Vlerick Sales Centre Article Summary Series

Value-based selling: An organizational capability perspective (by Pekka Töytäri, Risto Rajala, Industrial Marketing Management, February 2015)

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Introduction

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. 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.

This study defines value-based selling as a sales approach that builds on identification, quantification, communication, and verification of customer value. Hence, value-based selling can be regarded as a bundle of capabilities and management practices by which critical value-selling activities are planned, implemented, and leveraged.

Value-based selling

Organizational capability is defined 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. The literature suggests that value-based selling is a two-stage activity of planning and implementation.

Planning - Target segment and stakeholder group identification

This research refer to the approach to analyze customer processes to identify influential stakeholders and their role in investment decision-making. Industrial firms principally build value propositions for identified target segments and influential stakeholder groups.

The most influential stakeholder groups according to this study are those that affect decision making either inside a customer organization or in the customer's business ecosystem. The target segments are often chosen based on a supplier's expected ability to create and capture value.

The bundle of benefits communicated by a value proposition must be expressed in terms of the customer's business goals for impact and influence.

Implementation – Customer selection

Examples from this study illustrate that organizational buying often involves buying centers and multiple stakeholders that evaluate value propositions. Segment-specific value propositions are used in communication with stakeholder groups, and success depends on the subjective evaluation of the value proposition by the individual stakeholders.

Managerial receptivity for a value-based message is affected by attention, cognition, goal alignment, and other factors guiding managerial decision making. This study shows that
value-based selling requires capabilities for early engagement with a customer's buying processes:

- To influence the customer's perceptions of the value potential of a buyer–supplier relationship.
- To expand the customer's and seller's shared conception of value.
- To commit to the shared vision of a potential solution to achieve the desired value for the involved parties.

Finally, value-based selling promotes customer-perceived value as a reference used in negotiating prices in B2B exchange to capture an equitable return on the value created.

**Managerial implications**

This study suggests that value-based selling capabilities, such as value quantification, value sharing, and value verification, are keys to influencing customers' prevailing value conceptions and may be sufficiently influential to help align non-matching value creation strategies. Industrial buyers have institutionalized their beliefs and norms, which often manifest a narrow conception of value.

A successful application of value-based selling in B2B exchange may require expanding the prevailing conception of value. Hence, a wider set of operational value dimensions (e.g., the use of total cost of ownership instead of purchase price) may be needed to recognize important but hidden benefits associated with the value exchange. Furthermore, incorporating the wider strategic, social, and symbolic dimensions of value into the shared value conception may reveal new sources of value creation. The respondents offered many examples of social and symbolic aspects of value, but this analysis shows that they are rarely used in buyer–supplier communication.

While the value-focused approach is effective in all stages of the buying process, most of the case companies apply value-based selling in the early stages of the customer's buying cycle to initiate buying processes by demonstrating value, challenging prevailing assumptions, and influencing the solution vision and criteria.

The message must be built on the understanding of context-specific contingency factors that affect customers' value perceptions and must address their business goals and performance measures. In the established industrial business markets, many sellers delay their engagement in the organizational buying process when buyers initiate the evaluation and selection phases of the buying process.

**Key findings**

The key findings from this research can be summarized into the following steps for value quantification and communication:

- Establish economic performance measures that identify the essential aspects of value.
- Identify the functional relationships between the value elements and the performance measures and quantify the relative importance of the value elements, taking situational factors into account.
- Collect data to assess the value of available options (e.g., competing value propositions).
- Perform the calculations and comparisons of the realized value between individual cases.
- Communicate the expected value impact of the elements included in the analysis based on their leverage, differentiation, and saliency.

**Conclusion**

Value-based selling is an emerging practice in industry. Both suppliers and buyers are struggling to implement value-based selling. Value-based selling is quite different from traditional reactive, request driven industrial selling and represents a major transformation on the part of industrial companies.