Value of initial relationships in new business start-ups

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Abstract

Purpose – Several studies have focussed on new ventures and the development of their first business relationships. However, the understanding of the value functions and involvement in those relationships remain inadequate. The purpose of this paper is to explore the relating process of a new venture by combining the value function framework and the notion of the degrees of involvement in business relationships.

Design/methodology/approach – The authors rely on two exploratory longitudinal case studies that focus on two start-ups. In both cases, the evolution of initial relationships with suppliers and customers over a period of time are studied.

Findings – The process of relating can occur through a diversity of business relationships manifested in both their value functions and their degree of involvement. The combination of value functions is not stable over time nor is the degree of involvement in business relationships. Moreover, specific interdependencies emerge between the value functions in the customer base and the supplier base of the new ventures over time.

Originality/value – This paper is among the few that explore the emergence of new ventures by considering both suppliers and customer relationships. From a business network perspective, the paper also shows that combining value functions and degrees of involvement provides a better understanding of the role of relationship diversity in the process of becoming a node in the business network.

Keywords Business relationships, Involvement, Networks, Start-up, New venture, Value functions

Paper type Research paper

1. Introduction

In the research field of entrepreneurship, studies have addressed the figure of the entrepreneur by focussing either on personal characteristics or networks of entrepreneurs or on both (Aaboen et al., 2017; Snehota, 2011). The network-based literature on entrepreneurship has long recognized the roles of interpersonal and inter-organizational relationships. Through a mix of strong and weak ties, actors gain access to a variety of resources controlled by other actors (strong ties) and to gain legitimacy (weak ties) (Elfring and Hulsink, 2003; Hoang and Antoncic, 2003; Slotte-Kock and Coviello, 2010). From an industrial network perspective, a growing interest exists in the literature on the formation of new ventures (Aaboen et al., 2013, 2017; Baraldi et al., 2019; La Rocca et al., 2013; Shih and Aaboen, 2017; Snehota, 2011). An industrial network involves actors, resources and activities. In turn, network actors control resources and perform activities. Through relationships, these actors can not only access existing resources but also develop new resources that may be used in value-creating activities (Axelsson and Easton, 1992; Håkansson and Snehota, 1995). Business relationships are counterpart-specific and interdependent (Håkansson and Ford, 2002); they result from interactions, adaptations and investments between actors over time (Ford et al., 2003).

As the existence of business relationships is a necessary condition for the existence of a business (Axelsson and Easton, 1992; Håkansson and Snehota, 1995), the industrial networks’ approach is useful for understanding the formation of new ventures. In this context, the emergence of a new venture involves the need to deal with its entry into a pre-existing network; that is to say, a new venture has to establish and develop relationships with those actors already operating in the network. As noted by Aaboen et al. (2017, p. 3), “the initial phases of the start-up journey are about relating to an existing landscape of business organizations, customers, suppliers and other institutions, to become a node in business networks”. Therefore, the increased interest in studying those processes that lead to the emergence of new ventures is not surprising, such as how they develop initial business relationships and portfolios of business relationships with customers (Aaboen et al., 2017; Snehota, 2011; La Rocca et al., 2019b) suppliers (La Rocca et al., 2019b) or incubators (Shih and Aaboen, 2017).

In line with the need to improve the existing knowledge on the development of initial relationships by a new venture (La Rocca et al., 2013), this paper focusses on how new ventures deal with and pursue the development of business relationships with suppliers and customers by considering the perception of value and the involvement in those relationships. Previous

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research finds that new ventures have higher resource restrictions than established firms that means they have to more carefully prioritize the business relationships in which they invest (Aaboen, Dubois and Lind, 2011; La Rocca et al., 2019b). In general, the assumption is that the development of relationships is demanding in terms of adaptations and mutual knowledge, both of which are aspects usually manifested by the presence of extensive activity links, resource ties and actor bonds (Ford et al., 2003; Håkansson and Snehota, 1995).

However, as business relationships are diverse, certain sections of the network may have less demanding connection points in one or more of those dimensions or involvement (Gadde and Snehota, 2000, 2019). In addition, some studies have focussed on the value of a business relationship in established firms by distinguishing between direct and indirect value functions that show the usefulness of this framework to differentiate relationships with suppliers and customers (Ritter and Walter, 2012; Santos et al., 2018; Song et al., 2012; Walter et al., 2001; Young et al., 2008). Thus, our study adds to the research on how new ventures deal with their initial business relationships by unpacking and analyzing their diversity over time with regard to their value functions and involvement in initial relationships.

Section 2 presents the literature review which mainly focuses on the nature and the value of business relationships. Section 3 presents the methodology, followed by Section 4 which presents two case studies. In Section 5, we discuss the case studies and the conclusions of the study are presented in Section 6.

2. Theoretical framework

2.1 Industrial networks and new ventures formation

At the core of the industrial network, the approach is the notion of interdependence amongst firms. Instead of a market consisting of individual and isolated transactions between anonymous buyers and suppliers, the network of each firm is constituted by other firms and the business relationships that connect them to each other (Håkansson and Ford, 2002). As all firms exist in a changing relational context, the dimension of time is an essential feature when considering stability and change in business relationships. The presence of continuous relationships between actors indicates a degree of stability in some dimensions, but this continuity is a way of creating the conditions for change to take place in other dimensions; for example, in the form of new products, processes and knowledge (Håkansson and Snehota, 1995). Time also matters in the sense that the interactions between the parties influence past experiences and future expectations. Each relationship is unique in its content, dynamics and evolution, as well as on how it affects and is affected by other connected relationships (Axelsson and Easton, 1992; Håkansson and Snehota, 1995). The network results from complex interactions, adaptations and investments between and within firms over time (Ford et al., 2003).

Interdependence is one of the relevant aspects to study the formation of new ventures from the perspective of industrial networks (Snehota, 2011). An emerging firm relies on a pre-existing network of actors, resources and activities. Thus, a new venture is not an entity outside the network, but rather it is a part of the network (Snehota, 2011). The new ventures have to establish and develop relationships with other firms through which they obtain and develop the necessary resources, often together. However, the need to continuously relate to others and the resulting interdependence has consequences for firms’ autonomy (Ford et al., 2003). Additionally, the development of new relationships and changes in existing relationships may affect not only directly but also indirectly, connected relationships (Snehota, 2011).

Several authors have addressed the issue of the formation of new ventures from the perspective of industrial networks (Aaboen et al., 2013; Hormiga et al., 2011; La Rocca et al., 2013; Snehota, 2011). For instance, Hormiga et al. (2011) attempt to highlight the role played by relational capital in a start-up, Aaboen et al. (2013) focus on the network positioning of a new venture and La Rocca et al. (2013) study how early relationships of a new venture influence the development of its offer and competencies. However, initiating a business relationship with a customer may be particularly demanding for a new venture (Aaboen et al., 2017) and may shape the development of its portfolio of customer relationships over time (La Rocca et al., 2019b). In the next two sections, we suggest that novel insights on how new ventures deal with and pursue the development of their initial business relationships can be obtained by combining a value function framework and the notion of involvement in business relationships.

2.2 Value functions in business relationships

Lindgreen and Wynstra (2005) argue that the literature on value presents two major streams: the value of offers and the value of relationships. The second stream perceives value as a trade-off between multiple benefits and sacrifices related to value functions. The value functions of each relationship can be analyzed as a set of direct and indirect functions (Ritter and Walter, 2012; Santos et al., 2018; Song et al., 2012; Walter et al., 2001; Young et al., 2008). Direct functions are those that relate to the dyadic relationship and do not depend on other relationships or other actors. Indirect functions are related to the presence of specific interdependencies between a focal relationship and other relationships (Walter et al., 2003). In other words, indirect functions or network functions assume that business relationships are connected to each other (Håkansson and Johanson, 1993; Möller and Törnrothen, 2003; Young et al., 2008). Direct and indirect functions influence the value creation in the firm’s relationships and in the surrounding network (Walter et al., 2001).

Direct functions can integrate four dimensions, namely, profit (or cost reduction), volume, quality and safeguard functions (Walter et al., 2003). The profit function is related to the realization of profits that is a necessary condition for the survival of a firm. Any supplier should have profitable relationships with customers if they want to survive in the long run (Walter et al., 2001, 2003; Young et al., 2008). Initial relationships in a new venture are associated with substantial costs and benefits. However, these can occur at different periods in time. While benefits can be obtained in an uncertain future, costs are usually easier to anticipate (La Rocca et al., 2013). Furthermore, price and volume are often associated. The volume function is associated with the volume of sales (or purchases) that is expected to be higher when the price is lower.
The quality function is related to the quality of products or services in terms of reliability, ease of use or maintenance, etc. The safeguard function refers to the insurance guaranteed by the relationships with customers or suppliers. For example, a relationship with a secondary supplier or a contact with a potential supplier can decrease the dependence of the customer (Walter et al., 2001, 2003).

Indirect functions include market, access (or scout) and innovation (Walter et al., 2003). The market function is related to the possibility of using a specific relationship as a resource to establish other business relationships with other firms. For example, a customer may recommend the firm to other customers or the association with a particular customer or supplier may be a valuable reference to increase a firm’s attractiveness to other potential customers or suppliers (Möller and Törnroen, 2003; Walter et al., 2001). In an important sense, business relationships influence the network identity of a firm that is manifested in its attractiveness (or repulsiveness) as an exchange partner (Anderson et al., 1994; Purchase et al., 2016). Therefore, the identity construction can be linked to the (indirect) market function of business relationships; namely, to its role in the development of a new venture in a network context (Mota and de Castro, 2019). This is consistent with the view that a network may contribute to the success of a new venture to the extent that it opens possibilities to gain legitimacy, which is a notion that the network-based entrepreneurship studies emphasize (Elfring and Hulsink, 2003; Fisher et al., 2017; Suchman, 1995; Überbacher, 2014).

The access and scout function are related to the exchange of information (e.g. technical or market-related) which allows a firm to reduce time- and money-consuming licensing procedures and business negotiations. Customers and suppliers can be an important source of information about the market or other actors in the network (Walter et al., 2001, 2003). Some relationships can, therefore, help the firm to change its perceptions of the broader network in which it exists and open new possibilities for (inter)acting (Young et al., 2008).

Regarding the innovation function, studies have recognized this function as the competencies, products or processes that the company may reuse in other connected relationships. For example, a customer may recommend the firm to other customers or the association with a particular customer or supplier may be a valuable reference to increase a firm’s attractiveness to other potential customers or suppliers (Möller and Törnönen, 2003; Walter et al., 2001). In an important sense, business relationships influence the network identity of a firm that is manifested in its attractiveness (or repulsiveness) as an exchange partner (Anderson et al., 1994; Purchase et al., 2016). Therefore, the identity construction can be linked to the (indirect) market function of business relationships; namely, to its role in the development of a new venture in a network context (Mota and de Castro, 2019). This is consistent with the view that a network may contribute to the success of a new venture to the extent that it opens possibilities to gain legitimacy, which is a notion that the network-based entrepreneurship studies emphasize (Elfring and Hulsink, 2003; Fisher et al., 2017; Suchman, 1995; Überbacher, 2014).

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In the context of established firms, Santos et al. (2018) conclude that the relationships’ value may result from different combinations of several direct and indirect functions. Even if direct functions can play a prominent role in specific relationships, that role is often associated with the presence of indirect functions. For example, the absence of an innovation (indirect) function may inhibit some future direct functions (e.g. profit) in one relationship and other direct functions (e.g. volume) in other existing business relationships. Aaboen et al. (2011) address some of these dimensions in the context of start-ups that relate to an existing network, particularly the relevance of a first relationship between the start-up and a customer. The authors note that by interacting with first customers, a new venture starts to develop its ideas about what should characterize it and with whom it wants to establish and develop business relationships. These results suggest that the benefits or values of the first relationships may arise from direct functions through the discovering of economically viable ways of combining resources or accessing financial resources through economic exchanges and indirect functions through the generation of contacts with potential customers or acquiring a reputation for other firms as a result of being associated with a specific counterpart. The perceived value of a business relationship between a new venture and a customer can result from being a facilitating resource to establish new relationships beyond the economic value of that specific customer (La Rocca et al., 2019a).

Considering the first supplier relationships, La Rocca et al. (2019b) conclude that new ventures can access and assemble resources via these business relationships. The new venture co-evolves with its suppliers by shaping the value of the offers and organizational configurations. In the process of overcoming the liability of newness in the relevant network, the first supplier relationships may assist the new ventures in building legitimacy (La Rocca et al., 2019b). In the context of connected relationships, a new venture can perceive an incubator to be a relevant actor that can assist it with resources, not only physical and administrative resources but also through counselling and networking (Rice, 2002). During the initial process of relating the new ventures with other existing actors in the network, the incubator can combine several roles, namely, scout, awareness builder and access provider (Oukes and Raesfeld, 2017). In some cases, the incubator may be involved in product development activities. Therefore, an incubator may, directly and indirectly, control resources that makes it a key dimension of the incubation processes (Baraldi and Havenveld, 2016). Accordingly, as the relationship between a new venture and a business incubator can influence the establishment and development of business relationships with other actors (Shih and Aaboen, 2017), its perceived value may include direct and indirect functions for the focal firm.

2.3 Involvement in business relationships

One of the central tenets of the industrial networks is that business relationships have a substance that is manifested in three closely interrelated dimensions, namely, activity links, resource ties and actor bonds (Håkansson and Snehota, 1995). Suppliers and customers need to coordinate their activities (Ford et al., 2003; Gadde and Snehota, 2000, 2019). The coordination of activities of those firms involved in the relationship leads to the formation of activity links (Håkansson and Snehota, 1995).

The coordination of activities may lead to the adaptation of resources by both firms over time. No relationship can evolve without a certain number of adaptations. However, adaptations create mutual dependence and represent opportunity costs as they limit the ability of firms to make simultaneous adaptations in different relationships (Ford et al., 2003; Gadde and Snehota, 2000). According to McLoughlin and Horan (2000, p. 288), “a demonstrated willingness to make adaptations send important signals to partners about the commitment and trust which exists in the relationships”. Adaptation of resources leads to the formation of resource ties (Håkansson and Snehota, 1995).
Finally, all relationships begin with the first contact and the subsequent interactions often evolve with mutual learning, coordination of activities and adaptation of resources. The initial uncertainties regarding the relationship will tend to diminish as mutual trust develops (Ford et al., 2003; Gadde and Snehota, 2000). The interaction between individual actors leads to the formation of actor bonds (Håkansson and Snehota, 1995).

The involvement in a relationship can be seen as the existence of activity links, resource ties and actor bonds (Håkansson and Snehota, 1995). The relationships characterized by the presence of these three dimensions are known as high involvement relationships, while those with only one of these dimensions are low involvement relationships (Gadde and Snehota, 2000). Low involvement relationships are characterized by poor integration between the two firms that result from low investment in resource adaptation, coordination of activities and continuous interaction between the parties involved (Ford et al., 2003; Gadde and Snehota, 2000).

Considering that it takes time and investments to develop strong activity links, resource ties and actor bonds, high-involvement relationships are usually long term. The higher the relationship involvement of the firms the stronger the evolving interdependencies become (Freytag et al., 2017). Although the increase in the relationship handling costs, the firms may achieve cost benefits (e.g. improved flexibility) or revenue benefits (e.g. improved quality of the firm’s end products) (Gadde and Snehota, 2000). A new venture as often occurs with other firms, can only cope with a limited number of high involvement relationships (Havenvid and Rocca, 2017). The number and intensity of these customer relationships may require a balancing act. The development of a new venture may be conditioned by its ability to explore similarities within and between customer relationships with regard to resources and activities, including the relationship involvement to deal with the degree of customization of its products or services (Aaboen et al., 2011).

The perceived value of high or low involvement relationships is context-dependent (Corsaro and Snehota, 2010) and results largely from the actors’ interpretations and connections between user and producer contexts and the other relationships in which each firm is involved (Gadde and Snehota, 2000). Thus, the value of a focal relationship is specific to the actor, and therefore different actors may have different perceptions of the value of relationships (Corsaro et al., 2013; Corsaro and Snehota, 2010).

In short, the emergence of a new venture requires the establishment and development of relationships with a pre-existing network. Some initial relationships can be perceived as more valuable than others and may impact differently the initial insertion of the new venture into the network. The perceived value functions associated with a changing portfolio of relationships with other actors can be diverse and, for the same relationship, can change over time. In addition to the (perceived) value functions framework presented above, the diversity regarding the involvement in relationships suggests that certain sections of the network may be less demanding in terms of the degree of involvement in the first customer and supplier relationships of a new venture. The new venture has to learn about the development of their customer portfolio of connected relationships (La Rocca et al., 2019a) and deal with the need to balance the degree of standardization of its offers as it may affect the degree of involvement in the business relationships (Gadde and Snehota, 2000; Aaboen et al., 2011).

By combining the value functions framework (Håkansson and Johanson, 1993; Walter et al., 2001; Young et al., 2008) with a focus on the involvement in relationships (Håkansson and Snehota, 1995; Gadde and Snehota, 2000), our purpose is to explore how new ventures deal with and pursue the development of their initial business relationships. Within our framework, the new venture’s perception of the value of the initial relationships, in specific dimensions, may affect its priorities regarding its intended involvement in specific business relationships as it requires investments and adaptations that compete with other investments; on the other hand, the relationship’s involvement is also expected to affect the perceived value of the initial relationships in specific dimensions. The relation between the two dimensions may change over time, as the actors learn about that relationship in the context of connected business relationships (Figure 1).

3. Method

This paper explores how new initiate ventures and develop their first business relationships in a network by considering the value functions and involvement in those relationships. We use process-based case research (Andersen et al., 2018) to understand the new venture relating process within a network over time. We also adopt a case study methodology due to the explorative nature of our study that, to the best of our knowledge, it is a first attempt to capture the value perception of initial business relationships. This research design allows us to address complex social phenomena in their actual context (Barkinshaw et al., 2011; Dubois and Araujo, 2004). The case study research is frequently used in industrial marketing.

Figure 1 Dimensions of stability and change of initial relationships
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(Easton, 2010) and facilitates the systematic combination of theory and the empirical data as the study unfolds (Dubois and Gadde, 2002).

Our cases were purposely selected (Miles et al., 2014; Patton, 2002) to provide a powerful example, and not to provide a statistical generalization (Siggelkow, 2007). The case studies address two new ventures, which we call “ALPHA” and “BETA”, that are both associated with an incubator – the EDP starter. The case selection reflects our intention to study two contrasting cases regarding their offers. Products from ALPHAs are relatively complex to produce and use, as they require technical adaptations. In addition, it has to comply with tight regulations. In contrast, the products from BETA are designer power strips for charging various household devices and are much less complex to use.

The findings or conclusions in a case study are likely to be much more convincing and accurate if they are based on different sources of information (Aaboen et al., 2013; Andersen et al., 2018). Halinen and Törnroos (2005) also emphasize that a case study should rely on the use of multiple sources of evidence. Accordingly, between the years 2014 and 2019, the data were collected using diverse sources both retrospectively and in real-time. Table 1 presents an overview of the informants and interviews.

Table 1 about here

In 2014, data collection mainly focussed on:

• the process of new venture generation;
• the difficulties encountered in product development;
• how the first relationships came about, that is, finding business partners, customers and suppliers;
• to what extent this first relationship influenced the development of the new venture;
• how are the different relationships interconnected; and
• the intentions regarding the future of the firm in the medium and long term.

All follow-up interviews aimed to observe the current situation of these firms to deepen our understanding of the changes in the initial relationships and to discuss some preliminary interpretations. These further allowed us to assess whether the informants’ perceptions regarding the relationship value had changed. The issues that remained unclear after the interviews were clarified by phone or email. The observation of the firm’s facilities and onsite product demonstrations complemented the data collected in the interviews by providing better insights into the technical issues and challenges that were associated with the product, its components and production processes. Secondary data, such as the incubator’s data, provided a better understanding of the empirical setting and established a common ground for conducting the interviews. We also used other secondary sources, such as the firms’ data and local news, to complement and frame the information collected in the interviews. The collection of data from different sources at different points in time allowed for data triangulation (Miles et al., 2014; Yin, 2009). Additionally, we performed researcher triangulation, as both authors parallel interpreted the collected data.

We analyzed the collected data by both developing the case description and our conceptual framework. Specifically, the empirical data were connected to the theoretical concepts according to a systematic combining logic in consecutive phases (Dubois and Gadde, 2002). For example, as a result of the informants’ recurrent reference to working together with suppliers in contrast to the arms-length relationships with customers, the concept of relationship involvement has emerged to frame these processes. We captured the informants’ perceptions of the relationship value by asking for concrete event descriptions. These allowed us to gradually explore its relevance in the context of the value dimensions framework. The two cases are presented chronologically, approaching this process as a developmental event sequence describing activities undergone by an organization relating process as it changes over time (Bizzi and Langley, 2012; Pettigrew, 1997; Slotte-Kock and Coviello, 2010; Van de Ven, 1992). In the next section, firstly, we describe the business incubator of both new ventures, followed by a discussion of the cases by emphasizing the changes in the value functions and degree of involvement of the initial business relationships over time.

4. Two new ventures

In this section, we describe the incubation platform of Innovation EDP – EDP starter. Then, we present the development of the two new ventures, ALPHA and BETA stressing their relating process in the industrial network through the establishment of relationships.

4.1 EDP starter

The EDP Group has a worldwide presence in the energy sector. It is now present in 14 countries, namely, Portugal, Spain, the UK, France, Belgium, Poland, Romania, Italy, Canada, Mexico, China, Brazil, Angola and the USA. It has more than 9.8 million electricity and 1.5 million gas customers, as well as 16,000 suppliers and about 11,000 employees worldwide. EDP starter emerged in 2012 as an incubation programme to

<table>
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<th>Date</th>
<th>Face-to-face interviews and interviewee positions</th>
<th>Duration</th>
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<tr>
<td>2014</td>
<td>4 interviews: responsible for the entrepreneurship and business incubation of EDP starter/FabLabEDP; two founders of ALPHA; one founder of BETA</td>
<td>30 to 60 min each</td>
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<tr>
<td>2014</td>
<td>4 interviews: (same interviewees as in the 1st round)</td>
<td>60 to 180 min each</td>
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<td>2019</td>
<td>2 interviews: one founder of ALPHA; one founder of BETA</td>
<td>30 to 45 min each</td>
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<tr>
<td>2019</td>
<td>3 interviews: a recently appointed CEO of ALPHA; one founder of ALPHA; one founder of BETA</td>
<td>120 to 220 min each</td>
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support the development of new energy projects. It provides support that ranges from the idea phase through the prototype, incubation and pilot project to the stage where the project is able to be funded by venture capital. The EDP starter has resources available to firms in the FabLabEDP, such as three-dimensional printers, laser cutting equipment, a CNC router, a vinyl cutter and a miller’s work area. It also helps to connect the new ventures with specialists that have expertise in technological areas (such as electrical, electromechanical, chemical or metrology) and to organizations, often through the EDP group’s broad network, such as universities and customers in the field of energy.

The EDP starter programme began with three firms, including ALPHA. Subsequently, 12 more start-ups joined of which BETA was one. ALPHA and five of these new ventures entered the market: “their total turnover, in 2013, was over 3m euros” says the person responsible for entrepreneurship and business incubation at EDP starter.

4.2 New venture – ALPHA

ALPHA was created in 2009 after its main promoter won a prize in a contest that EDP promoted. In 2018, ALPHA had a turnover of around €325,000 and 7 employees. The basic concept is relatively simple: when someone takes a shower, the heat of the shower water is lost in the sewage. The founder of ALPHA developed a piece of equipment for new or re-modelled bathrooms that recovers the heat in the water. The current version is 65 cm long and can be placed underneath the bathtub. It recovers 30% to 50% of the water’s heat by using the drained water to reheat the cold water that is being used in the shower. This appliance allows energy savings of up to 40%, thus making homes or other buildings more energy-efficient. In 2019, the product won an award at Design Plus, which is a world-leading trade fair that focusses on the responsible management of water and energy in buildings.

The materialization of the idea began in 2009. The CEO of ALPHA heard about the Richard Branson EDP Award and began to develop a prototype of the product with in-house resources. Only a few pipes were needed to build the first prototype. Although this prototype did not actually work, he photographed it, filled out a form and submitted the application. The CEO of ALPHA saw this contest as a way of learning from other entrepreneurs with diverse backgrounds to acquire new ideas and to explore new ways to improve and develop his product. The contest had four stages of selection, and the product prototype managed to achieve second place. During the same year, a team of four individuals with diverse and complementary skills formed the new venture and registered a provisional national patent.

The prototype needed to be technically re-evaluated and tested to stabilize its technical specifications, an essential aspect for obtaining certifications and subcontracting the production of components. To perform the energy efficiency tests of the various solutions, EDP innovation, a department of EDP starter, introduced ALPHA to INEGI, which was a research and technology non-profit organization that studied thermodynamics and heat conductors. In addition to the suggestions of the INEGI technicians, ALPHA sought other sources. As technicians must assemble the product, it made contact with several plumbers to decide the best location of the water inlet and drainage interfaces to facilitate the assembly of the product. During this process, the founder contacted and received support from, the developers of software for heat recovery optimization. According to the informant: “these people, to have been able to develop one of the most used software in the industry, have a vision of these systems as a whole and of the variables that should be optimized. They gave important suggestions for improving the product; namely, altering the arrangement of some components to increase the efficiency of heat transfer between the pipes”. Later on, the CEO of ALPHA carried out the first experimental test of the product that was coated in stainless steel with a copper serpentine which provided a better perception of the behaviour of the product in terms of reliability.

In 2012, ALPHA entered the EDP starter incubation programme. Venture capital groups invested in the firm with each holding 30% of the stock, such as EDP ventures and change partners. During the following years, the product was subject to changes. A new model that was coated in ABS (a plastic polymer) was tested, which enabled the reduction of manufacturing costs relative to the previous model with a stainless-steel coating. Having managed to stabilize the technical specifications of the product, ALPHA requested an international patent for the product, which was granted.

A mould firm (supplier S1-A) designed and produced the mould for the outer part of the product. This supplier also produced the plastic parts in its injection equipment. A Spanish firm (supplier S2-A) produced the copper coil for the heat exchanger. ALPHA assembles the various components of the product.

In 2013, following contacts at an international fair, ALPHA sold the first units to a distributor that operated in the UK, after obtaining a WARS certification for the product. This distributor (HS) sells the product already integrated into bathtubs and is still one of ALPHA’s main customers in terms of turnover today. Although the firm only sold 500 units, most of them to HS, according to the informant: “being recognized as their partner opened doors, allowing us to gain credibility”. Distributors always ask for a sample of the product to consider its use. Further, they also want to know if ALPHA is capable of and willing to provide after-sales service. This is a key service because the equipment has a long service life underneath the bathtub.

In 2014, ALPHA started working with distributors in The Netherlands and Belgium, which required obtaining new certifications (KIWA for The Netherlands and BELGADUA for Belgium). However, for safety reasons, ALPHA changed the product’s specifications again by placing a double wall around the inner pipes of the product. As the Spanish supplier proved unavailable to invest in this technology, ALPHA had to look for a supplier who had the expertise to produce pipes with these technical specifications. A German firm that had expertise in developing heat exchange systems agreed to make some minor adaptations to its production system to produce double-walled pipes. Afterwards, the supplier reused technical solutions it had developed for other customers to recommend to ALPHA to change the pipe walls to substantially increase the heat recovery rate. Since 2014, this supplier has produced these components for incorporation into the product for customers who have these requirements.
The interest of several distributors in selling the product was gradually spreading to other markets, namely, Poland, Ireland, France, Australia, New Zealand, Lithuania, Estonia and Latvia. In each of the markets, the product had to obtain certifications from the national agencies of each country. In 2018, 10,000 units were already installed in 15 countries (including the UK) across 4 continents and the technology was patented internationally.

Despite this relatively rapid expansion in its customer base, in 2018 the firm decided to change its approach by focussing its efforts on a smaller number of customers. In particular, ALPHA started to prioritize the customers that operate in contexts that most value energy efficiency. Until 2018, ALPHA classified its distributors into two groups. The first group consisted of distributors who sold the product already integrated into bathtubs that compromised the visibility of their brand. The dependence on HS was relatively high, as this distributor was the largest customer and generated most of the firm’s sales. The second group was distributors that resold other equipment, such as water heaters and heat pumps. However, a recent experience with a distributor in Poland motivated ALPHA to adjust its priorities in developing its customer base to include design and architecture firms. More specifically, the Polish distributor was able to introduce ALPHA’s product into the design phase of an urban development project. Following the suggestion of one of the distributors to increase the product’s versatility in the installation process, the interface with the bath drains was no longer integrated into the equipment and had become a module coupled to the thermal unit. This posture of one of the customers contrasted with that of distributors that merely put ALPHA’s product on the shelf waiting for their customers to choose from a wide assortment of products. ALPHA also received feedback from distributors when a problem arose, such as clogged plumbing. After realizing its source (use of unsuitable filters), ALPHA changed the product by adding a mandatory filter. Hitherto filters were sold separately (they were optional).

Thus, in 2019, the start-up began directing its marketing efforts to establish relationships with design and architecture firms, aiming to improve its role in the projects developed by those firms. Keeping in mind the time between the design of an architectural project and its implementation, ALPHA expected that the experience with the Polish customer could somehow be replicated across other design and architecture firms. The basic idea was that these firms could act as prescribers of a solution that could benefit the classification of buildings in the energy certification process. The expectation of working more closely with design and architecture firms, as well as developers (construction firms) led the firm to explore new energy efficiency solutions. Thus, in 2019, the firm began testing prototypes of larger vertical heat exchangers to be installed in vertical spans rather than horizontally at the base of a bathtub, and with greater capacity in terms of flow and thermal efficiency. The installation of such equipment, which involved two or more floors of the building, should be considered at the early design stage of the buildings. For this new product, ALPHA needed a new supplier for a double-walled corrugated stainless-steel pipe. At an international trade fair, ALPHA got in contact with a German firm that had an interest in developing that solution. The founder of ALPHA believed that this supplier saw this request as a technological challenge because ALPHA did not pay for the development of the double-walled corrugated stainless-steel pipe. The supplier managed to produce the pipe according to ALPHA specifications a couple of months later.

4.3 New venture – BETA

The BETA is a small firm with 5 employees and a turnover of around 150,000 Euros, in 2017. The founder of BETA (and at the time the CEO), was working when the low battery warning for his laptop came on. “Why don’t I have the power strip next to me?” he thought. The founder of BETA then invited two friends to join his project who became co-founders and at the same time the Chief Operating Officer (COO) and the Chief Digital Officer (CDO) of BETA. They started developing the idea and the brand. In 2012, BETA began redesigning the ordinary power strip by adjusting it to the way people charge their electronic devices. It developed two prototypes, namely, Product-B-Stand and Product-B-PlugShel. BETA managed to meet with EDP innovation. EDP innovation had been developing new technology for three years, and its managers considered that BETA’s innovative power strip could incorporate their new technology.

In 2013, the BETA was formally created and joined the EDP starter, which permitted access to the incubator’s resources and partners. The founder of BETA considers the partnership with EDP starter to be key for the development of BETA, “[...] we can move from paper to the physical product and we will soon be in the market [...] we initially had an idea that had little validation. We knocked on people’s doors and nothing happened. Now we say we are from EDP starter and they look at us differently. Entering this incubator has helped us open doors and gain partnerships”. The interaction with EDP partners, especially those involved with production and engineering, was reflected in the decision to put aside the first version of Product-B. According to the founder of BETA, “the notion that no one would buy a power strip for 100 euros influenced us to develop simpler versions of the same product”. Several ideas came up until arriving at the product Product-B-Slim, which “turns an old power strip into a gadget”. It resembles a small tablet with 36 aligned holes that 15 electronic devices can be plugged into at the same time. Product-B-Slim also features two to four USB ports. In contrast to the traditional power strip lying on the ground, the Product-B-Slim was designed to be placed on the top of the desk. The design and features are protected in the European Union by “the International Design System – WIPO/HAGUE” and holds the necessary product certifications.

In 2014, BETA sufficiently stabilized product specifications. To be able to produce and test the first units of Product-B-Slim, the start-up contacted three potential suppliers for moulds and plastic injection. According to the founder of BETA, the only critical supplier was the one that supplied the moulds and plastic components, since BETA could easily find two or three suppliers for the other parts of the product. BETA was unable to reach an agreement with the first two mould firms, despite one of them being a supplier of hardware for EDP innovation. The third potential supplier, a firm belonging to a well-known group, agreed to produce Product-B-Slim: “This
supplier was one of the top players in the industry [...] a big firm that works with multinational firms from the automobile sector”. BETA considered this agreement to be important for the credibility of its product. Initially, this supplier expected to be involved only in a fraction of the product design, but BETA needed the support of its engineering team to optimize the product. The supplier managed to reduce the number of components to three, which lowered production costs. The supplier did not charge extra for the engineering services, but they did expect to recover their investment over time by producing the components and in anticipation of high demand in the near future. However, BETA did not seek out alternative suppliers to reduce the plastic components’ price.

At the beginning of 2014, EDP commercial helped BETA by buying at cost 3,000 units of the Product-B-Slim. For BETA, this first sale was important, as it allowed them to purchase the necessary injection moulds for production. The first sales contract was also central for BETA in terms of learning how to do business and manage customer expectations. Regarding this first contract, the founder of BETA states that “basically we said yes to everything and when the delivery time came we missed the deadline and that was one of the biggest lessons we had. If there is a problem, we must immediately notify the customer or the supplier, to manage their expectations”. From the moment that BETA acquired these moulds, it was able to start to market the product on its website and with distributors and retailers.

Assisted by EDP starter, BETA contacted three possible hotel chains (Altis, Pestana and Sana) to carry out pilot tests of Product-B-Slim, as it opted for the business-to-business (B2B) market. BETA managed to reach an agreement to perform the pilot test with a five-star hotel. The agreement comprised 15 to 20 units of Product-B-Slim at no cost to the hotel. The basic idea was to place the device in the hotel rooms to test its use by the hotel’s customers. BETA is expected to achieve a success story and a referral for other potential customers.

In 2014, incorporating feedback from EDP starter and other firms, such as hotels and retailers, BETA started targeting the B2B market. This approach was expected to enable a large market penetration with low marketing expenditures. Accordingly, in 2014, BETA tried to reach customers, such as hotels, private hospitals and other firms with high national and international visibility (e.g. Vodafone). BETA also intended to market the product through offline retailers. Thus, BETA started negotiations with offline distributors, such as Ingram Micro and retailers such as IKEA, Fnac, El Corte Inglés and Worten. BETA did manage to reach an agreement with those distributors and retailers. However, BETA soon realized that working with them demanded huge financial resources to support production, inventories and payment periods.

In 2019, considering the low margins and the low sales volume through “offline retailers”, BETA’s focus shifted to online retailers, such as Amazon and Westwing, to target the European consumer market. The process was demanding in terms of red tape, but it was also much better in terms of sales volume, margins and payment deadlines. Additionally, “Amazon and Amazon Launchpad also gave us credibility in terms of the market”, according to BETA’s founder. BETA also started working with other online resellers such as corporate gifts, to target the B2B market. It sporadically carried out its contacts with distributors and retailers through email. For instance, BETA mainly got in touch with Westwing when an order was placed, which for the German market was twice a year. Several emails were then exchanged until delivery. Also, preparing for and during marketing campaigns, “if a campaign lasts for seven days, we exchange emails with our customer for 15 days” (the founder of BETA). BETA sold to many business customers, such as L’Oreal, Canon, Deutsche Telekom, Intercontinental hotels and Holiday Inn. The sales for Canon and Deutsche Telekom were considered very interesting because they gave rise to BETA’s reputation and trustworthiness, but they were one-time-only sales.

The Intercontinental Hotels bought Product-B-Slim (with customized printed covers) for their rooms. Some hotel customers expressed interest in purchasing the product. As then, the Hotel became a “retailer”, as it orders, holds a small inventory and sells the product to its customers. BETA considered the autonomy of each hotel of this group as valuable in the beginning because the decision to sell the product depended largely on the managers of each hotel. However, it found difficulty in expanding to the other hotels of the same group, as this was time-consuming and BETA did not yet have sufficient resources to do so. The marketing manager of another customer (L’Oréal) intended to give Product-B-Slim (with customized printed covers) to several hairdressers as another advertising tool for its products. BETA considered this to be very interesting because they have higher margins on the covers and this was a way of escaping the one-time-only sale.

Upgrades to Product-B-Slim were mostly based on feedback from customers. “In total, 90% of the changes that led to upgrades were suggested by our customers, especially corporate, who share with us comments from their employees or consumers at exhibitions and fairs”. Among the many changes, BETA introduced an on/off button (this way users do not need to unplug all electronic devices), improved the plughole (to prevent it from being detached when removing a plug) and included a removable power cord. These upgrades required changes to the initial mould without having to invest in the production of a new mould: “we carried out upgrades in close coordination with the supplier. We can change the mould to some extent [...] making cones on the plugholes or adding a removable power cord, but we cannot change the fixing system of the cover”. Based on the users’ feedback, BETA also started developing new features such as a wireless charging system, improved closure system for the cover and changed the proportion of plugholes and USB terminals.

BETA also started developing the Product-B-Traveller – a travelling power strip with a power bank and wireless charging in which up to four devices could be connected at once. Early in 2019, Product-B-Traveller was in a working prototype stage. Through a crowdfunding platform (Indiegogo), investors could fund the product’s development, namely, its certifications and production of the steel moulds. According to the founder of BETA, Indiegogo allowed it to identify the product’s receptiveness. These investors were also the first customers to receive the Product-B-Traveller once it was ready and came with a discount. Through this campaign, BETA sold 389 units of Product-B-Traveller in three days’ time for about 27,000 euros. BETA expected to produce and ship the sold units in about six months. The product will then be available to other
customers. The Product-B-Traveller required the supplier to be closely involved in the design and production of the new mould.

The current supplier of moulds and plastic components is considered to be very helpful in the process of product development. “Our supplier is a smaller firm that treats us with affection […] they are cheaper and more flexible with payment deadlines” (founder of BETA). It was selected by the person responsible for the supply chain and production who was an engineer with experience in the industry (worked at Philips, among other firms). In 2019, “we always try to have two or three suppliers of the same product part not to be too dependent […] once our single supplier said he could only deliver the order within 18 months, but we urgently needed those parts […] nowadays we don’t have this problem, we have some stock of critical components and anticipate orders prior to marketing campaigns from our distributors”.

5. Discussion

The two cases offer insights on the relating process of new ventures into a pre-existing network by illustrating how interdependencies and the diversity of initial relationships shape their development over time. The discussion below is organized around our research objective that emphasizes the perceptions of the new ventures regarding the value of the initial relationships and involvement. As suggested, the development of a new venture can be analyzed by looking at a firm’s portfolio of relationships (La Rocca et al., 2019a). As each relationship development can have an impact on their business evolution (Aaboen et al., 2017), firms need to deal with different types of relationships in different ways (Ford et al., 2003; Gadde and Snehota, 2000, 2019). Supported by the theoretical frame, Table 2 summarizes both the change in the degree of involvement and the change in the underlying value functions of initial relationships over time.

In both cases, the development of new ventures requires being connected to several actors holding complementary resources and performing different activities. Summarizing the path of the two new ventures, both started with ideas of products followed by their interaction with the incubator’s resources and activities. The new ventures start the development by testing their products and getting market information together with the incubator and then with their first suppliers. After stabilizing the product, both started developing relationships with customers. As the new ventures continue their self-learning and learning about their product and relevant network, they reprioritize customer relationships and the supplier relationships regain their importance. Below we conduct a more detailed analysis of these aspects.

5.1 Relationships with the incubator

The relationship with the incubator (EDP starter) was important for building the initial identity of the new ventures as it affected the attractiveness of both firms to other network actors, which corroborates previous studies (Baraldi and Havenvid, 2016; Rice, 2002). The relationship between ALPHA and EDP starter provided the credibility and confidence to accomplish the first deals with its first distributors. Similarly, BETA’s attractiveness as a potential exchange partner benefited from its close relationship with the

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Notes: Symbols indicate the presence highlighted features: upwards arrow (↑) indicates the increase in the feature over time, the downward arrow (↓) indicates the decrease in the feature over time and the left-right arrow (←) indicates no change over time. Blank spaces indicate “play low” features. Asterisk (*) indicates a terminated business relationship.
incubator by allowing the test of its product in user contexts. Thus, the relationship with EDP starter is key in allowing direct access to its resources and competencies but also for its market and access functions in influencing the new ventures’ indirect access to other firms with complementary resources and competencies. We can recall that for BETA, the incubator was co-responsible for the idea of Product-B-Slim. Furthermore, the EDP starter influenced the prioritization of relationship establishment with other firms by sharing information and supporting the first approach to other firms for the testing and marketing of the product.

In both cases, there is ample evidence to support this interpretation. For instance, EDP starter provided the following:

- Facilities and know-how for ALPHA (e.g. knowledge regarding product patenting, certifications, negotiations, the definition of the business approaches) and for BETA (e.g. knowledge about the choice of a product with greater market acceptance, the definition of the market and strategies).
- Access to critical market information for ALPHA (e.g. knowledge of the countries which are most appropriate for product installation and existing competition) and for BETA (e.g. information about the most appropriate countries to introduce the product and the prioritizing of the establishment of relationships in each country).
- New skills and product improvements for ALPHA (e.g. changing the product coating for ABS and redefining the product) and for BETA (e.g. product redefinition).

In the beginning, the involvement of both new ventures with the incubator was high that allowed them to reduce installation and product development costs. The uncertainty regarding the characteristics of the products required an open dialogue between the parties in the context of joint activities involving the exploration and testing of different solutions. However, after this initial period, and after the (temporary) stabilization of the technical specifications of the products, the relationship became more distant as contacts between the parties became less frequent and joint activities were no longer necessary. The importance of the value functions associated with this relationship also decreased as new relationships were established or developed with customers and suppliers.

5.2 Relationships with suppliers
The relationships of both new ventures with their suppliers comprised direct and indirect functions, like in the research on established firms (Möller and Törnroth, 2003; Santos et al., 2018; Young et al., 2008). Direct functions were mainly associated with the economic transactions carried out by the actors. These involved the quality function in both cases, as both new ventures considered their suppliers to be reliable and to deliver quality products. The cost (reduction) function was also present in the supplier relationships, as the new ventures considered the price of the product’s components to be important. The indirect functions of the relationships with suppliers were related to the specific knowledge applied in the process of development by these suppliers. As working together with specific suppliers was necessary to explore ways to reduce the production costs, both ventures needed to have a greater degree of involvement in these relationships. The innovation function in these relationships refers mainly to the joint development of new products and enhancements in the existing ones. The cases showed that the innovation function was the driver for the development of a higher involvement relationship with the German supplier of cooper coil the German supplier of stainless steel coil for ALPHA and the first mould supplier for BETA. Thus, we can conclude that the new ventures’ low level of competences in product development required the development of high involvement relationships with suppliers as the privileged access mechanism to make improvements in the products and to have the ability to respond quickly to requests for support.

Over time, some of these relationships have ended. The dissolution of supplier relationships preceded the loss of important value functions: the indirect innovation function in the case of ALPHA and the direct cost function in the case of BETA. In ALPHA’s case, the Spanish supplier was not interested in continuing to support the product development that triggered a relatively complex process of finding a new supplier. In BETA’s case, it considered the price of the plastic components to be too high and, from its perspective, accessing a new supplier who was able to produce them at a lower unit price would be easy (Gadde and Snehota, 2000).

5.3 Relationships with customers
Regarding the customers’ portfolio, in the early days, both new ventures valued the relationships with customers that entailed indirect functions more than other value functions. The market function maintained its relevance as the start-ups’ attractiveness was associated with the development of these early relationships with customers. For example, the relationship between ALPHA and original equipment manufacturers (OEM), and the relationships between BETA and both EDP commercial and Alits Hotel gave the new venture credibility. This credibility corroborates the notion that large and reputed customers can be valuable references even when they are not the main customers (Walter et al., 2001).

The initial relationships with customers are also related to the access function by providing information about the market and other actors. The relationships between ALPHA and the distributors, as well as the relationship between BETA and EDP commercials, were regarded as advantageous because they were also based on the access value function. These customers provided information that allowed a better understanding of the new ventures’ markets. For example, the case of ALPHA shows that the relationships with distributors offered market information (e.g. certifications, trade fairs and market needs) and information regarding the network (e.g. reference installations, distributors and existing competition).

Additionally, the relationships with customers resulted in small product adaptations and process adjustments implemented by the suppliers. The new ventures achieved those by learning about the distributors’ practices or by incorporating the distributors’ feedback and market know-how. In ALPHA’s case, it developed new versions of the existing product with new features. Further, ALPHA also changed its approach to the market by changing its relationship priorities as it became more focussed on working with prescribers and less with distributors. BETA also learned new ways to...
communicate its product. For example, through the relationship with Intercontinental Hotel, BETA realized that it was possible to resell to their corporate customers and through the relationship with L’Oréal, BETA discovered that the possibility of customizing the cover of its product could be interesting for the regular marketing campaigns of corporate customers.

In addition to indirect functions, the relationships between new ventures and customers also held direct value functions. The customer’s relationships were expected to be related to the realization of profits (Walter et al., 2001, 2003; Young et al., 2008). However, the cases showed that volume was the main value function associated with these relationships and that the profit function was perceived as less relevant or even irrelevant. Still, these findings are in line with the notion that substantial costs and benefits can occur at different periods in time (La Rocca et al., 2013). In other words, new ventures seem to treasure a favourable mix of the profit and volume functions, as they intend to develop many profitable customer relationships and consider these to be a necessary condition for its survival in the near future. Even if existing relationships are expected to entail direct or indirect benefits in the near future, the degree of involvement in customer relationships was relatively low compared to supplier relationships.

Over time, the new ventures sought to adjust their portfolio of customer relationships. Specifically, both cases show the evolution of the diversity of customers’ relationships in terms of value functions and involvement. For ALPHA, the rapid expansion in its customer base was followed by the refocus on a small number of customers. ALPHA was also trying to be less dependent on OEM by focussing attention on prescribers’ relationships. In the case of BETA, we can see the dissolution of the customers’ relationships with both EDP commercial and Altis Hotel. It seems that its relevance has diminished due to the new relationships that have emerged with new customers. Additionally, both firms recognized the need for more efficiency in exchanges with these customers who required more distant (lower involvement) relationships. BETA even shifted its attention towards online distributors after recognizing that the relationships with offline distributors were too demanding in terms of capital and had less of the volume function, thus they searched for more distant relationships with those firms. In both cases, logistics operations became prevalent and the communication with customers was only intended to synchronize deliveries. Simultaneously, both firms tried to obtain more financial resources to increase their installed capacity to supply larger quantities to existing customers.

5.4 Portfolios’ interdependence
The case studies also highlighted the interdependence between the customer portfolio and the supplier portfolio. The product adaptations required by ALPHA’s distributors and the requirement to comply with the countries’ specific regulations led ALPHA to change the copper coil supplier and to foster relationships with INEGI and the German copper coil supplier. The relationship with INEGI involved a specific adaptation, new redefinition and stabilization of the product; energy efficiency tests were carried out jointly; and constant contact between the technicians of both organizations was needed. In the case of BETA, incorporating the feedback from customers led to new product variants, and adjustments to the existing one, that fostered the relationship with its mould supplier. In both cases, feedback from the customers led to product adaptations that were implemented through close cooperation with specific suppliers. In other words, inter-organizational adaptations and mutual commitments (Aaboen et al., 2011; Gadde and Snehota, 2000) with suppliers coexisted with and supported, the establishment and maintenance of low involvement business relationships with customers.

In both cases, the focal firms had to deal with different types of relationships with varying positions on dimensions such as perceived value and involvement in the relationships. At an early stage of the new ventures, the value creation in the initial relationships appears to be mainly associated with the indirect functions. Indirect value-creation functions played a major role in the relating process that was manifested in developing an identity and learning about the firm’s competences, product and network. After the early period, direct value functions in the customers’ relationships tend to gain relevance with an increased focus on the generation of efficiency. For example, communication with customers was only intended to synchronize deliveries. In other words, the interdependencies between the start-ups and their customers were increasingly dealt with through low involvement relationships and, to that extent, generated efficiency benefits for both parties. In contrast, the (indirect) innovation function was mainly manifested through the combining of resources and activities through high involvement relationships (Gadde and Snehota, 2000) between both the start-ups and specific suppliers, which had a key role in shaping the offers of the new ventures (La Rocca et al., 2019b).

6. Conclusions
The emergence of a new venture requires the establishment and development of relationships with a pre-existing network. This study is a first attempt to describe and understand the relating process of a new venture by focussing on the perceived value functions and the involvement of initial relationships. This study produces three interesting theoretical insights. The first is the relational diversity that both firms had to deal with overtime. The evidence for this phenomenon is in line with the results obtained in other longitudinal studies on entrepreneurship assuming that the change (and stability) in networks results, to a large extent, from the changes in business relationships between actors in the network (Aaboen et al., 2013; La Rocca et al., 2019b). In the present study, this relational diversity over time is detailed by combining the perceived value functions (Håkansson and Johanson, 1993; Walter et al., 2001; Young et al., 2008) and the involvements in business relationships (Håkansson and Snehota, 1995; Gadde and Snehota, 2000, 2019) in the emergence processes of two new ventures.

Secondly, the configuration of value functions is not stable over time nor is the degree of involvement in business relationships. Our framework allows us to distinguish two different periods regarding the relative importance of value functions and their connection to relationship involvement in the relating process of both firms. In the early period, indirect
value functions predominate and their role is to expose the new ventures’ resources and activities to other network actors. Furthermore, the value perception regarding the portfolio of initial relationships is strongly related to market access and innovation functions. Market access is mainly related to building a network identity that is manifested in the new ventures’ attractiveness as an exchange partner (Anderson et al., 1994) by establishing business relationships with specific customers and suppliers. In a sense, we may say that some business relationships have value because of their role in building legitimacy in particular contexts, as network-based entrepreneurship studies on the role of personal weak links emphasize (Elfring and Hulsink, 2003; Fisher et al., 2017). Regarding the market access function, both low and high involvement relationships are valuable for their role in the further development of the relationship portfolio.

Among the indirect functions, the innovation function seems to require the establishment of higher involvement relationships. Interestingly, the innovation function was the least relevant when it comes to the relationships between the two focal firms and their first customers. Customers, in both cases, saw the new ventures’ offers as “black boxes” that thereby reduced their relative involvement in product and process innovation activities. In both cases, the innovation function was mainly related to the key role of specific suppliers in shaping the offers of the new ventures (La Rocca et al., 2019b) by combining their resources and activities through high involvement relationships (Gadde and Snehota, 2000, 2019).

Regarding the direct value functions, they manifested their relevance in an increased focus on efficiency. The sales volume and profit dimensions are typical criteria when considering whether a new venture is developing along an economically viable path. In both cases, there was an increase in economic exchanges on a routine basis that was closely associated with an increased focus on efficiency in the exchange processes. This is in line with the notion that low involvement relationships can be beneficial because of the efficiency of recurrent exchanges (Gadde and Snehota, 2000). Additionally, the efforts to increase the installed capacity indicates that both star-ups may be entering a period of consolidation as they start to replicate existing resources and routines to deal with the increasing demand from existing customers (Baraldi et al., 2019).

Thirdly, the value functions of customer and supplier relationships may be interconnected as the relating process involved both supplier and customer relationships. The connection via the new ventures is particularly evident in the innovation function as neither of the new ventures directly controlled the engineering competencies. However, the cases show that higher involvement relationships, which usually requires inter-organizational adaptations and mutual commitment (Aaboen et al., 2011; Gadde and Snehota, 2000), can not only coexist with but also be critical to support, low involvement (more market-like) relationships where sales volumes and price issues predominate. This conclusion complements the studies on new ventures that focus mainly on suppliers (La Rocca et al., 2019b), customers (La Rocca et al., 2013) or incubators (Shih and Aaboen, 2017) by highlighting the interdependencies between the customer base and the supplier base. This insight also contrasts with the excessive emphasis in many entrepreneurship studies on the key role of the entrepreneur’s creativity when it comes to gaining legitimacy in the industry (Ward, 2004). Therefore, it supports the notion that the major challenge for a new venture “is becoming accepted by the broader network” (Baraldi et al., 2019, p. 8).

All in all, by combining the value function framework and the notion of degrees of involvement in business relationships, our study supports the idea that new ventures, like established firms, may have to deal with different types of relationships with varying positions on dimensions such as the perceived value of and involvement in relationships. Specifically, turning an idea or product into a saleable solution appears to require a combination of direct and indirect functions. The relevance of indirect value functions during the new ventures’ early stage may be followed by a period of increasing emphasis on direct functions along with the selective involvement in interdependent business relationships with customers and suppliers. In both cases, a degree of stability emerged in terms of the link between the degree of involvement and the perceived value of relationships. Higher involvement relationships remain mainly associated with the indirect function of innovation or incremental product improvements, while low involvement relationships ensure several direct (mainly sales volume) and indirect (market, access or scout) functions. This association indicates that even if the degree of involvement does not change for a period of time because of interactions with suppliers and customers, new ventures may change their perceptions about the value configurations in their network contexts.

Our insights provide some managerial implications. Using the notion of value function to characterize business relationships can be a way for new ventures to move beyond the emphasis on immediate economic outcomes by seeking to reap more indirect but no less important benefits. Our study suggests that one critical indirect value function of the business relationships for the new venture could be its role in the process of starting to build an identity. Additionally, the value of a customer relationship can be substantially linked to its connection to relationships with specific suppliers. In other words, a separation between customer and supplier bases of a new venture can leave in the shadows the substantial links that may exist between these “relationship portfolios”. However, managers should recognize that the manifestation of this relevance may arise in future moments, and thus the role of suppliers in realizing the potential value of some customers may be difficult to appreciate as it may not be evident in the early stage of the new venture.

Regarding involvement, the early establishment of relationships with some customers can be particularly time-consuming by involving negotiations and assessing their actual or potential commitment to product insertion in their contexts of use. As resources are especially scarce in the case of new ventures, these firms need to attribute priorities with regard to which business relationships to invest in based on their actual and potential value. Still, as our study illustrates, low involvement (market-like) relationships can efficiently support exchanges of standard products or services with customers and suppliers (Gadde and Snehota, 2000). Over time, the new venture may develop a finer view about the competencies and interests of existing network actors and as a result, may change


Further readings

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