Payne; Frow, 2004.) In B2B markets complex account management and large product portfolios are typical, which makes a thorough evaluation and utilisation of a wider range of channels important (Courtheoux, 2003, cited in Payne; Frow, 2004).

In addition to considering the target customers' current buying behaviours and motivations, a company should also consider how these might change over time (Wilson et al., 2003, cited in Payne; Frow, 2004). Thus, in multichannel management, the challenge lies in understanding both the nature of company's channel structure now and how it can be expected to alter in the future (Payne; Frow, 2004).

In the literature, the relationship between a manufacturer and its intermediaries has been discussed, too. In order for a manufacturer to ensure efficient exporting and distribution and to have competent intermediaries, it needs to exchange knowledge on new products with its intermediaries, develop operating systems for ordering and inventory control, and provide training that facilitates sales and services (Skarmeas et al., 2008). Maintaining close ties with retailers and distributors gives the manufacturer access to information about consumer reactions to its products, making it possible to quickly adapt production processes, e.g. to improve the product mix and packing, if needed (Pimentel Claro; Oliveira Claro, 2010).

2.2. Business networks and service ecosystems

In the literature of *business, service or industrial ecosystems* the economic outcomes and business relationships between actors are highlighted. In his seminal work, Moore (1996) defined a business ecosystem as "*an economic community supported by a foundation of interacting organisations and individuals – the organisms of the business world*". A shift in what is valued drives the need for different models and affects the terminology utilised in the business ecosystem literature, resulting in the

introduction of the service ecosystems concept. It has been defined as a “spontaneously sensing and responding spatial and temporal structure of largely loosely coupled, value-proposing *social and economic actors* interacting through institutions, technology, and language to (1) co-produce service offerings, (2) engage in mutual service provision, and (3) co-create value” (Vargo; Lusch, 2011, 185). Within the service-ecosystems approach, “service flow emphasises the continuous, dynamic and adaptive flow of service (i.e. intangible assets such as knowledge and skills) exchanges through interactions among networks of actors reciprocally engaged in value co-creation through complex relationships” (Barile; Polese, 2010).

To sum up the difference between the two approaches, business ecosystems have been approached as a source of competitive advantage for individual companies in the strategic management literature (Adner, 2012, Iansiti; Levien, 2004), whereas service ecosystem discussion highlights interaction between the loosely-coupled ecosystem actors as a main characteristic (Barile; Polese, 2010, Vargo; Lusch, 2011). In line with the above definitions, this study highlights the interacting and co-evolving nature of ecosystems and distinguishes them from business networks by the broader settings of ecosystem members – in addition to business relationships, actors may have other kinds of direct and indirect linkages to each other. Therefore, the variety of actors is the major difference between the two concepts, i.e. business ecosystems and networks (Heikkilä; Kuivaniemi, 2012).

Figure 1 illustrates the layered structure of service ecosystem. In service ecosystems the following actors form the service network and have key roles: service provider, user/customer, broker/intermediator, and – in the case of digital services – the role of platform owner must be highlighted (Riedl et al., 2009).

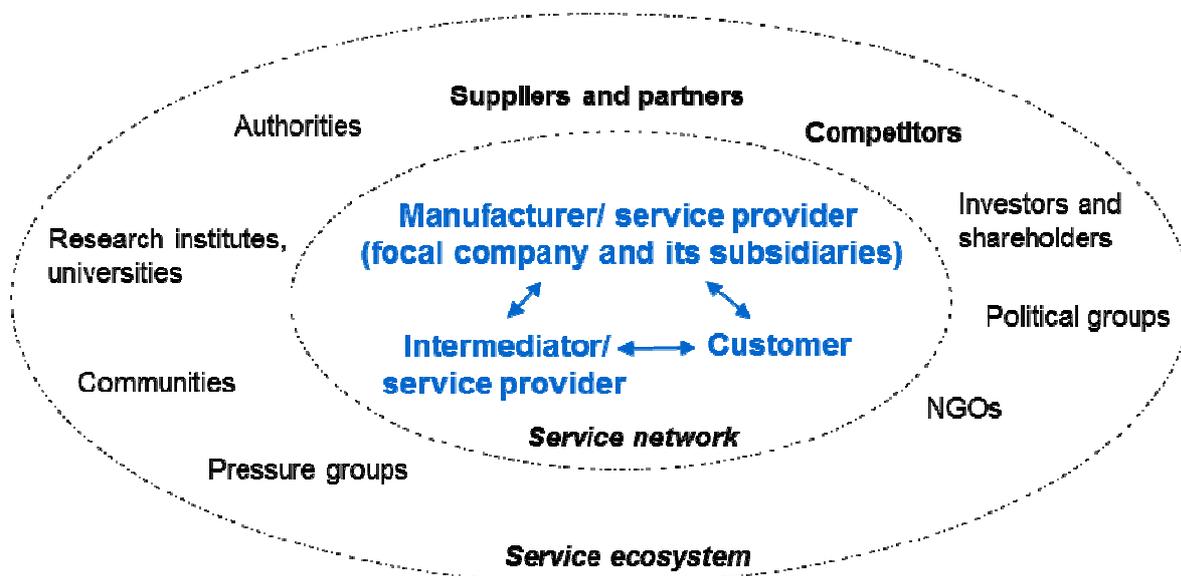


Fig. 1: The layered structure of an ecosystem (modified from Prescott et al., 2002, Donaldson; Preston, 1995, Koivisto et al., 2004, Palomäki et al., 2014).

In a service ecosystem, actors integrate resources in interaction with each other (Vargo; Lusch, 2008). *The consequential co-evolution within an ecosystem is a key*

assumption in this study. In other words, as the definition from Vargo and Lusch (2011) suggests, service ecosystems reconfigure themselves, they are dynamic and potentially self-adjusting. Therefore, an actor's ability to understand and orchestrate dynamic strategic interactions, actions and perceptions of the other actors in the ecosystem is a key success factor in ecosystems.

2.3. Synthesis of the current understanding

Service ecosystems need to be explored in-depth in order to understand the change required in the mind-sets of all involved actors. In particular, this concerns studies on distribution and sales, since there has been little research on this.

Table 1 summarises the key characteristics of channels, networks and ecosystems. The service ecosystem approach has a strong focus on collaborative processes (Lusch, 2011), thereby highlighting co-evolving, indirect relationships and weak ties. Thus, combined competition and collaboration, as well as shared resources, are characteristics of a service ecosystem, whereas the role of effective governance, knowledge sharing, and the application of resources have been noted as central issues in network models (cf. Dyer; Singh, 1998). In the channel management literature, in turn, the main focus has been on company specific competitive strategies (Gadde, 2016).

Table 1: Key characteristics of channel, network and ecosystem models.

	Channels	Networks	Ecosystems
Actors and their roles	Suppliers, customers and intermediators	Different roles of key actors	Variety of actors (stakeholders) involved
Relationships and Interaction	Dyadic, arm's-length business relationships Sequential operations	Direct business relationships, effective governance Co-operation and collaboration	Direct and indirect relationships, weak ties Collaboration and competition

Due to the current trends in business life, such as servitisation and digitalisation, the nature of offerings is changing, raising the need to rethink the current collaboration models in distribution and services, i.e. manufacturers (or other focal companies) need to reconsider the channels and intermediaries, their roles and responsibilities. Furthermore, as the success of a company is nowadays dependent also on its collaborators, companies cannot do these considerations alone. Therefore, it is important also to view the theoretical groundings of the relevant concepts in order to understand the different logic of action needed within them. On the other hand, the literature of channel management in distribution and services needs to be addressed and contributed to according to these changes in the business world.

3. Materials and methods

In this qualitative, single case study, the focus is on a sales and distribution network in which the ongoing change and evolution of the manufacturer's (focal company) offering is expected to result in changes within the network, such as changes in actors' roles and responsibilities. Case study methodology was chosen as it is suitable for analysing situations involving complex and multiple variables and processes, and for asking how and why questions about events over which the investigator has little or no control (Yin, 2003).

3.1. Background to the focal company and its sales and distribution network

The focal company is a medium-sized manufacturing company, which offers production solutions including equipment, production management software and services. In this study, the focus is on the sales and distribution network of the focal company. The sales and distribution network comprises both direct and indirect channels towards the customer: direct channels that include the direct sales carried out by the focal company and its subsidiaries, and indirect channels that include distributors and dealers. The focal company is very international and has an extensive global sales and distribution network including subsidiaries, distributors and dealers: it has over 15 subsidiaries in 15 countries and distributors in over 60 countries, and it carries out regular deliveries to 70 countries.

The focal company's offering is becoming more complex and knowledge-intensive. The role of software in the products is becoming more important, and, along with this development, the company is also offering more consultation-type services. With this growing share of services, the company wants to stand out with its solution-centric approach to customers' problems. In general, a focal company product is purchased for professional use, and the typical customer is demanding and appreciates the technical expertise of the seller.

This case was selected because it gives practical insights on:

- the actors' roles in the sales and distribution network of a company that has a long and successful history in global business and distribution
- the challenges in network dynamics (changes in roles, distribution of work, etc.) when the offering of the focal company evolves
- the contradiction between management and co-evolution in the networked business of a manufacturer.

3.2. Data collection

The research data was collected from multiple sources: a total of 12 semi-structured interviews with focal company representatives (6) and dealers (6), and a workshop with the focal company representatives. In total, 14 company representatives were interviewed. A semi-structured interview method was used for the interviews. The important themes and guiding main questions were decided beforehand, but the discussion was kept open and the interviewees were given a great deal of freedom to

discuss the issues freely and from their own perspectives. The interviews were carried out by two researchers and were recorded and transcribed. The interviewees from the focal company were people whose roles were connected to the managing and operations of the company's sales and distribution network, both on strategic and operational levels. The interviewees from the dealer's side had managing roles and significant experience with collaborating and co-operating with the focal company.

Between the two interview sets, a recapping workshop with the focal company representatives who were also interviewed was organised to discuss the findings of the first interview round and ensure a coherent understanding of the sales and distribution network model of the company. The following table presents the entire data collection process.

Table 2: The collected data and process.

<p>1. Interviews – 6 focal company (manufacturer) representatives (located in Nordic country A) <i>The aim of the interviews: to gain a coherent understanding of the sales and distribution network model of the focal company, benefits and limitations, from the focal company's perspective</i></p>
Export manager
Vice president, with a special focus on supply chain management
Business development manager
Business development manager
Project manager, with a special focus on supply chain management
Sales manager
<p>2. Recapping workshop <i>The aim of the workshop: to specify and expand on the model of the sales and distribution network (based on the understanding gained from the focal company interviews), the strengths and development needs of the network, as well as the roles of intermediaries</i></p>
The interviewed 6 focal company representatives (see above)
<p>3. Interviews – 6 dealer companies, 8 representatives in total <i>The aim of the interviews: to gain an understanding of how the dealers operate, their development needs, and how they perceive the collaboration with the focal company</i></p>
Sales and procurement Business manager Business manager (Dealer 1, Central European country B)
Business manager (Dealer 2, Central European country C)
Sales manager (Dealer 3, Central European country C)
Business manager (Dealer 4, Nordic country A)
Business manager/ entrepreneur (Dealer 5, Nordic country A)
Entrepreneur (Dealer 6, Nordic country A)

The themes for the interviews included:

- For the interviews with the focal company representatives: basic company information (offering, customers, competitors, future development); export and international markets (exporting history and present status, steps towards internationalisation, collaboration in internationalisation, successes and challenges in internationalisation); organising and managing the sales and distribution network (how sales is organised in different markets, the responsibilities of different intermediaries, challenges and successes of the network, collaboration and information flow between the focal company and intermediaries); perspectives on the future.
- For the interviews with the dealer representatives: basic company information (including its role in the network); dealers' offerings; relationship with the focal company (history, practices, communication, successes and challenges); market, customers and customer information (what customers appreciate and expect, customer profiles, anticipated changes in customer needs); sales and marketing (collecting customer feedback, motivation for selling the products and services of the focal company, focal company's support for the dealer); perspectives on the future.

The collected data was analysed to create descriptions of the sales and distribution network and its actors, and of the pros and cons of the current network model, collaboration and actor roles.

4. Case findings

The case findings are discussed in the following sections. First, the current network model is described in the section 4.1. and then pros and cons are summarised in the section 4.2.

4.1. The sales and distribution network of the focal company

The current network model of the focal company (manufacturer) and the roles of the key actors (focal company, intermediaries and customers) were discussed in the interviews. Figure 2 illustrates the key actors and their roles within the service network. The key roles of intermediators within the sales and distribution network of the company are presented and described below:

- *Subsidiaries* (wholly owned by the focal company) organise and manage sales and services in their areas, are responsible for local marketing and warehousing and for building and managing the local dealer network. They have own stock and demonstration machines. Subsidiaries carry out sales and manage local key customerships; they have two channels towards end-customers: through dealers and direct sales (key accounts). Subsidiaries are familiar with the products and services thoroughly as the personnel are well trained on the machines, and have a good understanding of local customer needs.

- *Distributors* operate in countries in which there is no subsidiary. They may represent many product types, products and brands – possibly including other brands within the product field of the focal company. They are responsible for organising and managing their sales and services and have their own stock. Establishing a distributor in a new country is an important step in making the brand known there. Distributors pass certain customer leads to the focal company. According to the focal company, simple product sales and sales of productised services suit distributors the best.
- *Dealers* operate in countries in which there is a subsidiary. They represent a wide repertoire of machines, and typically prefer basic machines that are easy to sell and use. They manage their own sales and customerships, and may also offer services and electronic commerce.

The focal company itself is responsible for the management of global key customers (accounts). It builds and manages its networks, and manages and supervises collaborative relationships with network actors. It manages marketing efforts, maintains and manages the central warehouse, and provides its intermediaries in the sales and distribution network with training, technical support and guidance, as well as sales support (e.g. by taking part in customer visits with dealers). It manages customer feedback and complaints, collected directly and through dealers and distributors, and complaints-related issues on the strategic level. It has the most comprehensive understanding of and access to customer information, as well as a visionary understanding of the direction and future development needs of the company and its networks.

Customers expect knowledge-intensive solutions, and getting more from one service provider. As a consequence, solution sales expertise and new ways of contacting and selling to customers can be expected to become crucial to the success of the focal company and its networks.

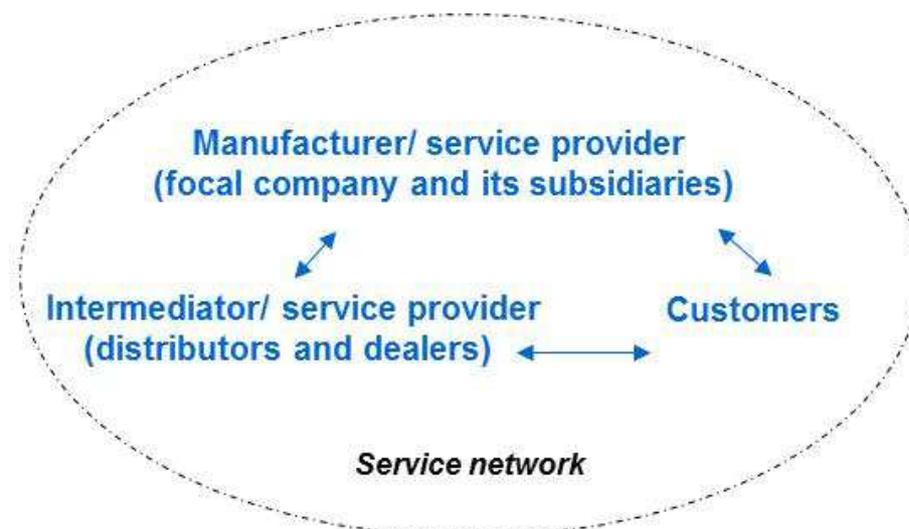


Fig. 2: The key actors and their roles (the service network of the focal company).

As illustrated in Figure 2, both the manufacturer and the intermediators operate as service providers. Therefore, they have varying and complement roles in the service network, i.e. also the intermediators are active actors, not just passive channel members. The growing importance of direct, consulting solutions sales guides the development of offerings and the network.

In general, selling this kind of equipment is very cyclical, i.e. dependent on industry-level changes, such as economic situations and trends. From the viewpoint of the focal company, maintaining more direct contact and building partnerships with customers instead of just supplying equipment every now and then evens out fluctuations, and can therefore be more practical and profitable. On the other hand, such change in roles may have an influence on intermediators' interest and commitment to actively develop the network. The focal company considers the change as important and wants to invest in it, and with these ongoing changes in mind it examines respectively different network models (structure, roles, resources and fields of know-how and expertise).

4.2. The pros and cons of the current service network

In order to foresee the influences of the on-going changes, co-evolution between the network actors, the pros and cons regarding the collaboration are summarised in Table 3.

Table 3: Pros and cons of the current service network and network actors.

Pros	Cons
<i>The focal company</i>	
<ul style="list-style-type: none"> • The best and most up-to-date technological and R&D expertise • Strong understanding of the offering • Expertise on solution sales • Better opportunities to control the brand and keep it consistent • Developed IT solutions that make it easier for the focal company to be in direct contact with customers and allows it to take more responsibility 	<ul style="list-style-type: none"> • The need to further develop solution sales expertise of the focal company • Confusion in responsibilities may negatively affect the relationship between the focal company and a dealer: It can be unclear to dealers whether customers are being approached directly by the focal company or through dealers
<i>Subsidiaries</i>	
<ul style="list-style-type: none"> • Credible actors and creation of credibility in the market • Strong expertise and familiarity with the products and services • Company goals are easier to put into practice in the case of subsidiaries, subsidiaries are also easier to monitor • The focal company gets more and superior information from subsidiaries (e.g., market and customer information) • Developed IT solutions allow subsidiaries to take more responsibility with customers and business 	<ul style="list-style-type: none"> • Currently, solution sales have not fully been put into practice in the subsidiaries, i.e. subsidiaries may lack the expertise to sell solutions (customer-orientedness, comprehensive solutions, sales arguments, software, service sales)
<i>Distributors</i>	
<ul style="list-style-type: none"> • Distributors have good know-how of local markets and their potential • The geographical coverage that the distributor network provides to the focal company 	<ul style="list-style-type: none"> • Not as familiar or up to date with the offering, may lack expertise relating to products, software, solution sales and IT • The level of commitment to the focal company varies • Culture-related issues may make collaboration with distributors challenging • Information flow from distributors to the focal company is lacking (e.g. customer feedback)
<i>Dealers</i>	
<ul style="list-style-type: none"> • Extensive sales and service networks • Capability to manage their local networks efficiently • Know-how about tailoring products and services to local circumstances and needs • Good capability to sell the simpler machines that could also be bought over the internet, from online shops, and some dealers of the focal company already offer this opportunity 	<ul style="list-style-type: none"> • Deficiencies in the technical and sales expertise of some dealers, especially related to more complex products, solution sales and IT • Difficulties with keeping up with the products • Dealers differ in their business profitability, and levels of commitment and contact • Challenging to create common practices (related to training etc.) with dealers • Partly inefficient stock management • Information flow from dealers is lacking • Cultural differences with some dealers • Dealers sometimes have conflicts with each other when they approach others' customers

As we can see from the findings presented in the table above, the key factors that facilitate the change in the sales and distribution network of the manufacturer include the technological and R&D expertise of the focal company and its subsidiaries, a solid understanding of the offering, the focal company's and its subsidiaries' expertise on solution sales and better opportunities to control the brand as well as the challenges related to the collaboration with some of the dealers and distributors, recognised both by the dealer and focal company representatives. From the focal company perspective, there seems to be lots of variance in the expertise and commitment among dealers and distributors, also which encourages the focal company to consider reorganising sales and distribution in case of the more complex products. However, in the interviews, dealers and distributors were acknowledged for their good knowledge of local markets and their potential.

5. Discussion and conclusions

In the case of more complex products, the focal company needs to consider what is the best way to serve customers, and then decide on practical measures such as whether to take back some of its sales and services, or to continue to operate via intermediaries and provide them with more training and sales support. The focal company may also need to consider whether it needs new types of sales partners, for example, in order to ensure the competence of its sales and services. Also the focal company itself and its subsidiaries might have capability requirements – e.g. need for new personnel, trainings and tools – in order to ensure successful sales. Furthermore, changes made in the network may put some pressure on logistics, such as warehousing, for example.

However, it needs to be highlighted that although the focal company is, to some extent, discussing moving its sales and distribution operations back to itself and its subsidiaries, this is in relation to the more developed products. In the offering of the focal company, the basic equipment is still in a central role, and for these the sales and distribution, as it is, is crucial, as the intermediaries carry out a great deal of the important sales and services and act as customer contact points at the local level. If the emphasis in the product offering would change very radically, the fear could be that the end customer would remain distant and market-specific needs undiscovered, making it harder for the company to develop its offering in market-specific way.

In line with previous literature (Gadde, 2014), the case illustrates how the characteristics of the offering may influence the way a manufacturer operates in global distribution, so that technically demanding customer relationships are managed by the manufacturing companies themselves, and distributors carry out the selling of more standardised products. Thus, the offering influences the way activities and responsibilities are divided between a focal company and its intermediaries, creating settings for the roles of the actors. More complex products make the focal company change its role and activities, urge it to get closer to the customer, which in turn affects the whole network.

This case provided empirical insights on the current level of systems thinking in service ecosystems in practice. Based on this case study it can be stated that companies' views on broader ecosystem are quite limited – and this although they already have good deal of collaboration experience on the (service) network level. As a

managerial implication, we suggest that companies would develop a broader view on the dynamic strategic interactions, actions and perceptions in their ecosystem – for instance, the activities of competitors as well as customers' customers should be actively followed and evaluated, in order to foresee the future customer needs and changes in business. The way companies think needs to change substantially to enable networks to work and develop through collaboration and co-evolution on the service ecosystem level, instead of being managed, orchestrated and led almost solely by the focal company in the network. Also, in the case this paper presents, possible changes in the network were discussed mainly by the focal company and on its own terms – at least at this point.

Another managerial implication is that the sales and distribution network needs to be considered as an entity, on a wider ecosystem level, in which changes come to fruition in a co-evolving manner, influence other actors and reflect back on the focal company and its business activities. Furthermore, the case illustrated that in practice the collaboration models are hybrid and none of the models - channel, network or ecosystem model (summarised in Table1) - exist purely.

Further research is needed on companies experiencing similar changes and on studying how the offering complexity affects the interactions and collaboration in sales and distribution network and the roles of network actors. This research paper only addressed the perspectives of the focal company and its dealers. In future research, the perspectives of other network actors should be studied to gain deeper insight into the dynamics of networked value co-creation.

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