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Value-based selling: An organizational capability perspective

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ABSTRACT

Creating superior customer value is central to a company's success in competitive markets. In their quest to increase customer-perceived value, many industrial companies are moving toward customer value-focused sales management. Research-based knowledge of how to manage customer value-based sales operations remains sparse, however, with most of the customer value literature focusing on concepts of value, not their application. By exploring the emerging practices of value-based selling and linking the findings to the body of knowledge on value creation and capture, this study investigates organizational capabilities that contribute longitudinally and relationally to increased customer-perceived value in sales management practice. Our empirical investigation employs nine globally operating industrial companies in an exploratory multiple case study setting. The data collection methods consist of interviews, practice benchmarking workshops, focus groups, and reviews of value assessment tools. The findings of our abductive research process improve the theoretical understanding of organizational capabilities required to improve customer perceived value in business-to-business (B2B) exchange, based on a wider conceptualization of the operational, strategic, symbolic, and social dimensions of customer value. For managers, our study identifies the essential capabilities required for value-based selling, illustrates managerial practices to implement those capabilities, and provides guidance on value proposition design, value quantification, and value communication.

1. Introduction

Recent studies on value-based business strategies (e.g., Adamson, Dixon, & Toman, 2012) have suggested that a seller's successful leverage of customer value, focused on assisting the customer to derive value from an exchange, also produces greater value for the seller. Hence, superior customer value is considered a prerequisite for a company's realization of above-normal economic returns (Blois & Ramirez, 2006) and strategic benefits (Brandenburger & Stuart, 1996). Because value-focused thinking is becoming more common in the industrial exchange, selling is moving away from individual-focused, relationship-based activity toward customer value management (Keeney, 2009). Great strides have also been made in buyer sophistication. Industrial buyers now seek the best available total solution and the maximum long-term benefits for their organization. These developments call for organizational sales management capabilities that support the value-focused sales approach. Such an approach manifests in jointly understood and more transparent value experiences and manageable value propositions in business-to-business (B2B) exchange. Moorman, Ruddell, and Sims (2013) argued that the capability to conduct value-based selling will distinguish winners from losers in B2B markets.

This study defines value-based selling (VBS) as a sales approach that builds on identification, quantification, communication, and verification of customer value. Hence, VBS can be regarded as a bundle of capabilities and management practices by which critical value-selling activities are planned, implemented, and leveraged. Value-focused selling is not a new concept. A cumulative body of evidence now supports the importance of customer value in sales management (e.g., Moorman et al., 2013; Terho, Haas, Eggert, & Ulaga, 2012). However, the organizational capabilities required in profitable buyer–seller interaction have not received sufficient attention in the sales management literature (Payne, Storbacka, & Frow, 2007). Avlonitis and Panagopoulos (2010) concluded that more emphasis should be placed on empirical analysis centered on actionable concepts and tools for VBS. The earlier sales research and sales management practices focused on personal selling skills, tactics, and the management of sales organizations from a human resource management perspective (Geiger & Guenzi, 2009). Correspondingly, in their review of 1270 published articles on sales research, Plouffe et al. (2008) found that research addressing sales from an organizational capability perspective is scarce. A review of the sales research (Geiger & Guenzi, 2009) revealed that sales capabilities are often tacit, and possessed by individual, experienced members of the sales force.

To fill this gap, this study identifies and analyzes key capabilities and management practices required to implement value-based selling in business markets. The following question is posed: *What organizational capabilities are amplified in the systematic implementation*

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of a value-based sales approach in the industrial exchange? By answering this question, the study deepens existing knowledge of the essential capabilities needed in VBS. In particular, the findings highlight the roles of value identification, value proposition design, value communication, and value quantification in the value-focused B2B sales management practice. Furthermore, the study conceptualizes VBS as an organizational capability that longitudinally and relationally improves customer-perceived value. Through a multiple case study with nine industrial sales organizations, the present study adds to the knowledge of how to implement value-based business strategies.

The remainder of the paper is structured as follows. After this introduction, the literature on customer-perceived value and VBS is discussed. Section 3 describes the research process and the methods used. Section 4 presents the analysis and findings of value-selling capabilities. The last section discusses the findings and conclusions of the study and offers suggestions for future research and implications for research and practice.

2. Background of the research

Academic literature on organizational capabilities and managerial practices that contribute to the implementation of VBS remains sparse. Previous research has identified several gaps in the knowledge of value in B2B exchange: Ulaga and Eggert (2006) concluded that there has been no meticulous investigation of value drivers in manufacturer–supplier relationships that integrate the essential dimensions of value into managerial practice. In addition, Anderson and Wynstra (2010) called for conceptual and empirical research to guide the creation, communication, and sharing of value. Congruently, Ballantyne, Frow, Varey, and Payne (2011) suggested that the concept of value proposition needs more attention. Storbacka (2011) argued that value quantification poses a significant capability gap for industrial companies.

2.1. Customer-perceived value as the basis for VBS

Creating value for customers is a prerequisite for value capture (Blois & Ramirez, 2006; Gosselin & Bauwen, 2006). Mainstream industrial firms aim to help their customers create value so as to capture a part of the value created. In the literature, business value has been defined in terms of several attributes and many customer value attributes are relevant for VBS. First, value is considered to be subjectively and uniquely evaluated by stakeholders and beneficiaries (Kahneman, Slovic, & Tversky, 1982; Ramirez, 1999; Vargo & Lusch, 2008). In addition, value is considered to be context-specific and dynamically changing (Kowalkowski, 2011). Specific business situations guide the evaluation of value. Also, perceptions of value may change over time (Flint, Woodruff, & Gardial, 2002). However, established rules, norms, and beliefs tend to generate shared perceptions (Tripsas & Gavetti, 2000; Zucker, 1987), which impede the application of novel value creation opportunities. Moreover, value is future oriented, as many of the benefits and incurred costs will be realized only over a long period of time. The future orientation of value is especially significant for VBS because VBS often focuses on longitudinal relationship value, which is uncertain, risky, and may involve innovative and complex changes in roles, responsibilities, and business models (Hinterhuber, 2008; Möller & Törrönen, 2003).

Based on a review of the literature, we have defined *customer-perceived value* as the difference between the perceived benefits received and the perceived sacrifices made by a customer. Customer-desired value (Flint et al., 2002) denotes a customer's conception of value, the elements and dimensions that are included in the customer's perception and scope of value, and the expected outcomes of value creation.

2.2. VBS as an organizational capability

Helfat and Peteraf (2003, 999) defined organizational capability as the "ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result." Focusing on the process-like attribute of a capability, Winter (2000, 983) defined capability as "a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type." Examples of resources and capabilities that can provide competitive advantage are pricing (Dutta, Zbaracki, & Bergen, 2003; Hinterhuber, 2004), customer relations (Storbacka & Nenonen, 2009), and supplier relationship management (Ulaga & Eggert, 2006). Similarly, VBS represents a valuable bundle of capabilities that are difficult to imitate or substitute.

Based on the prevailing knowledge regarding value-based exchange, VBS can be applied in selling novel and complex offerings and often requires a proactive approach to influence customers' value conceptions, value perceptions, and value creation strategies. The differences in a supplier's and customer's value creation strategies can pose challenges for VBS (Möller, 2006; Möller et al., 2008). Moreover, Möller and Törrönen (2003) pointed out that the future orientation of customer value calls for capabilities associated with higher relational complexity, an innovative approach, an understanding of the customer's business, and management of risks and uncertainty. Hence, VBS characteristically leads to a deeper relational commitment between the parties, emphasizing relational capabilities (Kohtamäki, Vesalainen, Henneberg, Naudé, & Ventresca, 2012) and value co-creation (Grönroos & Voima, 2013).

3. Methodology and cases

This study was conducted as part of two large research projects (Future Industrial Services and Innovation Selling) with nine globally operating companies from a range of industries. Services are a significant and growing share of turnover and profit for the case companies. The companies are undergoing a transformation toward the adoption of service- and value-focused strategies. The transformation is accompanied by fundamental changes in business processes, and the case companies are all heavily investing in developing their capabilities to implement value-focused strategies. We selected knowledgeable and experienced informants with key roles in the transformation programs among the case organizations. The companies are in different stages of value development, maturity, and focus in their transformation and thus reflect a rich cross-section of industries, development stages, and global presence. Findings from the case companies enrich the understanding of emerging value-sales capabilities based on the development stage and focus. The key characteristics of the participating companies are described in Table 1.

Given the exploratory nature of the study, the relative novelty of the value-selling phenomenon in the research context, and extensive literature on customer value and selling, the study applied an abductive research process (Dubois & Gadde, 2002). Moving back and forth within the literature, data, and emerging theory enabled managing the diversity in and building a coherent view of value-selling practices, routines, and capabilities.

3.1. Data collection

Data for this study were collected from multiple sources through multiple methods: (1) interviews with executives, salespeople, specialists, and customers of the case organizations, (2) group discussions with suppliers and customers, (3) interviews with industry experts, and (4) corporate documents such as sales collateral and value calculation tools and templates. Semi-structured interviews were the primary means of data collection. Most of the

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