university of groningen

faculty of economics and business

Business-to-Business Customer Value Marketing

-The Essentials of Creating Value for Customers and Shareholders-

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Preface

This is the textbook for the bachelor courses 'International Business and Supply Chain Marketing (IBSCM)' and 'industrial marketing' and the master course 'B2B Marketing' of the University of Groningen. It is mandatory study material that, depending on the course, can be combined with additional academic papers.

The central subject of this textbook is business-to-business (B2B) customer value marketing (CVM). Although markets with consumers as customers (B2C) are very interesting, I have focused this textbook on B2B markets. The two main reasons are that CVM is extremely important for these markets and the fact that there is a severe B2B knowledge gap in academic literature. And that's rather strange because the B2B industry is large. When teaching to marketing professionals, at least 50% of them work for a B2B company. So, there is a significant chance that you'll find your way to a B2B company.

The aim of this textbook is to present you the essentials of B2B CVM. Based on many academic papers, books, my own publications, and personal experiences with B2B companies as a business consultant for 30 years, I have tried to give an overview of the CVM basics including some of the relevant academic theories like equity theory, stakeholder theory, social exchange theory, resource-based view theory, resource dependency theory, signaling theory, service dominant logic, disconfirmation-of-expectations theory, behavioral economics theory, and transaction cost theory. It gives you the 'big picture'. Of course, on each of the concepts, subjects and theories discussed in the various chapters, there is much more scientific know how published in academic journals and books.

This textbook is a 'living document' that is improved every month. So, when you have suggestions for additions and/or improvements, please let me know. Finally, I want to thank my valued colleague Eyzo Bakker MSc for reviewing a large part of this textbook.

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General abbreviations frequently used in this textbook are:
CVM = Customer value marketing
CVP = Customer value proposition
GSB = Goods-services bundle
TCO = Total cost of ownership
VFC = Value for the customer
VOC = Value of the customer
WOM = Word-of-mouth

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SECTION I

B2B MARKETS AND CUSTOMER VALUE MARKETING

Chapter 1. B2B Markets and Customer Relationships

1.1. Introduction

Times have changed. Companies that produce good products are not necessarily becoming successful anymore. Customers are becoming increasingly demanding and many changes in business markets have led to new market mechanisms. It is not only the product, tangible, or intangible, that counts[1]; it is the company's total customer value proposition (CVP) that is being evaluated by its potential and current customers. Successful companies understand that customers evaluate value by comparing the benefits of a supplier's CVP against the sacrifices they must make. Benefits can be tangible goods or intangible services, or a combination in the form total solutions that make both customers and suppliers more successful. Also, the customer service, the customer relationship management, and the sustainability count. The sacrifices are viewed in terms of the money customers must invest and the risk they take when doing business with the supplier.

To understand customer value and CVM, it is important to first understand B2B markets and the customer-supplier relationships in these markets. B2B suppliers and the relationships with their customers are fundamentally different from B2C companies, which deliver directly to consumers. Only since the 1960s, a stream of research has started on B2B customer-supplier relationships[2]. Today's academic B2B research is still in the minority when compared to B2C research. That is strange, since a large part of our economy consists of companies that are active in B2B markets. The US Department of Commerce statistics showed that in 2010, 42% of all the US-revenues ($10.7 of $25.6 trillion) were B2B transactions[3]. Additionally, the US B2B e-business seems to generate even more revenues than B2C e-business[4]. Thus, the chance that you are going to work for a B2B company is substantial.

The five main questions answered in this first chapter are:

1. How do B2B markets look like?
2. What are value chains and what are the consequences of it?
3. What types of customer-supplier exchange relationships exist, and what are the determinants and dimensions?
4. What are important characteristics of B2B relationships?
5. What is a buying center and why is it important?

1.2. B2B Markets

B2B markets have in common that they deliver their products directly to other companies, governmental agencies, or public organizations (and not to consumers!). These customers are business entities that "buy the good or service, meaning that they acquire it legally, and probably but not necessarily physically and pay for it"[5]. Lilien[6] states that "a way to discriminate between B2B and B2C markets is to ask a simple question: Is the demand for a good or service derived (driven by the demand of some subsequent B2B customers) or primary driven by the specific tastes or preferences of the B2C buyer?". As described above, a large part of every nation's economy is formed by B2B markets and companies. B2B organizations are operating in three different B2B sectors:

- ✓ The primary sector: this involves extracting, mining, and harvesting natural products from our earth. Think about mining corporations, fishermen, and farmers.
- ✓ The secondary sector: this involves processing, manufacturing, and constructing products using the goods or materials that the primary sector delivers. The best examples here are manufacturing companies.
- ✓ The tertiary sector: this involves the services sector, such as accountancies and advertising agencies.

B2B companies can vary from very small (1-2 employees) to very large conglomerates like ABB, Hunter Douglas, Rolls-Royce Engines, and Maersk with thousands of employees. Five different product-groups that B2B customers buy[7] can be distinguished:

1. Resell as is: these are products that are bought for trade, unmodified as they are, by wholesalers and retailers.
2. Integrate as components: products become part of the customer's final product but need no further processing before that stage. These parts are integrated unmodified into products by original equipment manufacturers (OEM). Think about components for machines, telephones, or cars.
3. Modify and resell: products become part of the B2B customer's final product. They have previously undergone some processing but need further processing by the B2B customer before they enter the final product.
4. Capital items: these are used for production within the B2B customers' organization. As such, this customer is the end-user. Each company buys furniture, computers, and other products like machines for internal use. These goods and services help the company operate and conduct its main activities. Capital items can be divided in two types. Major capital items have a lifespan of more than one year, they do not become part of the company's final product, and cost more than $10,000 per unit (e.g., business cars). Minor capital items have a lifespan of more than one year, do not become part of the company's final product, and cost between $1,000 and $10,000 per unit (e.g., computers).
5. Internal consumption: these products do not become part of the customer's final product and are no capital items. They rather are used for operating the company, maintenance, or repairs. Think about buying wine and beer for the Friday meetings or toilet paper for the toilets.

Storbacka et al.[8] differentiate B2B companies in the secondary sector in two generic business logics: I2P and IB.

- ✓ Input-to-process (I2P): these are companies like metal, pulp, and paper suppliers providing goods that are utilized as inputs in the B2B customers' process (modify and resell). The goods are transformed during the customer's process and eventually cease to exist as a separate entity. These are 1, 2 and 3 of the previous list.
- ✓ Installed-base (IB): these companies, such as machinery and equipment manufacturers, provide investment goods to B2B customers, thus helping to create an installed base of machines and equipment at the customer's plants. There are two different types of IB businesses:
  - the Capex business: *cap*ital *ex*penditure, as when customers invest in new plants, heavy machinery, or information technology systems. This is number 4 of the previous list.
  - The Opex business: *op*erational *ex*penditure for internal consumption, such as services, maintenance and repair related to the capex investments done. This is number 5 of the previous list.

Finally, going back to Lilien's[9] rule, this rule to distinguish between B2B and B2C seems to be incomplete. Looking at the above described five reasons to buy, Lilien's rule only applies for the first three reasons. It does not include the demand for capital items and internal consumption by organizations. So, in addition to derived demand also internal use and consumption should be added. This leads to the overview of B2B markets as given in Figure 1.1.

- ✓ Derived demand: only commercial B2B companies operating in B2B2B or B2B2C (see next paragraph) for resell as is, integrate as components or modify and resell.
- ✓ Own use: all B2B organizations buying capital items of products for internal consumption. In these cases, the B2B customer is the end-user.

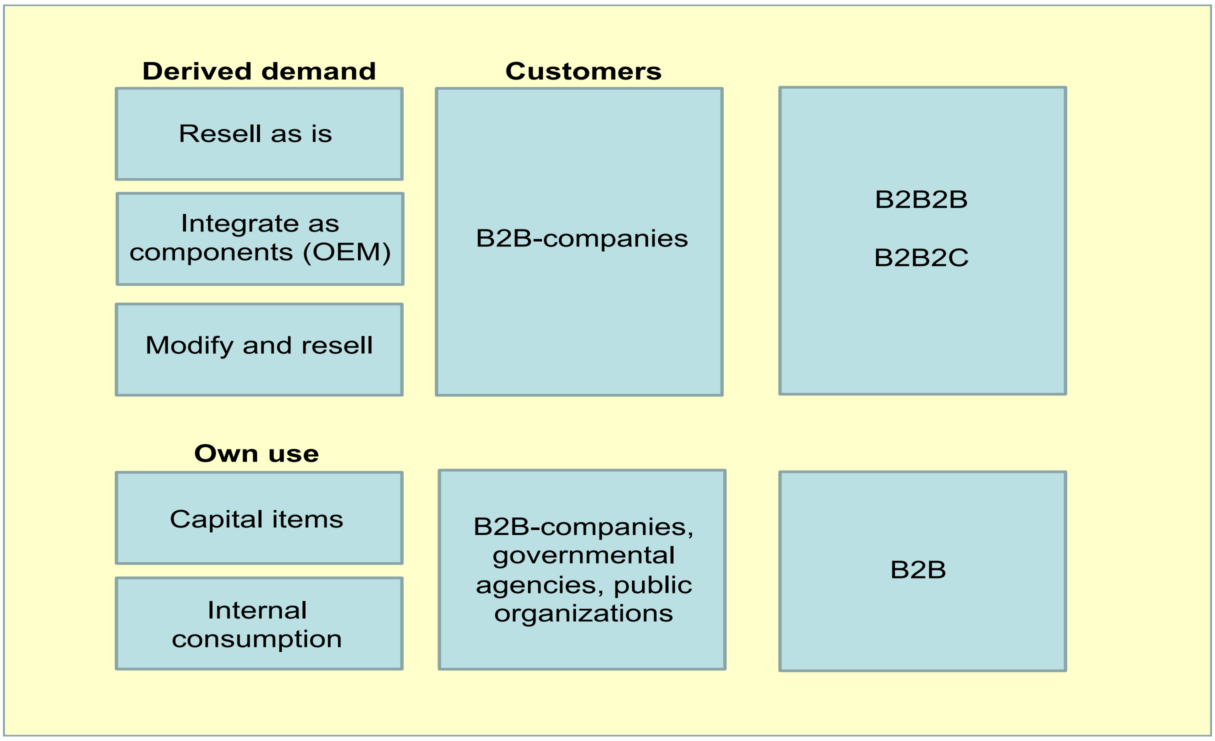


Figure 1.1. B2B Markets

1.3. Value Chains and Networks

B2B markets and companies operate in value chains (also called supply chains). This paragraph starts with giving a short description of these value chains. Depending on the constitution of these, a supplier has one or more different customer segments, also this subject is discussed here. In the second part I'll discuss the topic of networks more in depth. But let's start with some definitions of value chains (see Figure 1.2.).

*"The functions within and outside a company that enable the value chain to make goods and provide services to the customer" (*Cox et al., 1995).

"The network of entities through which material flows. Those entities may include suppliers, carriers, manufacturing sites, distribution centers, retailers, and customers" (Lummus and Alber, 1997).

"All the activities involved in delivering a product from raw material through to the customer including sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, delivery to the customer, and the information systems necessary to monitor all of these activities" (Lummus and Vokurka, 1999, p. 12).

*"The linked set of value-creating activities all the way from basic raw material sources for component suppliers through the ultimate end-use product delivered into the final customers' hands" (*Dekker, 2003, p. 4; Shank, 1989, p. 50).

Figure 1.2. Four Definitions of Value Chains

This textbook integrates the definitions given above, and defines value chains as:

> *Combinations of companies that produce, distribute, and eventually deliver products to the end user.*

Each company as a member of the value chain adds value to the end-product. A value chain can be short with relatively few companies involved, or long with relatively many companies involved. In Figure 1.3., I have given a simple overview of possible combinations.

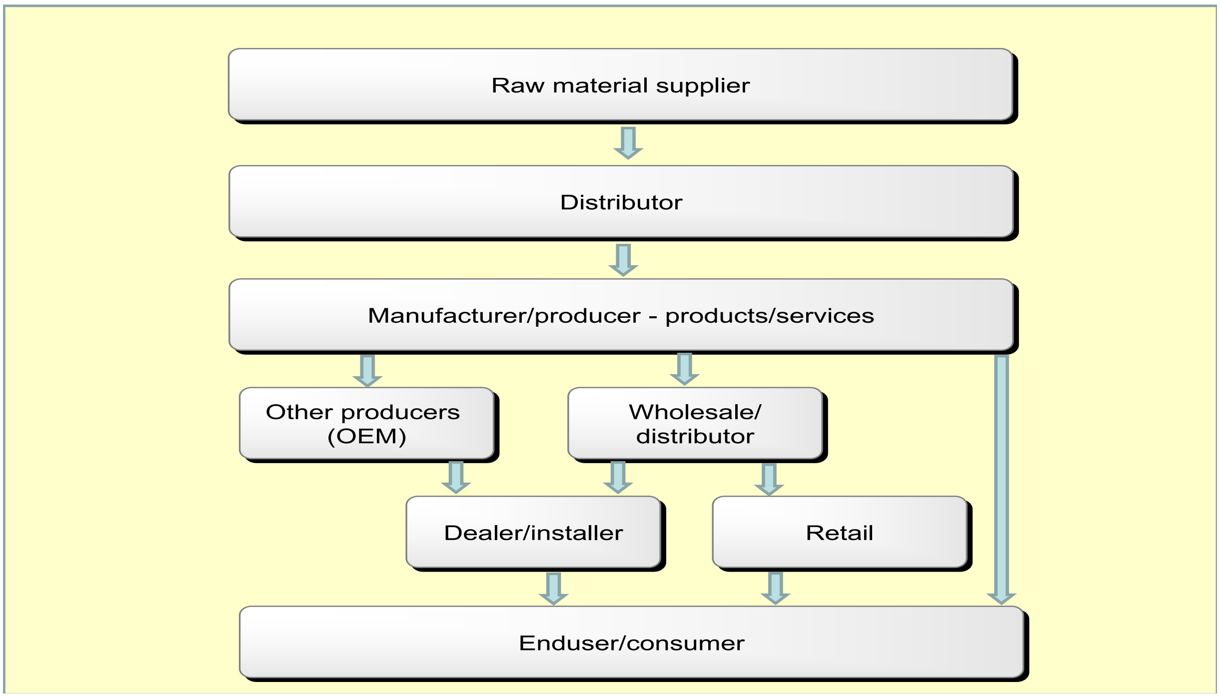


Figure 1.3. Example: Combinations in a Value Chain

A value chain could for example consist of a raw material supplier (a mining and steel producing company) delivering sheets of steel to a distributor that again delivers its products to a manufacturer of metal components for furniture. This manufacturer delivers its products to an OEM manufacturer of furniture. In turn, this manufacturer sells the furniture to dealers that deliver the products to consumers. Various combinations are possible, depending on the market. Also, one company can use several value chains at the same time. For example, companies can deliver products to OEM and at the same time deliver to wholesalers. The consequence is that a B2B company can have several completely different customer segments that sometimes have different or even opposite interests (e.g., because they are competitors).

These value chains depend on how markets are structured. Within markets companies build strategic alliances with other companies based on a contractual or even an equity base. The aim is to develop the best set of capabilities and resources to be competitive in the market. Hunt et al.[10] have described three views on market structures leading to completely different value chains (see Figure 1.4.).

- ✓ Traditional view of competition: competition is horizontal and company-to-company at each level. Suppliers in the same business compete to get and retain the best customers. Figure 1.3. is an example of such a market situation.
- ✓ Hierarchical competition: vertical integration by buying companies and integrating them into the company leads to competition between integrated companies ('hierarchies').
- ✓ Strategic network competition: combining the advantages of the other two views leads to this third one. In this case various companies are not owned but work together as network partners. "A network is a group of independently owned and managed companies that agree to be partners rather than adversaries"[11].

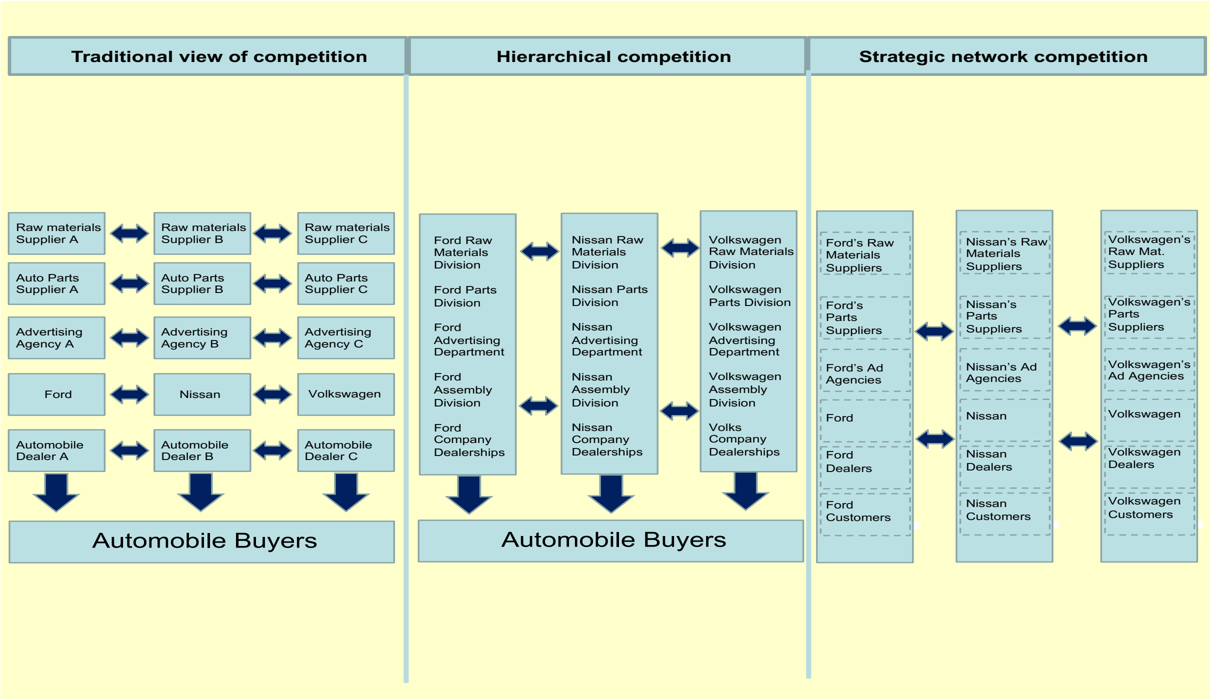


Figure 1.4. Three Views on Market Structures

In Figure 1.4.[12] I have given an example of a car manufacturing market illustrating these three views. You can see that the structures of the value chains differ significantly. In practice companies are constantly active on this field and change strategies periodically. This vertical integration upwards or downwards in the chain leads to the elimination of certain members in the value chain. For example, a producer could deliver directly to the retail and skip the wholesale in the chain because of financial reasons. This leads to a constant struggle for power in a value chain. For example, Dutch bicycle producers traditionally only distributed their bikes through bicycle shops. This chain still exists. But in addition to that, these producers now also sell their bicycles directly to consumers using e-commerce and experience stores.

Normally you could say that the next organization in the value chain is the customer. It is important for B2B companies to focus on these direct customers. But only focusing on these direct customers could be dangerous. As you can see in Figure 1.3. and as described in § 1.2., there are companies delivering to other companies as end users. In other situations, business customers deliver again to other companies or to consumers. Brotspies and Weinstein[13] make an interesting differentiation between three types of B2B relationships:

- ✓ B2B: this is when the business customer is the end-user in the case of buying capital items or products for internal consumption.
- ✓ B2B2B: this is when a supplier sells to a B2B customer that again sells to a B2B customer. For example, a producer of motors delivers to a car manufacturer that delivers to car dealers. In Figure 1.3. it is the 'raw material producer', the 'distributor' and the 'manufacturer' that have such B2B2B relationships.
- ✓ B2B2C: this is when a supplier sells to a B2B customer that directly sells to consumers. For example, a producer of games delivers to game stores that sell the games to consumers. In Figure 1.3., it is the 'other producers (OEM)' and 'wholesale/distributor' that have such a B2B2C relationship.

This differentiation is important because companies must not focus only on the direct customers but also on the customers' customers (indirect customers). For example, a few years ago I worked for a paper manufacturer that did intensive customer surveys among paper retailers (their direct customers). These retailers gave them important information for the short term, such as sales volumes, retailers' preferences and logistical challenges. However, it did not offer them a good overview of the more structural paper trends in consumer markets. A consequence was that, when the demand of consumers changed, the manufacturer was not prepared for it. Consequently, the retailers switched to other manufacturers that had listened to consumers.

Value chains focus on customer-supplier relationships. As you have seen in Figure 1.3. these chains can be very extensive. But to understand dynamics in B2B relationships and value chains even better, it is important not only to involve customers and suppliers but the whole ecosystem of organizations influencing this relationship directly or indirectly. "Business interactions are often seen as being embedded in a wider environment of multiple actors with indirect and direct influences on a focal actor or relationship"[14]. Think about actors like supplier's suppliers, other customers, financiers, and many more organizations working together in such an ecosystem, this is also called a value network. Such a network is based on connectivity and interdependence between the various actors. Tikkanen and Alajoutsijärvi[15] use three layers to describe such a network. See also Figure 1.5.[16]

1. The inner system: this is the relationship between the supplier and the customer. Different members of the buying center (customer) and selling center (supplier) have their contacts and relationships.
2. The connected network: this is the relationship between the network of the supplier with that of the customer. Organizations where both companies cooperate with could have connections and could influence the relationship between the customer and supplier.
3. The outer context of the connected network: this consists of other networks that have an influence on the connected network. Think about networks of direct and indirect competitors.

Corporate choices and actions are influenced by what happens on these three layers.

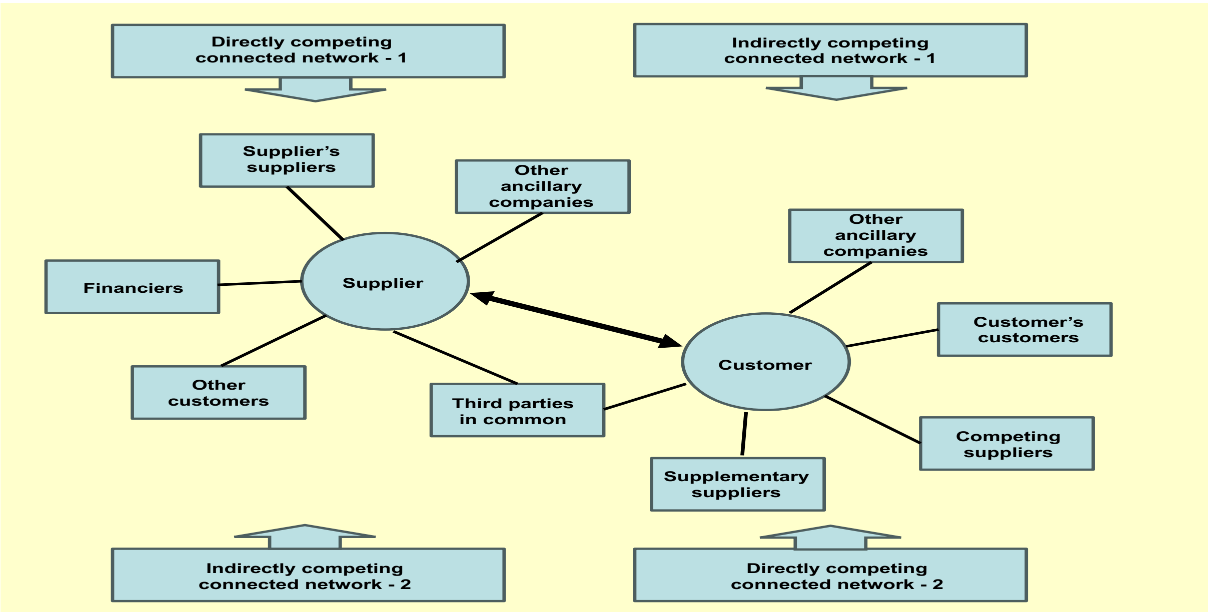


Figure 1.5. Three Layers of Networks

See § 8.7. for a description of service networks, a specific type of network.

1.4. Customer-Supplier Relationships

Resource dependence theory was originally developed by Pfeffer and Salancik in 1978. Since then, many publications related to organizational theory and strategic management have used this theory [17]. It is about the behavior of organizations in the context of their environment, external factors, and the dependence of these. An important related aspect is 'power': the control over vital resources for the own company. The theory states that "Organizations attempt to reduce other's power over them, often attempting to increase their own power over others"[18]. It is inevitable that customers need suppliers, and suppliers need customers. They depend on each other; the characteristics and amount of this dependence depend on various factors that are described in this paragraph. Companies as customers work on reducing their dependence, while suppliers try to increase their customers' dependence and increase power. Actions like purchasing arrangements, building switching barriers (see Chapter 18), alliances, joint ventures, mergers, and acquisitions[19] are connected to this continuous struggle for power.

According to Hunt et al.[20], companies enter relationships with other companies "when such a relationship contributes to the competitiveness of the organization". They[21] also state: "to achieve competitive advantage and, thereby, superior financial performance, companies should identify, develop, and nurture an efficiency-enhancing, effectiveness-enhancing portfolio of relationships". The more a relationship contributes to efficiency and/or effectiveness, the more valuable it is. You could imagine that this process of identifying the right exchange partners, developing, and nurturing them, takes a lot of time and energy, especially for the intense relationships in the future. Companies spend substantial resources on this process.

In B2C-markets, customer-supplier relationships are relatively simple. There is an exchange relationship where the consumer pays for an individual product, service, subscription, or contract. In B2B it can be that simple when the business customer uses the products as a capital item or for internal consumption. Think about buying electricity, hiring a consultant for a project, or hiring a caterer for the annual sports event. However, it can be much more complicated when the customer buys products as derived demand (for 'resell as is', 'integrate as components' or 'modify and resell', see § 1.2.) because in these cases the products are input for the customer's production process with high perceived risks. Furthermore, B2B relationships can be equity-based or non-equity based. Equity-based relationships are in the form of joint ventures or partial acquisitions where one partner has a financial stake in the other. Non-equity-based relationships are based on licensing or another contractual relationship[22]. To avoid making it very complicated, in this paragraph and the full textbook, I focus on non-equity-based relationships.

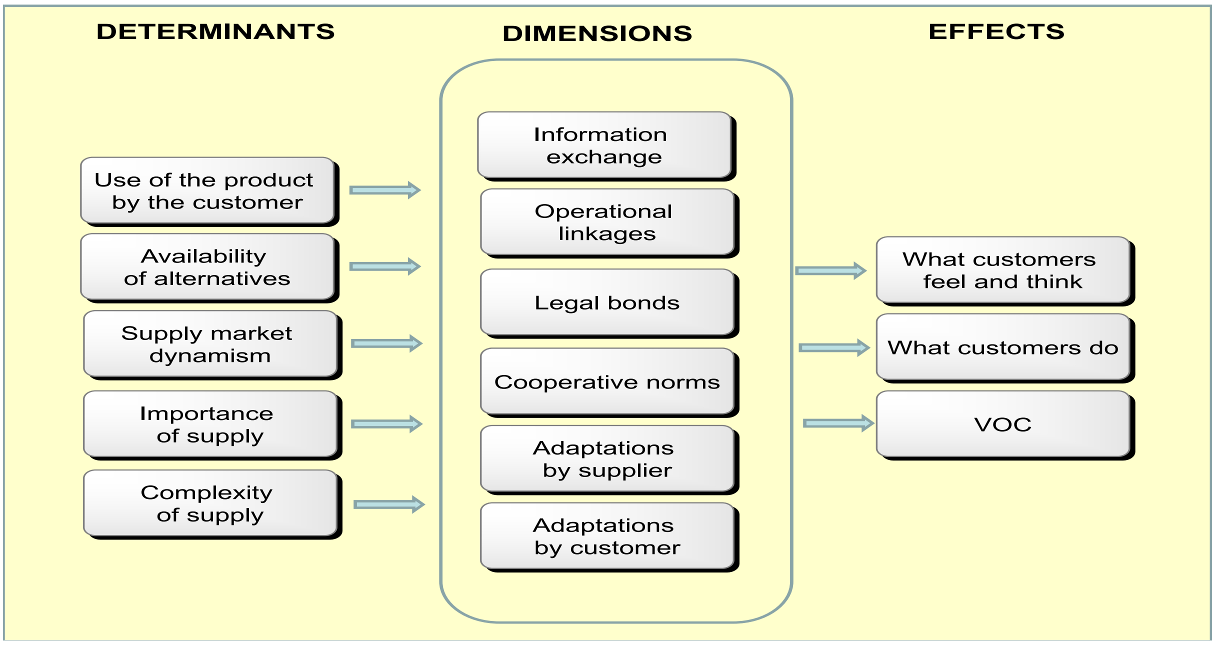


Figure 1.6. Determinants, Dimensions, and Effects of a Business Relationship

How does a customer-supplier relationship look like? In Figure 1.6.[23], a graphical presentation of the answer is given. The developers describe five situational factors (determinants) that have an impact on an exchange relationship. First, how customers use the product has an important influence on how a relationship is structured. Second, the availability of alternatives is considered. When there are no alternatives, or they are in the market but not available, this will impact the relationship considerably. In this case customers' dependence is very high. Also, dynamics in the supply market and the importance, and complexity of the products bought by the customer have an impact. You could expect that the more important and/or complex the product is, the more dependent the customer is of the supplier. This leads to a higher perceived vulnerability[24], and therefore the customer wants a more intense relationship. This leads to a customer-supplier relationship with the following six dimensions:

1. The amount, content, and openness of information exchange between the customer and supplier. Think about early involvement in developments and product design, open book calculations, joint logistical planning, and openness about plans for the future.
2. The operational linkages between supplier and customer: the degree to which systems, procedures and routines of both organizations are linked.
3. The bonding and contractual agreements (legal bonds) between the partners.
4. The norms for cooperation between them. These are the expectations and rules concerning how to work together as exchange partners.
5. The adaptations concerning processes, products or procedures made by the supplier to fit into the relationship.
6. The adaptations made by the customer.

A relationship between a customer and supplier could be assessed based on these six dimensions. It ultimately affects the customer's evaluation of the supplier's performance concerning what the customer feels, thinks and eventually does influencing the customer's value for the supplier (see Figure 1.6.). The constitution of these six dimensions leads to different types of customer-supplier relationships varying from very extensive to very intensive relationships. Day[25] proposes three types of relationships: transactional exchanges (1), value-adding exchanges (2), and collaborative exchanges (3). Depending on the type of relationship the communications, linkages, and coordination mechanisms vary (see Figure 1.7.[26]).

	Transactional exchanges: *anonymous transactions/ automated purchasing*	**Value-Adding exchanges:** *in the middle*	**Collaborative exchanges:** *complete collaboration and integration of supplier with customer*
Communications	• Broadcast marketing • Targeting based on information about customers • Negotiations	• Tailored interactions • Emphasis on retention • Targeting based on information from customers	• Two-way collaboration • Joint problem solving
Linkages	• Persuasion • Competitive bidding	• Sales/service teams • Key account selling	• Multilevel contacts • Extensive sharing of proprietary information • Information system integration • Process integration • Social networks
Coordination mechanisms	• Deliveries • Contractual conditions	• Maximize lifetime value	• Joint planning • Mutual commitments • Shared incentives, goals • Trust

Figure 1.7. The Relationship Spectrum

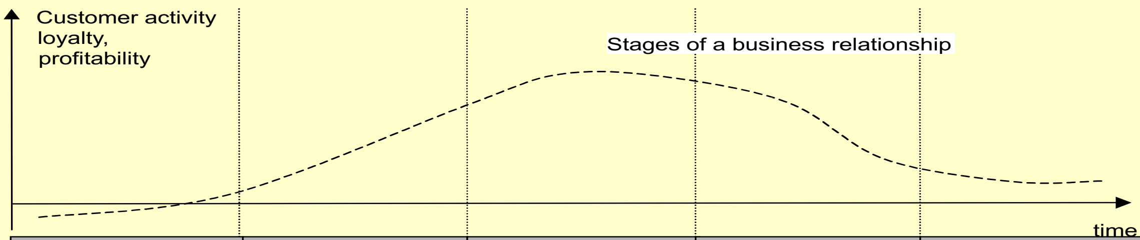
Transactional exchanges

These are customer-supplier relationships that are based on one or a series of "discrete exchanges with a definite beginning, a definite end, and a short duration"[27]. It is anonymous transactions between more or less anonymous exchange partners. Each transaction is reviewed and based on negotiations about price and conditions. This could be seen as a traditional customer-supplier relationship without any mutual commitments and ambitions.

Collaborative exchanges
This is the opposite. This is a very intense relationship with very close linkages and mutual commitments. It is based on “relational exchanges over a long (or indefinite) period of time”[28]. Both parties know each other very well and cooperate and co-create in an intensive way as real business partners.

Value-adding exchanges
These are in the middle. They are relationships based on value exchange with the aim of becoming closer in the future.

A B2B customer can have a variety of relationships with its suppliers. For example, a company may have a collaborative exchange relationship with one of its suppliers and, simultaneously, have a value-adding exchange or a transactional exchange relationship with its other suppliers. Whether or not a relationship is based on a partnership/collaborative exchange depends on several factors. These factors are influenced by the supplier, the customer, the market, and the products involved. The determinants as presented in Figure 1.6. are some of them. In many markets however, suppliers aim to build collaborative exchange relationships based on gaining power (see resource dependence theory earlier in this paragraph). Suppliers tend to prefer this type of relationship because it offers the most durable advantages because it is “hard for competitors to understand, to copy, or to displace”[29]. Yet, in certain industries and market situations, customers do not want to invest in such a relationship. For example, when the product is of little importance and there are many alternatives, it could be the case that the customer just wants a timely exchange with no hassle (transactional exchange). Another reason not to set up a value-adding exchange is when the value of the customer for the supplier is low: “not every customer is worth the effort”[30].



Before business Relationship	Start of business relationship	During business relationship	End of business relationship	After business relationship
Target of customer approach				
Select/acquire	Develop	Retain	Secure	Recover
Activities				
• Information and communication • Targeted personalized communication	• Information • Confirmation of buying decisions • Cross-selling	• Customer loyalty management • Cross-selling	• Building up/securing exit barriers • Reactivation of customers	• Recovery management • Appreciation of customer value

Figure 1.8. Typical Stages of a Business Relationship

A B2B relationship is often a long-term relationship that consists of several stages. Homburg et al.[31] present such a relationship in five stages, ranging from ‘before’ until ‘after’ the business relationship (see Figure 1.8.). During this relationship, suppliers’ activities are focused on selecting/acquiring the new customer. This is followed by developing a relationship with the customer. To have the ‘integration process’ run smoothly and avoid relationship problems because of different approaches of the marketing, sales, and service departments, nowadays ‘customer success managers’ are used. Their role is to avoid a premature customer exit and to develop the full relationship potential. The next stages are that of retaining the relationship, securing the relationship, and trying to recover the relationship in case the customer wants to end it.

In line with these stages, Johnson and Selnes [32] describe the evolutionary path of intensifying relationships from ‘strangers’ to ‘acquaintances’ to ‘friends’ and ultimately to ‘partners’.

- ✓ From strangers to acquaintances: as soon as there has been a transaction and an exchange relationship has been established, a stranger becomes an acquaintance. In this situation, the CVP (see Chapter 6) is often standardized, repetitive, and on par with competitors.
- ✓ From acquaintances to friends: repetitive interactions lead to a growing familiarity with the customer. This enables the supplier to offer the customer a more unique offering that leads to an advantage for the customer. The value offered moves from parity value to differential value, which in turn leads to a trust-relationship.
- ✓ From friends to partners: in a long business relationship, the supplier can offer a customized value. Customer knowledge and information systems are used to offer the customer tailor-made offerings and value. This leads to customers that are willing to pay a price premium and commit themselves to the supplier for a long-term relationship (collaborative exchange). Parties become increasingly interdependent in such a situation.

However, starting in the stage of ‘end of business relationship’ a reversed path starts from partners to friends, from friends to acquaintances and ultimately again to strangers.

1.5. Ten Characteristics of B2B Relationships

In the previous paragraphs some of the characteristics of B2B relationships and value chains have been described. In this paragraph I present ten additional characteristics that are important to understand the central subject of this textbook: CVM.

(1) The Pareto principle

In B2C-markets, many customers generate the company’s revenue. However, in B2B markets, this revenue is frequently generated by a small number of customers that buy in large transactions. For many B2B suppliers, 20% of their customers are good for 80% of the revenues. Furthermore, 20% of the customers (although they might be different customers than the aforementioned) generate most of the company’s profits. Consequently, there are large differences in the value of customers for the company, which could lead to a segmentation and differentiation in the value offered to customers.

(2) Power in the value chain

Business relationships are based on power; see resource dependence theory in § 1.4. Often, It’s the customer that has the power in a relationship. The customer can switch in case he perceives a too low value. However, this is not always the case. In markets where customers are strongly dependent on their suppliers, it is the supplier that decides with what customers (OEM, exclusive wholesalers, distributors, or retailers) to do business[33].

(3) Growing interdependencies

B2B companies depend on each other’s unique resources. They act in value chains and networks of actors based on connectivity and interdependence. Customers and suppliers and their connected networks and outer contexts (see § 1.3.) become more and more dependent on each other, making these relationships more and more complicated. Some of the factors that influence this development are[34]:

- ✓ Accelerating globalization leading to increased transparency of markets. Because of this increased transparency, innovative organizations that could cooperate in developing new CVPs, can find each other much better.
- ✓ Flattening networks of organizations that lock-in or lock-out organizations.

- ✓ Disrupting value chains because of the appearance of companies with completely new CVPs.
- ✓ Intensifying governmental involvement influencing the companies' possibilities to cooperate.
- ✓ Continuously fragmenting customer needs leading to new niches.
- ✓ Outsourcing of all non-core business activities to suppliers to increase efficiency.

(4) Intensive relationships

The relationships based on collaborative exchanges (see Figure 1.7.) have a long-term nature. Both parties invest in it, making it logical to develop a stable relationship based on continuity. This relationship is often based on individualization. Per relationship, individual agreements are made about interfaces, boundary spanners (contact persons on both sides), processes, procedures, and other operational issues. Because of this, there is a high degree of interaction. There is a buying center on the customer's side, and a selling center on the supplier's side (see next paragraph). Key-account management is in place to maintain this interaction.

(5) Multiple source supplierships

Due to the large interdependencies in production processes in industrial settings, decreasing suppliers' power, and the reduction of acquisition costs, customers can use two (dual source suppliership) or even more suppliers for similar products. In this way, potential decreases in the supply and increases in the suppliers' prices can be managed. However, this leads to higher costs of managing suppliers. Therefore, some companies use single source suppliers to increase quality, reduce inventory, develop Just-In-Time systems, and decrease development time of new products[35]. Therefore, it depends on the market situation and the customer's strategy what is best: single, dual, or multiple source suppliership.

(6) Industry 4.0

Industry 4.0 can be seen as the 'fourth industrial revolution'[36]. This comprises the digitalization of the industrial sector. Digitalization can be defined as "the application of digital technologies influencing B2B interactions, companies, and markets"[37]. Think about new digital products and solutions, digitalization of customer journeys and touchpoints and the use of e-commerce. Digital technologies like Internet-of-Things, cloud computing, big data, augmented reality, artificial intelligence, and smart machines (machines controlled by software and connected to the internet) have changed industrial B2B-markets dramatically. See § 8.4, 9.5. and 13.7. for more information.

(7) Ambidexterity

To be competitive and offer the best value, companies must manage both the benefits and sacrifices for their customers. This means not only adding value, but also managing costs and prices for customers. Internal cost reductions could be necessary to have the possibility to ask (low) prices at a competitive level. Simultaneously working on high added value for customers and at the same time working on low internal costs is a practice of walking on two-legs called 'ambidexterity'. For example, Singapore Airlines (SIA) aims to offer its business and private customers a superior value and experience. It uses two strategies simultaneously. On the one hand it uses a customer intimacy strategy for the front-office part of the organization that has a direct impact on customer experience. In this part SIA invests in offering superior benefits to its customers. But from the other hand SIA must ask competitive price levels (customers' sacrifices). Therefore, SIA uses an operational excellence strategy for all its back-office operations. By strictly managing the costs of those parts not in direct contact with customers, SIA is an extremely efficient organization. This ambidexterity strategy makes that SIA is one of the leading airlines both in customer satisfaction and efficiency[38].

(8) From acquisition to retention

In many markets the number of customers has been consolidated. There is no massive growth anymore. Where marketing and sales of many suppliers used to be focused on acquiring new customers, the focus has now shifted to retaining existing customers. It is also more profitable to focus on existing customers. Loosing dissatisfied customers and trying to regain them after a while can be a costly business. Research shows that keeping customers is less expensive than acquiring new ones (see Chapter 16).

(9) From volume and market share to profitability
In those B2B markets, where the fixed costs are low, it is not important to have as much revenues as possible. Rather, it is more important to generate revenues and retain customers that contribute to the company's profitability. Having the right customers is more important than having a lot of customers. Research has shown that only a limited part of the customers has a substantial contribution to profits. Additionally, a case study shows that 20% of the company's largest customers (in terms of products sold to) were responsible for 93% of revenues and 95% of profits[39].

Working on customer value is only successful when the organization knows the value of its customers and invests the right resources and energy in the right customers. Not all customers are equal, or even stronger: the average customer does not exist. 'Customer first' and 'Customer is king' should be changed into 'One customer is more king than the other'. The focus has moved away from attracting as much customers as possible towards getting the right customers 'on the bus', offering CVPs in line with the value of customers, and ending relationships with insufficiently valuable customers (see § 6.3.).

(10) Commoditization in markets
Finally, an important subject for B2B markets is that of commoditization. Many business markets are very dynamic. According to Grove et al.[40] four factors have disrupted the dynamics in these markets:

1. The quality of products has been commoditized. The technical and qualitative differences between suppliers and their offerings have been narrowed.
2. An existential threat has been posed by new disruptive technologies like cloud computing, mobile applications, and artificial intelligence.
3. Business customers are getting better informed by doing research on their own. Easy access to online information leads to an abundance of product information.
4. Customers shift from a focus on almost solely negotiating for the lowest price to selecting suppliers based on added business value.

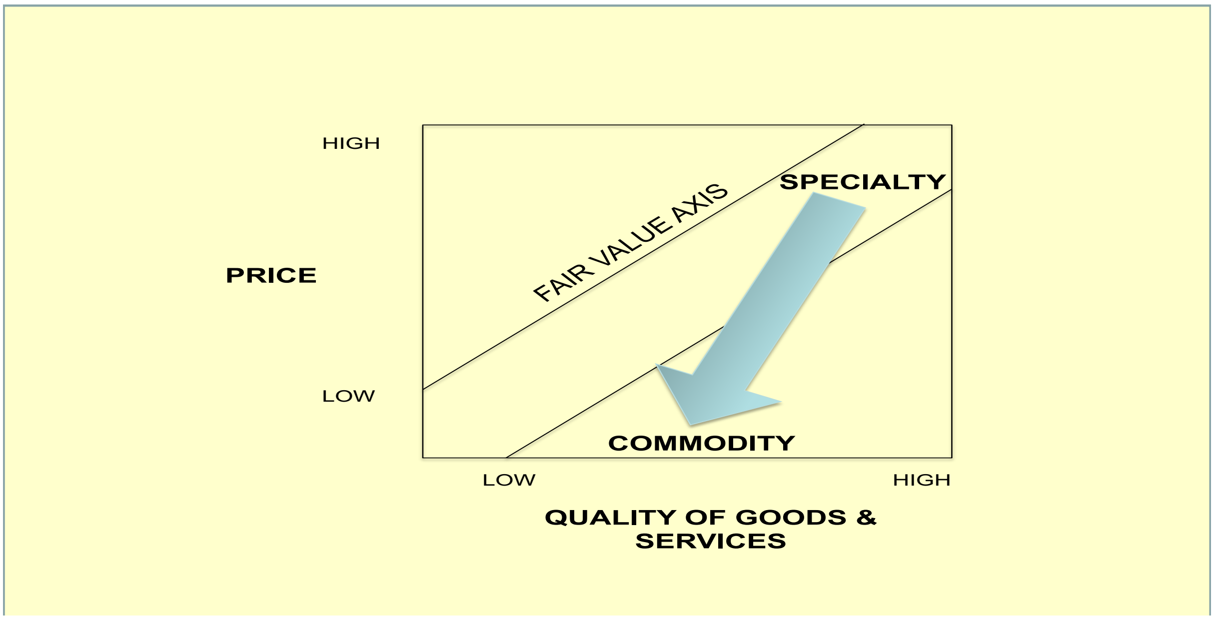


Figure 1.9. The Commodity Trap

These dynamics in business markets have an impact on the cycle of growth, maturity, commoditization, and decline of products, companies, and whole business sectors[41]. The speed and intensity of becoming a commodity depends on the actual situation of these dynamics. What once was a specialty product (good or service) with an attractive value for the supplier (high price) has now become a commodity for customers (see Figure 1.9.[42]). A commodity can be defined as: "the offerings over time tend to be undifferentiated in the minds of customers, with price becoming the sole basis for deciding among them"[43]. Furthermore, competition increases, there are more and more 'me-too' products available, product life cycles are shorter, customers are reluctant to buy additional features and services, and there is a massive pressure on prices and margins[44]. Where in the past a supplier could ask high prices due to highly differentiated products, it now must compete on price as it has become the only aspect to differentiate on, leading to a negative price spiral. This effect has been given several names, including the 'commoditization pull effect', the 'commodity magnet', and the 'commodity trap'.

Differences B2C and B2B

These ten characteristics, and many more make customer-supplier relationships in B2B-settings different from those in B2C-settings. Figure 1.10.[45] shows some of them. Because of these differences, marketing in B2B is significantly different from that in B2C.

B2C-relationships (consumers)	**B2B-relationships**
Large numbers of customers, mass market	Low numbers of customers, often 20% of the customers makes 80% of the supplier's success
One large group of consumers	Different customer segments in the value chain with sometimes conflicting interests
Consumers are less well informed; marketing is about convincing	Customers are well informed; marketing is about educating
Social and emotional value play a more important role. Important role of impulse behavior	Customers buy mainly on functional value, but social and emotional value can play a role. Rational, limited role of impulse behavior
No, almost no interdependencies between customer and supplier	Many interdependencies possible. Customer can be potential competitor, can also be supplier and shareholder
There is less co-creation, more a one-directional relationship. More focus on Value-in-Exchange	Two-way relationship. Customers are often important cocreators and producers of value. Value-in-Use is an important concept
Tendency of suppliers to reduce the number of different products/product lines	Tendency of suppliers to expand the number of different products/product lines
Intense use of social media and mass media	More limited use of social media, customers can be reached by specialized media
Simple buying process, not many people involved	Complicated buying process, multiple steps, involvement of buying center
Brand can be the reason to buy	Brand is about the first impression; it opens the door but does not sell

Figure 1.10. Important differences between B2C and B2B

1.6. The Buying, Usage, and Selling Centers

A fundamental difference between B2B and B2C customer-supplier relationships is that of the buying and usage centers. Let me explain this concept. A couple of years ago, I conducted customer research for a metal frames producer. To that end, three interviews were planned with one of their biggest customers. In the morning I interviewed the customer's head of purchasing. He was not satisfied at all because the prices were too high. Consequently, he was thinking about finding a low-cost alternative supplier in Eastern Europe. At lunchtime, I had the interview with the head of production. He was very satisfied. He was very happy with the products, logistics, and cooperation. In the afternoon the interview with the general manager revealed that he was somewhere at the middle of both colleagues. He received contrary signals from his managers: depending on the person, there was a different evaluation of the relationship. The continuity of the relationship depended on who had the largest influence; the head of purchasing or the head of production.

B2B buying differs fundamentally from B2C buying where decisions are made by one or two persons. Conversely, B2B buying often consists of complex sequences made by a web of decision participants in different organizational layers[46]. First, the selling center of the supplier consists of various roles. These can be the deciders (do we want this customer/deal?), salespeople, employees that produce the product and other contact persons. Like the supplier, the customer's decision participants can be part of various functions and departments. Together they form the decision-making unit (DMU), also called the buying center. A buying center consists of "all those customer's members who become involved in the decision-making process for a particular purchase decision"[47]. All those members have different roles and different interests leading to different assessment criteria towards a supplier. Those criteria can be of a corporate and collective interest, but also of an individual buying center member interest. The buying center includes five roles[48]:

1. Users: employees who use the purchased products.
2. Influencers: employees and other actors who influence the decision process (in)directly.
3. Buyers: employees with formal responsibility and authority to contract suppliers. Examples are purchasers and procurement managers.
4. Gatekeepers: employees and others who control the flow of information (and materials) into the buying center.
5. Deciders: employees with the authority to choose among alternative suppliers. Think about general managers or department managers.

These five roles could each be seen as 'personas'. In B2C markets personas are customers with specific characteristics. Segmentation in B2C is done on personas. In B2B markets personas are related to the different roles of members of buying centers. Since each of the five roles depends on other roles, B2B segmentation on personas is much more complicated. Finally, there is the usage center. This is the group of customer's people who would use the product[49]. These are the people that can assess the product in operation and the value of it when using it.

Furthermore, it seems that the influence of the individual member of the buying center depends on factors like the buying situation, type of product and type of decision[50]. The model of Robinson et al.[51] distinguishes three different buying situations[52]:

- ✓ A new task situation occurs when the need for the product type has not risen before, there is no past buying experience with this product type, a great deal of information is required, and alternative products and alternative suppliers are considered. This buying situation is complicated, many members of the buying center can be involved.
- ✓ A modified rebuy situation occurs when there is a continued requirement for the product and the buying alternatives are known. However, the buying alternatives have changed due to events such as a change in supplier prices, a new product introduction by a vendor, a need for cost reductions, or engineering modifications. Additional information is needed before a decision can be made.
- ✓ A straight rebuy situation occurs when the requirements for the product type are unchanged, the buying alternatives are known, and no new suppliers are to be considered. A great deal of buying experience for the product type exists, and little new information is needed. This buying situation is simple, only a few buying center members will be involved.

Independent of the buying situation, the different members of a buying and usage center focus on different value drivers based on their functions and roles[53]. For example, the procurement manager might focus on the price, whereas the operations manager is primarily concerned with the quality of the goods and logistics. This leads to differences in satisfaction with various drivers (attributes)[54], see Figure 17.7.).

Suppliers understand that only having contacts with their customers' purchasers is very dangerous. Therefore, they have established multi-layer relationships (see Figure 1.11.). This means that suppliers have organized contacts between the customer and their organization on a strategic (board members/deciders), tactical (sales/buying) and operational level (operational employees). This makes a relationship less dependent of the whims of one person (the purchaser).

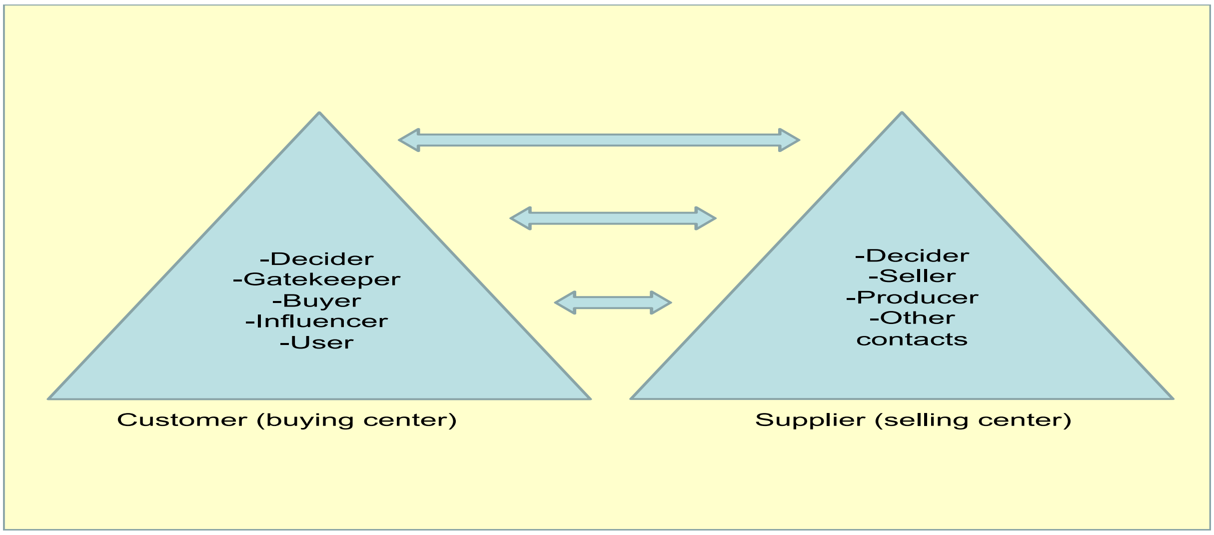


Figure 1.11. Multi-layer Relationships

1.7. Summary

In this chapter I have given some insights in what B2B markets, organizations, value chains, networks, and exchange relationships are. This is important to understand the setting of all other chapters of this textbook. Here I give a short summary of this chapter.

(1) How do B2B markets look like?
B2B companies have in common that they deliver to other companies, governmental and public organizations, and not directly to consumers. They are active in the primary, secondary, and tertiary sectors delivering tangible goods and/or intangible services. Suppliers deliver products that are direct input for the production process or customers (‘resell as is’, ‘integrate as components’ or ‘modify and resell’), or for situations where the B2B-customer is the end-user (‘capital items’ or ‘internal consumption’).

(2) What are value chains and what are the consequences of it?
Value chains are combinations of companies that produce, distribute, and eventually deliver products to the end user. There are short and long value chains with several companies that deliver to each other to transform raw materials into products for end users. In such a value chain, a supplier can have different customer segments like OEM, wholesalers, and retailers, sometimes with different or even opposite interests.

(3) What types of customer-supplier exchange relationships exist, and what are the determinants and dimensions?
A supplier and a customer in a B2B setting have an exchange relationship with benefits and sacrifices for both partners. The character of such an exchange relationship with several dimensions (like information exchange, operational linkages, and legal bonds) depends on several determinants like the availability of alternatives and importance of the supply. Basically, there are three types of B2B exchange relationships: ‘transactional exchanges’, ‘value-adding exchanges’ and ‘collaborative exchanges’.

(4) What are important characteristics of B2B relationships?
In B2B relationships there are ten important characteristics that are different with those in B2C settings. These are: 20% of the customers make 80% of the supplier’s business, depending on the value chain power is divided differently, dependencies between organizations are growing within value chains, there

are intense relationships between customers' and suppliers' boundary spanners, often customers choose to use two or even more suppliers for the same product, there is a growing importance of digitalization, organizations have to steer on value for customers and work on cost reductions at the same time (ambidexterity), retaining customers is becoming more important, there is a switch from steering on volume/market share to profitability and in various markets there is the development of commoditization.

(5) What is a buying center and why is it important?
A buying center consist of all the customer's people that directly or indirectly influence the relationship with a supplier. They are a decision-making unit consisting of users, buyers, influencers, deciders, and gatekeepers. The role and constitution of such a buying center depends on many factors like the type of buying decision (new task, modified rebuy, straight rebuy).

Chapter 2. B2B Customer Value Marketing (CVM)

2.1. Introduction

After a description of B2B markets and relationships, it's now time to dive into the concept of CVM. Shah et al.[55] state: "the essence of the customer centricity paradigm lies not in how to sell products but rather on creating value for the customer and, in the process, creating value for the company; in other words, customer centricity is concerned with the process of dual value creation". For me, this is the essence of B2B marketing. Simultaneous creating value for the customer and the supplier. In this second chapter I give an overarching picture of CVM, which is described in more detail in the next chapters. The basic questions answered in this chapter are:

1. What is CVM?
2. How can CVM be positioned within the marketing discipline?
3. What are the five phases of CVM?
4. What are the two guiding principles of CVM?

2.2. A CVM Overview

Marketing is a dynamic concept that changed during the last century and certainly will change in the future. As a business consultant, researcher, and author I have seen many new subjects come and go. Some developments can be seen as real short-term fads, others are more structural. These will not disappear but are further developed during the years. One of these is customer value marketing (CVM). My definition of CVM is:

> *Designing, organizing, branding, and delivering a superior value to the targeted customer segments the company wants to serve. The customer value propositions are in line with their value for the company and the value desired by these customers. This to make sure that these customers experience a superior value, are satisfied/delighted, have a trust-based relationship, and are committed and loyal towards the supplier. This eventually to be financially successful on the long run as a supplier and contribute to the shareholder value.*

It's quite a long definition, but it contains all essential concepts. What you see in the definition, and you will see in the next chapters, is that CVM is a strategic, tactical, and operational marketing development within B2B companies. It is an integral development that not only the marketing department can organize. Also, departments like Sales, Service, Operations and Finance contribute to it. CVM is about five different phases:

- ✓ Analyzing and segmenting on value. This is done from two different perspectives that can be seen as two sides of a medal. First it is the value of a customer for the supplier, the other side is the value a supplier offers its customers. Customers are segmented on both sides. This is described in Section II of this textbook.
- ✓ Targeting, positioning and designing value. Based on this segmentation companies choose what segments they want to serve (targeting) and how they want to position themselves in these segments. Suppliers define value by developing CVPs per customer segment that are aligned with the value customers desire/demand and the value they can offer the supplier. These CVPs consist of a mix of product, customer service & customer relationship management, sustainability, brand, total cost of ownership and risk(reduction). The subject of CVPs and their six elements is described in Section III.
- ✓ Branding, communicating and selling value. How to brand CVPs? How to communicate value to customers and how to sell it using e.g., key account management? These topics are discussed in Section IV.
- ✓ Organizing and delivering value. What does it take for an organization to deliver customer value? The organizational enablers to do so, are described in Section V.

- ✓ Harvesting on value. CVM can be seen as a business case. By investing in CVM and the right customers the suppliers' benefits should be higher than the sacrifices. In section VI I describe the effects of CVM on costs, revenues, profits, and ultimately shareholder value.

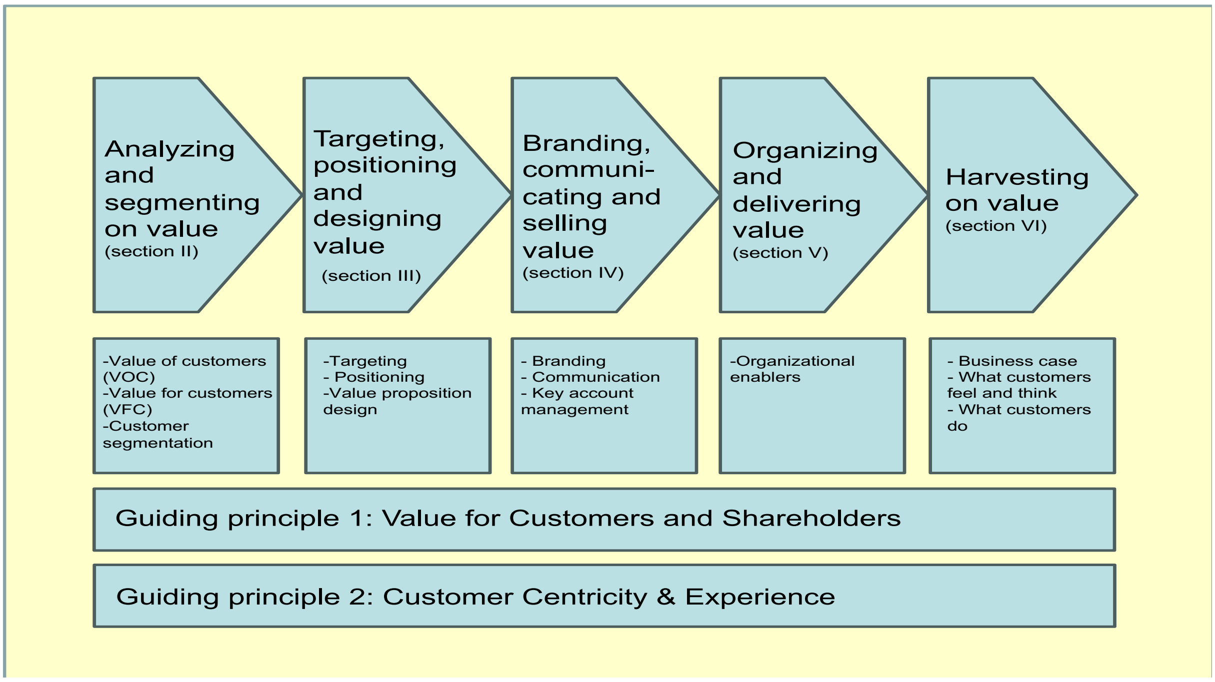


Figure 2.1. The five phases of CVM

Beside these five phases, CVM has two guiding principles. The first guiding principle, value for customers and shareholders, is about offering superior value to the right customers. By ensuring a good balance between the value for, and of the customer, the company is profitable on the short and long run contributing to shareholder value. The second principle, customer centricity and experience, means that the company organizes itself from an outside-in perspective around the customer. Not inside-out but an outside-in approach[56], with the customers' needs, desires and expectations as a starting point is used to develop a superior value for customers. These two guiding principles are explained in more detail in § 2.4. and § 2.5.

2.3. The Setting of CVM

Years ago, I did a project for a B2B internet provider. The company spent 3-4 million marketing Euros per year on acquiring new customers. This by using promotional campaigns, gifts, advertisements, and discounts on the subscription-fee for the first year for new customers. At the same time, the customer service for existing customers was very lean, nonpersonal and certainly not hassle-free. The company did not invest in this part of the business. As a consultant I did a loyalty and profitability analysis for this company. One of the conclusions was that nearly 50% of the new customers had ended its relationship within one year. Customers indicated that the main reason for defection was a bad and unsatisfactory service after the moment they had signed the contract and became a customer. Apparently, this company wasted a lot of marketing Euros. This company had not understood that offering value, keeping customers satisfied and loyal is an important business strategy to be successful.

CVM consists of an offensive and defensive marketing approach[57]. These are two very different approaches with a different impact on the company (see Figure 2.2.[58]). The aim of offensive CVM is to acquire the right new customers, make sure there is a basis for a long-term relationship, they buy and generate profitable revenue. Acquiring new customers is important for each company that wants to have a stable revenue or that wants to grow. Why? The average company loses half of its customers every five years[59]. Even the most customer centered B2B company loses customers because of external factors they cannot influence like relocations to other countries, companies being merged with others and bankruptcy.

The aim of defensive CVM is to keep current customers in (customer retention). By making sure that customers are loyal, costs can be reduced, customers buy more, they pay a price premium and because of their positive word-of-mouth new customers are acquired. All these effects lead to lower relative costs, more revenue, and ultimately higher profits. It makes sense to invest in defensive CVM and not only in acquiring new customers. Research[60] shows that it costs five times more to obtain a new customer than to keep an existing one. Also, sales costs for current customers are on average 20 percent lower than sales costs for new customers[61]. Therefore, it is important that B2B companies find the right balance between keeping existing and acquiring new customers. Note: for an interesting paper on this issue see the publication of Blattberg and Deighton[62].

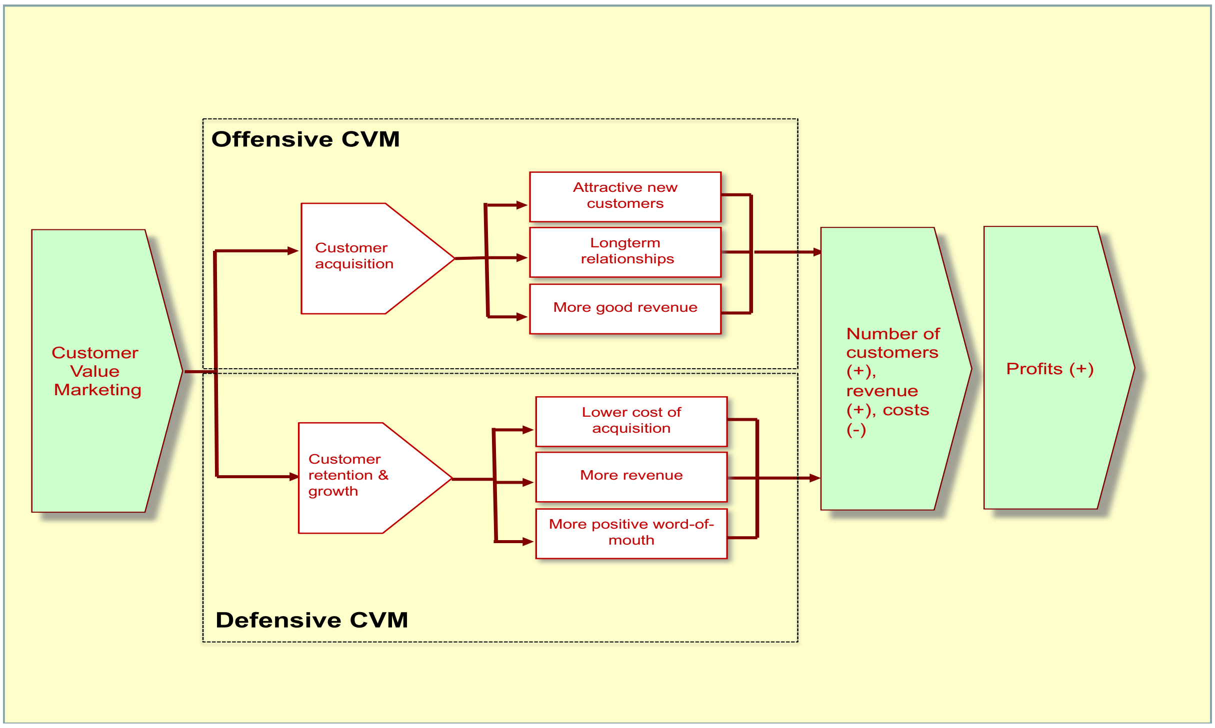


Figure 2.2. Offensive and Defensive CVM

Value Delivery Systems

A second angle to look at CVM is from the perspective of the 'value delivery system'[63]. Figure 2.3.[64] presents three different phases during the last 50 years of determining, developing, and delivering value. After the Second World War until the 1980's there was more demand than supply in B2B-markets. The product-based approach was then the normal approach. It was a traditional inside-out and internal-focused business model of creating, making, and selling a product. Academics coined this approach the 'goods dominant logic' (GD-logic[65]). In that era marketing was reigned by this GD-logic. It "emphasized the exchange of products like manufactured output, embedded value, and tangible resources"[66]. Suppliers were basically not very interested in the needs and expectations of customers. The focus was fully on making good products in conformance with technical specifications.

But times change. After the 1980's in many B2B markets supply exceeded demand. Therefore, the value delivery system evolved in a 'new' and more external-focused and outside-in value-based approach and system[67]. The supplier listened to its customers and based on the outcomes the product offer was determined by the supplier by choosing, providing, and communicating the value.

- ✓ Choosing the value: "involves assessing customer needs and determining how well an organization can satisfy those needs with clearly differentiated benefits, relative to price, when compared with competitors"[68].
- ✓ Providing the value: "is concerned with developing a good/service package that creates clear and superior value"[69].
- ✓ Communicating the value: "involves the key marketing activities needed to inform customers that the value offered by the organization exceeds that of competitors"[70].

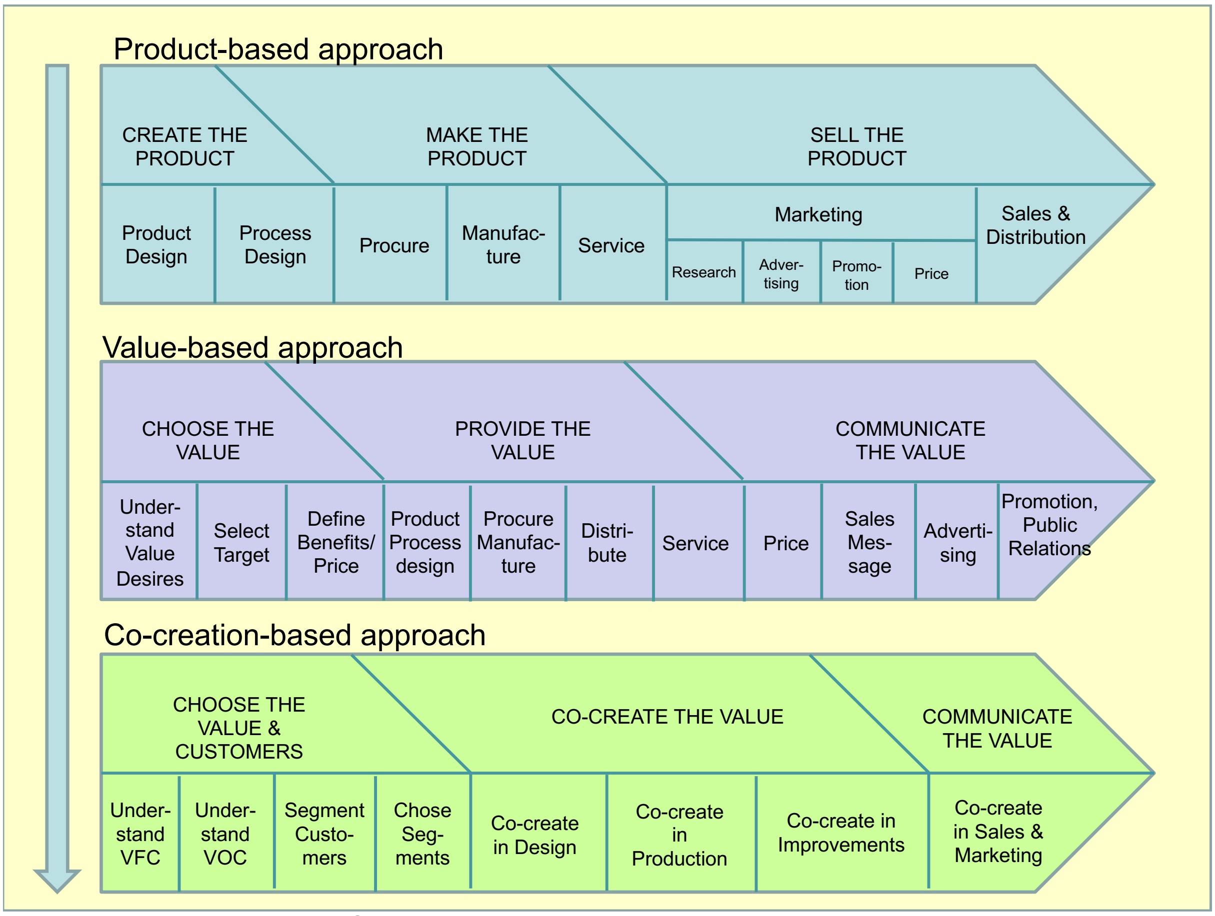


Figure 2.3. The Value Delivery System

However, in later years, academic and business attention[71] changed from this unidirectional value-based approach to a reciprocal approach. The time was there for the <u>co-creation-based approach</u>. It uses principles of the theory of 'service dominant logic' (SD-logic)[72] indicating that the customer is an active partner in value creation, and not only a recipient of value. Because of strongly changed market situations, this GD-logic has resulted in a reformist and alternative scientific agenda with its own foundational premises. The SD-logic cornerstones relevant for CVM are[73]:

1. Both the customer and the supplier co-create value in their exchange, also third parties can be involved.
2. Value is assessed by these exchange partners in a broader context (e.g., alternative offerings).
3. Value is created through the integration and use of 'operant resources' (like skills and knowledge) of all exchange partners involved.

This SD-logic is essential for CVM as you will see in various chapters and paragraphs of this textbook.

2.4. Value for Customers and Shareholders (Guiding Principle 1)

As you saw in the first chapter, a supplier can have relationships with business customers in one or more segments. Day[74] states: "central to every market relationship is an exchange process where value is given and received, both by the supplier and the customer". Further states Day[75] that "even in the most tenuous and short-lived relationship (like a transactional exchange relationship), each side of the dyad gives something in return for a benefit or payoff of greater value". Value is created by the synergistic combination of both partners' strengths. It allows each of them to gain from a balanced relationship: "a balanced relationship implies that each partner is willing to be reasonable in sharing a growing value pie as they have limited ability to coerce more than a fair share from their partner"[76]. This is what creating customer value is about. It is a fair exchange of benefits and sacrifices leading to value added for both the customer and the supplier. The next quote shows that this is no common business practice.

> *"According to a recent Bain & Company survey, only 10 percent of business leaders believe that the primary purpose of their firm is to maximize value for customers. Many companies still operate in the old-school financial capitalist mindset in which maximizing shareholder value is front and center*".[77]

Strange, because customer happiness and shareholder happiness go hand in hand. Only of customer are happy and satisfied with the value received, there will be value for shareholders in the long run. As you see, 90 percent of the companies aim for short term profits and success only focusing on shareholders.

A theory that relates to the exchange relationship between two business partners is the social exchange theory[78]. It was conceived by George Homans in 1958[79] and describes people's social behavior when exchanging resources in an exchange relationship. Also, companies get involved in social exchanges because of the scarcity of resources and the need to obtain them from other parties[80]. Social exchange can be defined as "a voluntary action of individuals who are motivated by the reward they expect to gain from others"[81]. Social exchange theory has been applied in B2B-settings[82] and explains the development of customer-supplier exchange relationships. The theory states that:

- ✓ Exchange interactions involve economic and/or social outcomes[83]: the exchange relationship is often not only based on economic outcomes for the exchange partners, but also based on the social outcomes.
- ✓ The costs for both partners should be balanced. When this is not the case and one of the partners derives greater benefits of the exchange than the other, it could lead to dissolution of the relationship[84].
- ✓ Over time, each party in the exchange relationship compares the outcomes from the interactions to those from exchange alternatives[85]. The current exchange relationship is compared by both partners with 'comparison levels of alternatives[86]. When the value is larger than that of an alternative, there is a basis for continuation. If however this is not the case it could lead to a dissolution of the relationship.

The social exchange theory is related to equity theory (see Figure 17.10.). Ideally both the supplier and the customer infer a value greater than each gives up. Both parties are economically gainers because both receive something more useful than what they have relinquished[87]. For the <u>supplier</u>, it is the comparison of what he gets in terms of direct and indirect financial benefits and relational benefits compared to what he invests in the customer eventually leading to a contribution to its profits and shareholder value. The value of the customer should be sufficient to continue and grow the relationship. For the <u>customer</u>, it is the comparison of what he gets in terms of products, customer service, customer relationship management and sustainability. He compares these perceived benefits with the sacrifices he must make in terms of total cost of ownership and perceived risks. He also compares this value with that of known alternatives. This includes competitive offerings, but also organizing the exchange in-house. In this way, customer value is a multi-dimensional concept. Additionally, each customer has its own value needs and expectations. That means that one CVP can suit the demands/expectations of customer A while at the same time it does not fit with those of customer B.

Kumar and Reinartz[88] state: “clearly, business is about creating value. The purpose of a sustainable business is, first, to create value for customers and, second, to extract some of that customer value in the form of profit, thereby creating value for the company”. They also state in the same paper[89]: “while this creation happens fairly regularly, this process is beneficial only if it is long-lasting, which is possible only when the customer perceived value (i.e., value for customers) and company value (i.e., value of customers) are aligned”. Therefore, customer value in a B2B relationship is like a marriage: both parties (i.e., the supplier and customer) should be happy with the value exchange. If both (passer-by) or one of them (potential detractor, profiteer) perceives the value as too low, it could lead to the end of the relationship (see Figure 2.4.[90]). Only when the value is sufficient for both the supplier and customer, there is a basis for a sustainable relationship (partner).

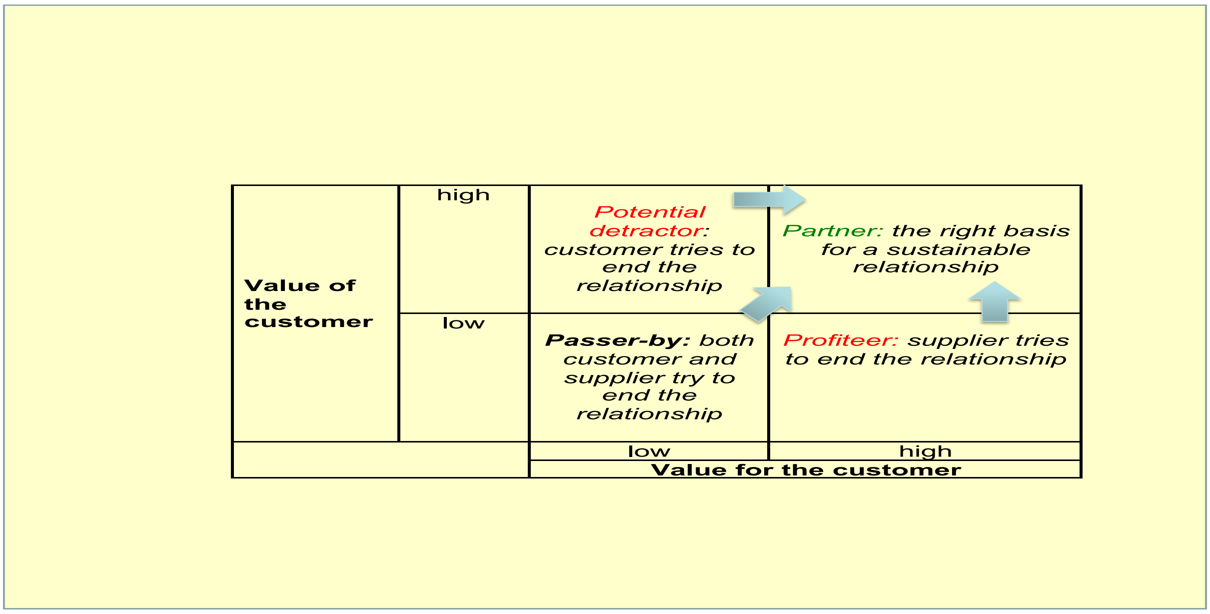


Figure 2.4. Value of and for the Customer

Where most of the value related marketing literature only focusses on value for the customer, I want to extent this to shareholders. When the value a company offers is only superior in the eyes of customers, but not in the eyes of the supplier’ shareholders, it is not superior.

Superior value should be superior both in the eyes of customers and shareholders.

2.5. Customer Centricity and Experience (Guiding Principle 2)

For all B2B companies, but especially those in commoditized markets, it is important that they align their organization around customers[91]. But what is a customer centric organization? In Figure 2.5. I have given four definitions.

“Customer-centric marketing emphasizes understanding and satisfying the needs, wants, and resources of individual customers rather than those of mass markets or market segments” (Sheth et al., 2000, p. 56/57).

“True customer centricity requires the flexibility to adapt to changing customer needs and dynamics. It requires companies to objectively listen to customer concerns. It requires the commitment to invest in how best to truly capture the ‘voice of the customer’ and convert it into actionable intelligence that can be used not only in brick-and-mortar settings and contact center environments, but throughout the enterprise” (Christensen, 2007, p. 22).

“Customer centricity should mean that companies strive to give the customer value for money. Therefore, price, quality and value are constantly present in marketing” (Gummesson, 2008, p. 317).

> *"Customer centricity focuses its attention on the purchaser and on the establishment of mutually satisfactory customer relationships: individual customers express needs and the company's resources are activated to develop solutions able to satisfy these needs"* (Lamberti, 2013, p. 594).

Figure 2.5. Four Definitions of Customer Centricity

Customer centricity is the opposite of product centricity[92] and a goods dominant logic (see § 2.3.). Some important elements of the above-mentioned definitions are 'listening to and understanding customers'[93], 'satisfying individual customers' needs and wants'[94], a 'companywide approach'[95], and 'giving value for money'[96]. But, before giving my definition, I dig a little bit deeper into this subject.

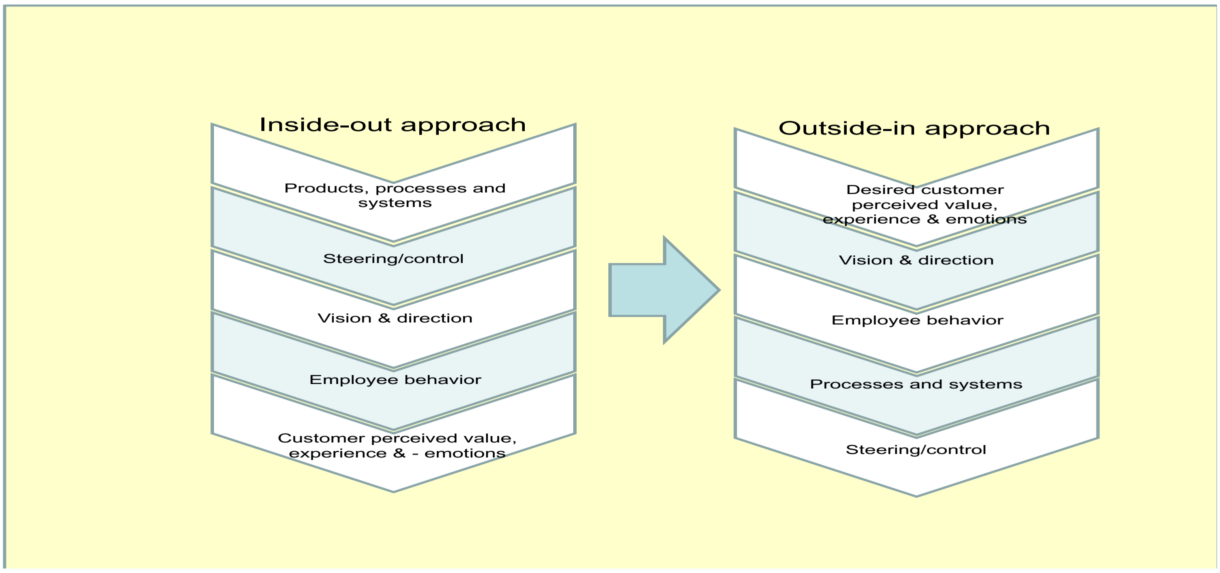


Figure 2.6. Inside out and outside in approach

Customer centricity uses the 'reversed thinking principle' (see Figure 2.6.[97]). Instead of products, internal processes, and systems as a starting point for designing and building the organization inside-out, an outside-in approach is used with the customers' needs, desires, and expectations as the starting point. In this way the customer perceived value, experiences and emotions are not a result by coincidence, but the start for organizational design.

This means that the quality of products, customer service and customer relationship management are defined not from a product/manufacturing-based approach but on a user-based and value-based approach. Van der Wiele[98] describes five different definitions of quality according to Garvin[99]:

1. The transcendent approach: Quality cannot be defined precisely; it is a simple, unanalyzable property which we learn to recognize only through experience.
2. The product-based approach: Quality is a precise and measurable variable; differences in quality reflect differences in the quantity of some of the ingredients or aspects of a product.
3. The manufacturing-based approach: Quality is equated with meeting specifications and making it right the first time.
4. The user-based approach: Individual customers are assumed to have different wants and needs, and the goods that best satisfy their preferences are the ones they regard as having the highest quality.
5. The value-based approach: Quality is defined in terms of costs and prices; a quality product is one that provides performance or conformance at an acceptable price or cost.

For CVM the user-based and value-based approaches are most relevant. So based on the previous content, my definition of customer centricity is:

Organizing the complete organization in an outside-in logic so that it structurally listens to customers, translates customers' needs, desires, and expectations into high quality CVPs, with a user/value-based approach, that are perceived and experienced by customers as superior to alternatives. The total company is aligned around customers in such a way that in everything it does, the customer is the starting point.

A closely related concept to customer centricity is that of customer experience. Where customer centricity is the state of a company, customer experience is what effect it has on customers, how customers experience it. In Figure 2.7. you see some definitions.

"An experience occurs when a company intentionally uses services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event. Commodities are fungible, goods tangible, services intangible, and experiences memorable" (Pine and Gilmore, 1998, p. 98).

"Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company. Direct contact generally occurs in the course of purchase, use, and service and is usually initiated by the customer. Indirect contact most often involves unplanned encounters with representations of a company's goods, services, or brands and takes the form of word-of-mouth recommendations or criticisms, advertising, news reports, reviews, and so forth" (Meyer and Schwager, 2007, p. 118/119).

"Customer experiences are constructed by customers based on their interpretation of a series of encounters and interactions designed by a service provider" (Zomerdijk and Voss, 2009, p. 68).

"Customer experience is how your customers perceive their interactions with your company" (Manning and Bodine, 2012, p. 7)

"The customer experience is the qualitative aspect of any interaction that an individual has with a business, its goods or services, at any point in time" (Watkinson, 2013, p. XV)

"Customer experience is a customer's journey with a firm over time during a purchase cycle across multiple touchpoints" (Voorhees et al., 2017, p. 270).

"Customer Experience (CE) reflects the customer's journey through all interactions with the firm – pre consumption, consumption, and post-consumption. CE is, therefore, more than the result of a single encounter: it is affected by every episode of the customer's interaction process with a firm and is often co-created through interactional activities among the actors" (Kandampuly et al., 2018, p. 22).

"Customer experience is about much more than providing a pleasant feeling in call center. It is a fundamental dimension of how a company competes" (Harvard Business Analytic Service, no year, p. 3)

Figure 2.7. Definitions of Customer Experience

What you see in these definitions is that it is a customers' internal and subjective concept[100]. What matters, and what affects customers is eventually not the product- and manufacturing-based quality, but the quality customers experience. It's not important how good a company is, it's about how good customers perceive it to be. Most of the definitions focus on experiences during customers' encounters and interaction with the supplier. Where the majority of customer experience literature only focusses on customers' experiences with HOW products are delivered and relationships managed, I want to state that customer experience relates to all elements of a CVP (see Chapter 6), not only the service and customer relationship management. My definition of customer experience is:

The customer's internal and subjective response to the combination of all aspects that are valued and matter in the eyes of the customer. These are related to the six value elements of the CVP offered.

2.6. Summary

In this chapter I have given some insights in CVM. It gives you an overarching view on the central topic of this textbook. In the next sections and chapters, it is described in more detail. Here I give a short summary of this chapter.

(1) What is CVM?

Designing, organizing, branding, and delivering a superior value to the targeted customer segments the company wants to serve. The customer value propositions are in line with their value for the company and the value desired by these customers. This to make sure that these customers experience a superior value, are satisfied/delighted, have a trust-based relationship, and are committed and loyal towards the supplier. This eventually to be financially successful on the long run as a supplier and contribute to the shareholder value.

(2) How can CVM be positioned within the marketing discipline?

CVM can be divided into offensive and defensive marketing. The aim of offensive CVM is to attract the right new customers. That off defensive CVM is to retain and grow current customers. CVM is a balance between both. It's important for B2B suppliers to focus on current customers since it is five times cheaper to retain an existing customer that to attract a new one. However, since companies always lose customers it's important to continuously attract new ones.

(3) What are the five phases of CVM?

CVM is about analyzing customer value. Based on the results of it, a company defines CVPs. Consequently, these are branded, communicated, and sold using for example key account management. The company should be aligned to deliver the promised value. Finally, it harvests the CVM revenues.

(4) What are the two guiding principles of CVM?

The first guiding principle is dual value creation for both shareholders and customers. It is about a value exchange that is profitable for both exchange partners. If this is not the case, it could lead to ending the relationship by the customer and/or the supplier. The second guiding principle (customer centricity and experience) is about organizing the total organization from an outside-in perspective. It doesn't matter how good a company is, it matters how good customers perceive and experience it to be. This experience is related to all aspects that are valued by the customer (to be concrete: the six elements of a CVP).

SECTION II

ANALYZING AND SEGMENTING ON VALUE

Chapter 3. Value of the Customer (VOC)

3.1. Introduction

According to Kotler and Armstrong[101], marketing is the art of attracting and keeping profitable customers. Blattberg and Deighton[102] share this view and state: "attracting and keeping the highest-value customers is the cornerstone of a successful marketing program". Therefore, the purpose of marketing should be to maximize customer lifetime value[103]. Successful B2B companies actively manage the value of their customers (VOC). The sum of all valuable customers leads to the revenue and profits the company ultimately makes. Where formerly companies were focusing on the profitability of products and departments, they are more and more addressing the value and profitability of individual customers through customer-based accounting. Marketing becomes less focused on acquiring new customers and more on keeping current customers. Therefore, if companies aim to grow, they need to focus on capturing the attention of high-value potential customers, getting them in, and making them loyal customers that act as the supplier's ambassadors. Consequently, the value of the customer portfolio will grow[104].

Not all customers are created equal. The average B2B customer does not exist. This is true for its needs, desires, and expectations, but also for its value for the company. A case study[105] shows that the largest 20% of customers were responsible for 93% of a supplier's revenues and 95% of its profits. However, it can be even more extreme: Cooper and Kaplan[106] show that in one case, 20% of the supplier's customers generated 225% of its profits. There were other customers that caused the drop in profits back to 100%. Additionally, Storbacka[107] has shown that more than half of a supplier's customers were unprofitable. In another case study, Niraj et al.[108] showed that the total loss of a single customer (revenue of several years) could result in an economic loss as high as 2.5 times the yearly sales revenue. These extreme figures show that it makes sense for suppliers to have in-depth insights in the VOC and use the outcomes to make decisions and manage this value. A pitfall could be to maintain time-consuming, expensive, and long-lasting relationships with unprofitable customers. Berger and Nasr[109] state: "a company should not try to pursue and satisfy every customer". Thus, some of the key questions for suppliers are:

1. What are the main drivers that contribute to the value of a customer?
2. And, consequently, what is the value of a customer?
3. What is customer lifetime value?
4. How vulnerable is the company? Looking at the constitution of the customer portfolio and the division among the customers, how dependent is the company on a limited set of customers?
5. How is the value of customers used in business practice?

The focus of this chapter is on answering these questions. This chapter offers an overview of a large stream of literature that has been published in the last 30 years. Within the VOC-subject, various relevant concepts are described, such as Customer Profitability[110], Customer Value (e.g., Berger et al.)[111], Customer Lifetime Value[112], Customer Equity[113], Customer Asset[114], Customer Attractiveness[115] and Customer Engagement Value[116]. However, current scientific know-how on this subject is still fragmented and lacks generally accepted standards.

3.2. The VOC Drivers

The combination of several research streams gives an overview of the VOC drivers. Based on my business experience and literature I have structured them in four clusters: 'direct financial', 'indirect financial value', 'relational' and 'sustainability' (see Figure 3.1.).

> *Value of the customer (VOC) is the extend to what a customer contributes to the realization of the company's goals. Depending on these company's goals it can consist of elements of the clusters of direct financial value, indirect financial value, relational value, and sustainability value.*

In conformance with Walter et al.[117], I made a distinction between direct and indirect value clusters. The first cluster is that of the direct financial value of a customer, which many academic papers have discussed and investigated. The focus here is on customer profitability and customer lifetime value. The remaining three drivers (revenue, buying patterns, and risk) get far less academic attention. Strange, because my experience learns that companies perceive these drivers as very important. In the last 10-15 years, researchers like Kumar et al.[118] have started to address the second cluster of value: the indirect financial value. This consists of ambassadorship e.g., referrals and positive word-of-mouth[119] , the flagship effect and the value of customer knowledge[120]. The inclusion of a third cluster in Figure 3.1. is crucial because the VOC also has a non-economic and more a social character[121]. Literature on customers' attractiveness[122] gives some insights in this third cluster, that of the relational value of a B2B customer. This is the non-financial value that is derived from the relational and social interactions between the customer and supplier. As we have seen in social exchange theory (§ 2.4.), exchange interactions involve both economic and social outcomes[123]. The sustainability value of customer is the extent a customer contributes to the supplier's sustainability goals.

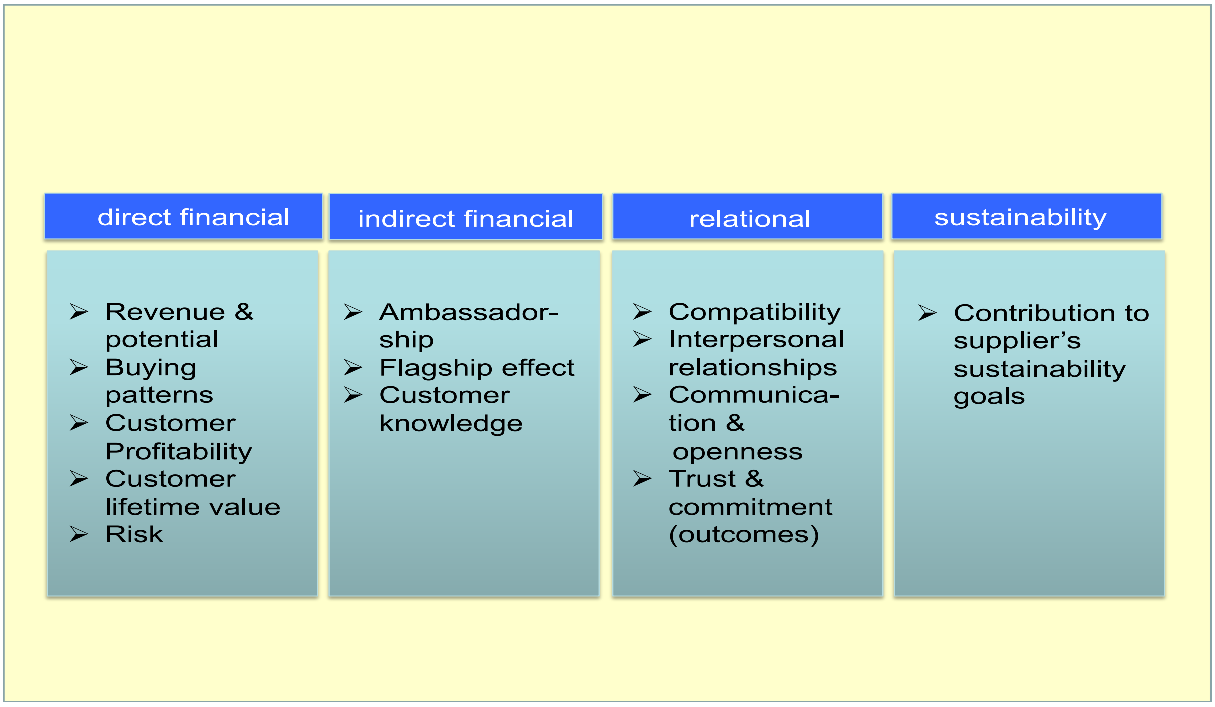


Figure 3.1. Four VOC Clusters and their Drivers

Suppliers need to have a complete overview of the value of their customers since actions towards them should be based on correct information. A limited view of the VOC could therefore lead to the wrong conclusions and actions. For example: only including customer profitability in the calculations overlooks other VOC drivers like customer referral value. This would not give an accurate picture of the actual VOC, as the total VOC value can be much larger than the profitability of a customer[124]. The value of a customer can be determined on several levels, including:

Potential, current, and lost customers

The value of a customer can be determined for potential, current, and lost customers. Determining the value of a potential customer can be very useful in case a company wants to know how much to invest in it to become a new customer. Furthermore, customer value can also be measured in terms of the current customer's value, as well as the lost customer's value. This last could be relevant to determine what actions to take to regain a lost customer. The main attention in literature however goes to the value of current and potential customers. For more information on the cost of lost customers see Hogan et al.[125].

Customer unit level
The customer unit is the entity for which the VOC is determined[126]. Identifying the customer unit is relatively simple for companies that do business with Small and Medium Sized Enterprises (SMEs), as the customer unit is often the individual organization. For large customers however, like multinational enterprises operating with several divisions and country organizations, defining the 'customer unit' is less simple. Such a customer could be divided into several autonomous parts. Thus, there could be several customer-units within one customer-organization.

Individual customer, customer segment, and customer portfolio
The value can be determined on the level of an individual customer, a customer segment, or the whole customer portfolio. These higher levels of aggregation are practical when data on individual customers is not available[127]. The value of a segment, or that of a portfolio, is the sum of the customers in it, also called customer equity. I discuss this subject in this chapter on an individual customer level. This is the most detailed level.

Retrospective or prospective
The perspective of determining the VOC can be retrospective (looking back) or prospective (looking forward into the future). For example, in the case of determining customer profitability, a retrospective angle is used. The value is determined based on past customer behavior. In the case of determining customer lifetime value the prospective variant is used, since customer lifetime value is based on the expected contribution margins during the lifetime of the relationship (and thus looks forward). Both perspectives are described in the next paragraph.

3.3. Direct Financial Value
The cluster of 'direct financial value' consists of five different drivers (see Figure 3.1.). The first value driver is 'revenue'.

Revenue & potential
In discussions with B2B management teams, one of the items often mentioned is revenue that a customer generates with the company. Revenue could be defined as "an increase of equity caused by a gross inflow resulting from work for customers"[128]. Except for a few publications[129] this subject has been neglected in academic literature. Especially for suppliers with high fixed costs, such as manufacturers with large plants, it is important to gain sufficient revenue to cover their fixed costs. When these suppliers have customers that do not generate enough revenue to cover these fixed costs – even though these customers may be profitable – serious problems can arise. As such, a customer with a high purchase amount (revenue) can represent a great value for the company. Just imagine a customer with a large purchase amount at the company, but with a very small margin. This customer can, because of its size, absorb a large amount of the fixed costs. Losing the relationship with this customer would mean that the same fixed costs must be covered by the remaining customers. This again leads to a new set of unprofitable customers, which will eventually lead to a negative financial spiral[130].

The Pareto principle states that roughly 80% of consequences come from 20% of causes. A variant of this principle states that 20% of the customers is responsible for 80% of the revenues (see Figure 3.2.[131]). These 20% of the customers have more revenue-based value for the company than the remaining 80%. In practice, I see that many companies use revenue (purchase amount) as a VOC driver. An example is IBM using a customer spending score (CSS). This CSS is defined as: "the total revenue of a customer that could be expected in the next year"[132]. While many companies steer on the actual annual purchase amount, it is also possible to use the potential revenues as a VOC driver. Just look at customer A and B. Which one is the most valuable for the supplier?

> Customer A*:* this customer annually spends 50.000 Euro at the company. However, this is only a small share of the customers' wallet: he could potentially spend 250.000 Euro per year.

Customer B: this customer also spends 50.000 Euro at the company annually. However, there are no signals that this customer could grow in the next years.

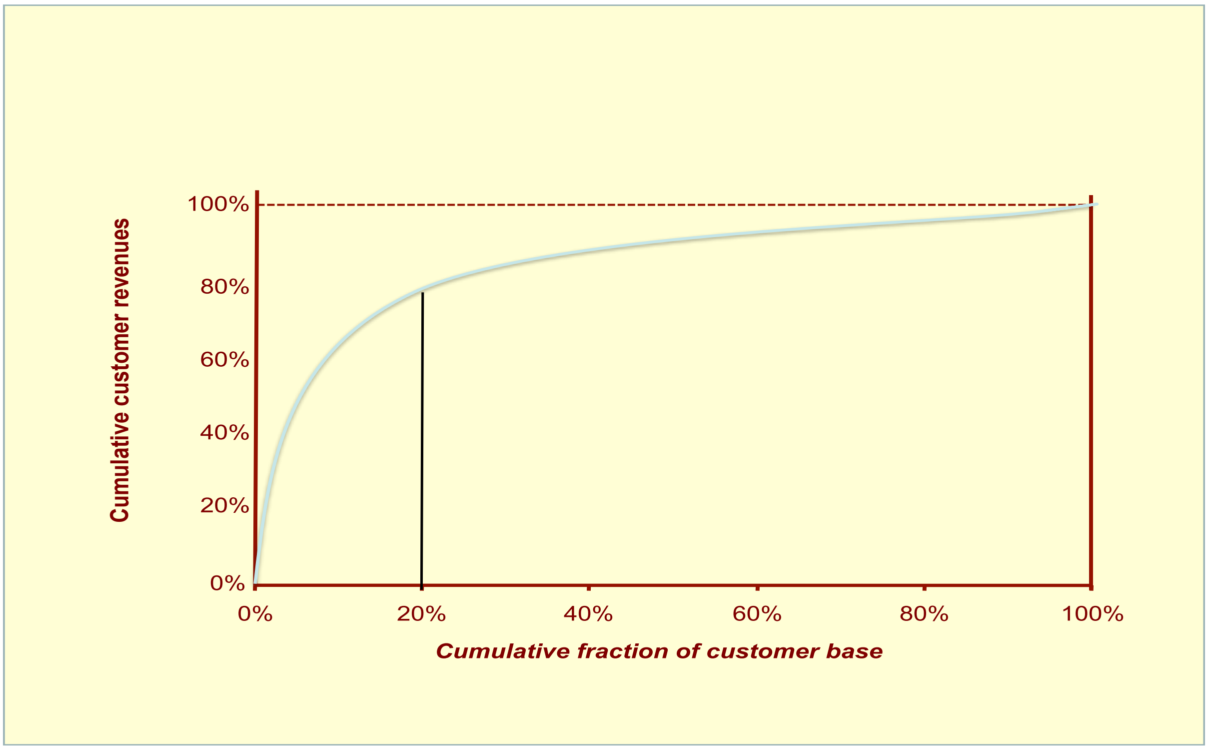


Figure 3.2. The 20-80 Rule

Buying patterns

It is not only the absolute amount of customers' revenue (actual or potential) that influences the VOC. This value is also determined by the customers' buying patterns. There are two different buying pattern models that work the same, but have different criteria.

The Recency-Frequency-Monetary Value (RFM) model is mainly used by suppliers with non-contractual and loose (transactional) customer relationships. Previous customers' purchase behavior is summarized by three criteria in this RFM-Model[133]. Recency is the time since the most recent purchase, frequency is the number of previous purchases, and the monetary value is the total revenue generated, also in a defines time span. This model comes with three limitations. The first limitation of this model is that the three RFM-variables are imperfect indicators of true underlying VOC. Also, it is a scoring model that does not explicitly provide a VOC-value in terms of money since only revenue is involved[134]. It is only applicable in situations where customers have regular transactions that are not based on a kind of contract. So, this model is not suitable to use in B2B settings with large accounts or customer-supplier relationships based on contracts.

The Length-Breadth-Depth (LBD) model is generally used by B2B suppliers with long lasting and contractual relationships with customers[135]. This model uses more relevant buying pattern and loyalty indicators. See also Chapter 17 for an in-depth description of loyalty dimensions and indicators.

- ✓ The length is the duration of a relationship. This corresponds with customer retention (or churn) and longevity, defined as the probability that a customer continues (or ends) the relationship with the supplier[136].
- ✓ The breadth of a relationship reflects cross-buying, which is the number of different goods and services a customer purchases from the company over time[137].
- ✓ The depth of a relationship corresponds with the intensity and frequency of product use over time (e.g., share-of-wallet).

Also, an LBD-Model creates cells or groups of customers based on the three indicators. In Figure 3.3. an example of such a model is given, based on 12 cells (3x4) leading to multiple different combinations. The idea is that the customers in the cells with the highest scores represent the most attractive ones for the company. Of course, depending on the actual situation of the company the number of cells and their description can be changed. For example, the years, percentages, and the rubrics can be changed depending on the company. Also, to make it more sophisticated, it is possible to use weights for LBD to generate a weighted score. This segmentation can be used to determine the most valuable and interesting current customers, determine the customers' characteristics, and target the most interesting potential customers.

Length: what is the duration of the relationship?
Breadth: what is the share of our different products the customer buys? (cross-buying)
Depth: what is our share of the customer's wallet? (share-of-wallet)

	1	2	3	4
Length	Shorter than 1 year	Between 1 and 5 years	Between 5 and 15 years	Longer than 15 years
Breath	Lower than 10%	Between 10 and 49%	Between 50 and 89%	Between 90 and 100%
Depth	Lower than 10%	Between 10 and 49%	Between 50 and 89%	Between 90 and 100%

Figure 3.3. Example of an LBD-Model

The CUSAMS framework is an example of such an LBD-model. It is described in Figure 3.4.

Bolton et al.[138] have developed a conceptual model (the CUStomer Asset Management of Services (CUSAMS) framework) based on the purchase behaviors of a customer-service provider relationship. A company could determine concrete indicators for this length, depth, and breadth. By assessing each customer based on these indicators a customer segmentation based on buying patterns can be made. Mark et al.[139] have translated this framework to a B2B setting. I focus here on the criteria they used for the buying patterns to segment a customer portfolio. The six criteria they used were:
(1) Length of the relationship with a customer. This can be defined as the length of the customer - supplier relationship beginning with the first purchase. Research[140] suggests that there is a positive relationship between the length of a customer relationship and its profitability for the supplier.
(2) Purchase amount. Customers with higher spending levels (revenue) could be more profitable to the company.
(3) Number of purchases. When the frequency of interactions increases, the relationship between the customer and the supplier could be strengthened.
(4) Cross-buying. This is the number of product categories in which the customer makes purchases.
(5) Number of returns. This is the number of products returned.
(6) Inter purchase time. This is the number of days between purchases.

Figure 3.4. B2B Buying Pattern Segmentation Criteria

Profitability
The third driver of the direct financial value is the profitability of a relationship with a customer. Kotler and Armstrong[141] describe a profitable B2B customer as “a company whose revenues over time exceed, by an acceptable amount, the company costs of attracting, selling, and servicing that customer”. Customer profitability is the difference between the net price and the actual cost to serve the customer[142]. As such, suppliers need to analyze the profitability of their customers on a retrospective base, also called customer profitability analysis (CPA). CPA can be defined as “the process of allocating revenues and costs to customer segments or individual customer accounts, such that the profitability of those segments and/or accounts can be calculated”[143].

The Chartered Institute of Management Accountants (CIMA) measures customer profitability in terms of “the revenue streams and service costs associated with specific customers or customer groups”[144]. Based on Sridhar and Corbey[145] the following formula for customer profitability can be given:

$$CP_t = NCR_t - (COGS_t + CTS_t + CSO_t)$$

CP is the customer profitability of a customer in the period t. NCR is the net revenue from that customer in period t. This is the revenue minus returns. COGS is the cost of goods sold to that customer in period t. Revenue minus this COGS leads to the gross contribution margin of the relationship. CTS are the cost to serve that customer, and CSO is the customer-specific overhead in period t. When these are involved in the calculations it leads to the net contribution margin.

The cost to serve the customer (CTS) and the customer specific overhead (CSO) can be divided into direct and indirect costs. Direct costs could be traced directly to customers based on their characteristics[146]. Examples are order processing, outbound material handling, and shipping costs. Indirect costs cannot be allocated directly to a customer. Examples are inbound material handling, marketing and sales activities, customer service, and complaint management. These costs are first allocated to individual items. An activity-based costing (ABC) approach[147] can be used to determine cost pools (distinctive sets of activities). For each cost pool, the cost drivers are identified. These are units in which the resource consumption per customer of this cost pool can be expressed. Examples are the number of purchase orders, the number of units produced, or the number of service calls[148]. Costs are then allocated to individual customers based on the extent to which these individual customers consume cost driver units. In this way the total relationship costs can be calculated. In Figure 3.5.[149] an example of a profit calculation per customer is given.

	Customer A	**Customer B**
A. Net sales	1.200.000	800.000
B. Minus cost of goods sold (variable manufacturing costs)	650.000	350.000
C. Gross margin	550.000	450.000
Minus variable marketing and logistics costs:		
-Sales commissions	50.000	36.000
-Transportation	90.000	20.000
-Warehousing (handling in and out)	30.000	20.000
-Special packaging	10.000	0
-Order processing	5.000	3.000
-Charge for investment in accounts receivable	2.000	1.000
D. Manufacturing contribution	187.000	80.000
E. Contribution margin (C-D)	363.000	370.000
Minus assignable non variable costs:		
-Salaries	200.000	133.000

-Segment related advertising	40.000	1.000
-Slotting allowances	80.000	53.000
-Inventory carrying costs	20.000	14.000
F. Assignable non variable costs	**340.000**	**201.000**
G. Controllable margin (E-F)	**23.000**	**169.000**
Minus charge for dedicated assets used	55.000	37.000
H. Net margin	**-32.000**	**+132.000**

Figure 3.5. Example of a Customer Profitability Analysis

The costs per customer can vary. These customer related costs could be divided into four types: presale, production, distribution, and post-sale costs[150]. One B2B customer is very time consuming and leads to high costs, the other is very easy to handle and leads to low costs. For example, customers can have different order sizes or a different number of sales visits. Furthermore, one customer may use the helpdesk more often than the other, and one customer may have more complaints or returns than the other. The effect is that two customers buying the same products at the same price could show big differences in net profitability/margin because of differences in relationship costs[151]. See Figure 3.6.[152] for an illustration.

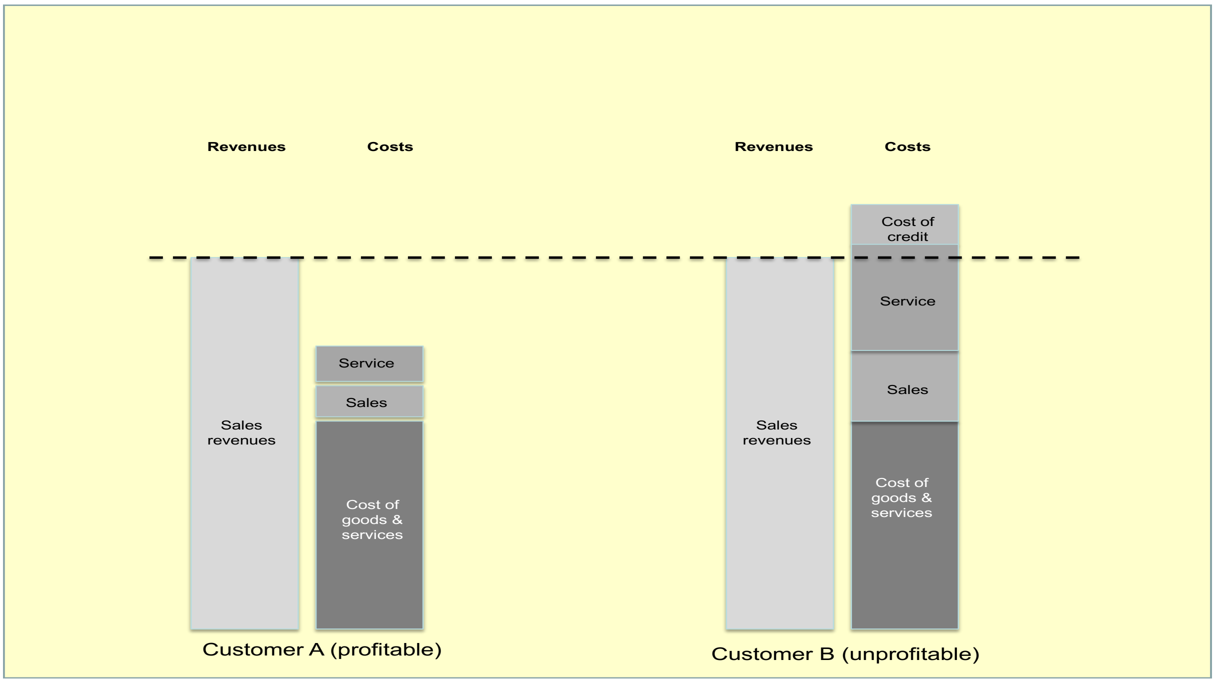


Figure 3.6. The Differences between Two Customers

Revenue is generated by price x quantity. However, the price can also vary per B2B customer. In practice customers usually pay different prices[153]. Customers use different quantities and, based on their bargaining power, they pay different prices.

Customer Identification	Industry	Lifetime revenues ($)	Lifetime Costs ($)	Lifetime Value of the Customer ($)	Customer Margin (%)
I	Engineering	9,513,759	1,413,972	8,099,788	85.1
H	Chemicals	21,424,471	15,841,876	5,582,595	26.1
K	Business services	10,253,598	6,470,062	3,783,536	36.9
B	Hotels and leisure	5,446,409	2,817,228	2,629,181	48.3
G	Distiller	6,396,738	4,519,102	1,877,635	29.4
E	Food manufacturer	5,341,670	3,949,170	1,392,500	26.1

J	Telecommunications	5,420,806	4,856,672	564,134	10.4
C	Chemicals	2,219,441	1,749,604	469,837	21.2
L	Charity	791,927	511,379	280,548	35.4
F	Business services	500,506	360,793	139,713	27.9
Total		67,309,325	42,489,858	24,819,467	

Figure 3.7. The Value of an Insurance Company's Customers

A CPA offers the company valuable insights into the structure of the customer portfolio. In Figure 3.7.[154] an example is given. It shows large differences in both the profitability in terms of money and percentages per customer. Figure 3.8.[155] illustrates a total structure of a customer portfolio. As you see, it consists of four segments. In this case, the top and large customers (5%) represent 73% of revenues and 65% of profits. Most of the customers (80%) represent only 7% of revenues and 5% of profits.

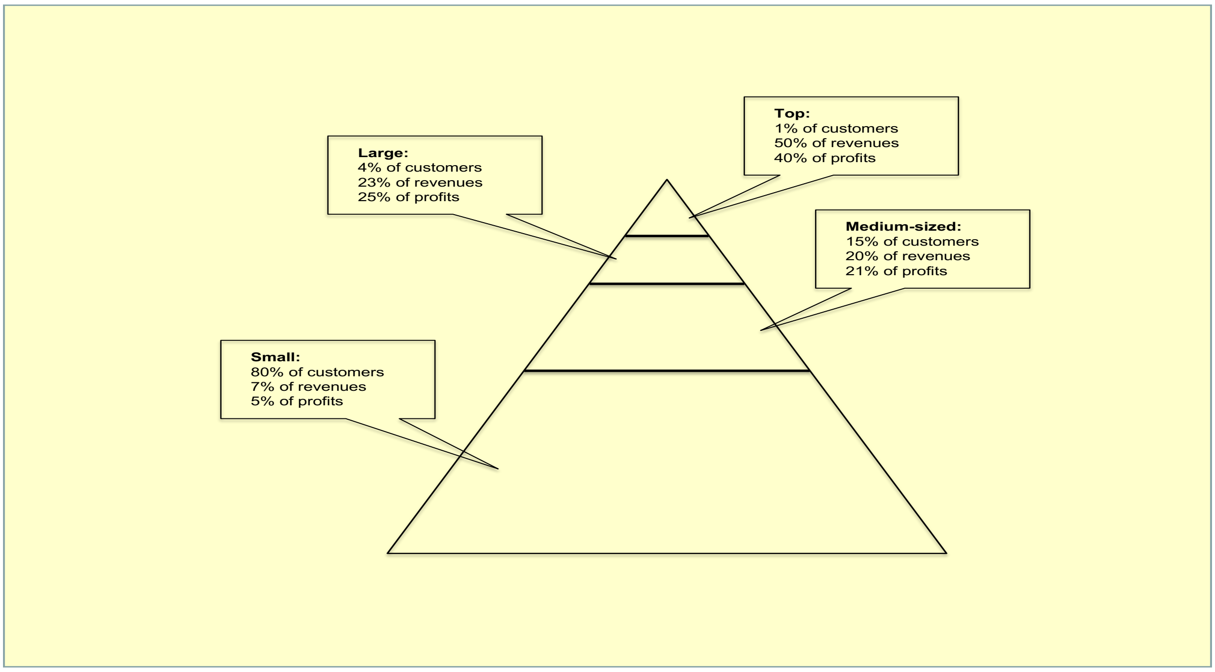


Figure 3.8. The Structure of a Customer Portfolio; Results of a CPA

A CPA can help a supplier to determine if, and to what extent, discounts can be given[156]. Often discounts are given solely on the sales volume leading to too low prices for the large accounts. A CPA may well show however, that some of the large accounts are in fact unprofitable customers due to these discounts[157]. A CPA can also improve the supplier's decision-making on marketing issues, such as service development and forms of marketing communications, including promotion and key account management[158]. Based on a CPA, managers could thus conclude that with a part of the customers the relationships should be ended, with others prioritized. However, only retrospectively looking at the profitability of a relationship has three limitations:

1. If the customers, with whom the company ends the relationship generate substantial revenues, the company must lower its fixed costs or attract new customers to cover those fixed costs[159].
2. Other value clusters and drivers like the value of referrals and word-of-mouth are not considered[160].
3. Not integrating the relational value of a customer when deciding to fire a customer might lead to problems for the company, such a firing the wrong customers and/or getting damage concerning image[161].
4. The potential profitability in the future is not involved.

The customer that generates the most revenue for the supplier is not necessarily the most profitable customer. The analysis of a customer base shows that the segment of 'Large' customers is more profitable than the 'Top' customers (See Figure 3.9.[162]). The relative profitability is presented as an index relative to overall average profitability. The top and the small customers are relatively unprofitable. Whereas the top customers use their bargaining power to reduce prices, the small customers have relatively high logistic and administrative costs compared with the revenue they generate.

Customer size based on revenue	Relative profitability
Top (1%)	92.3
Large (2-5%)	103.9
Medium-sized (6-20%)	100.6
Small (21-100%)	67.1

Figure 3.9. Revenue and Profitability

Finally, I present here two interesting concepts related to CPA: the Stobachoff curve and the profitability matrix.

The Stobachoff curve: a CPA results in two types of insights, the degree of profitability for each individual customer, and the distribution of profitability among all customers within the customer base[163]. A common way in which customer profitability figures at the company level are presented is the 'inverted Lorentz curve', also called the 'Stobachoff curve'[164]. Lining up all the customers on the horizontal axis from the highest absolute profitability (left) to the lowest profitability (right) and plotting cumulative profitability on the vertical axis draws this curve. Figure 3.10.[165] shows an example of such a curve. In this example, the first 60% of customers are profitable: they generate approximately 125% of total profits. The remaining 40% of the customer base is unprofitable (the 'bleeders') and is consuming the profitability surplus of 25% eventually ending at 100%.

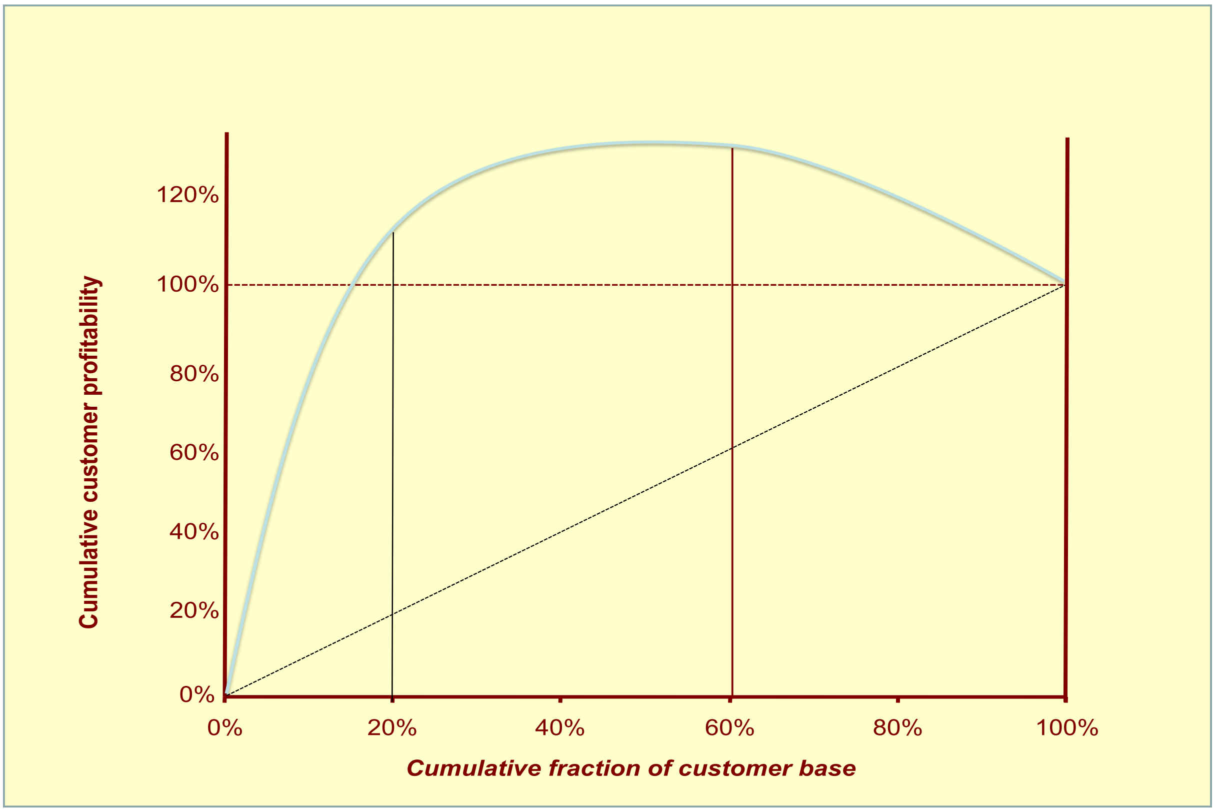


Figure 3.10. Example of a Stobachoff Curve

The position of the curve and the size of the area underneath this curve signify the concentration and distribution of profits within the customer portfolio. This leads to a different curve per supplier. It offers important information concerning the supplier's vulnerability and potential risk in terms of dependency and subsidization within the customer base.

- ✓ Dependency refers to the extent to which profitability depends on a small proportion of customers.
- ✓ Subsidization refers to the extent to which profits generated by profitable customers subsidize losses generated by other customers.

Figure 3.11.[166] shows the shapes of profitability distribution curves in four situations with different levels of subsidization and dependency. Suppliers with low levels of dependence and subsidization are more health than those with high levels. Based on the insights these shapes give, managers can take various actions to mitigate dependency and subsidization related risks.

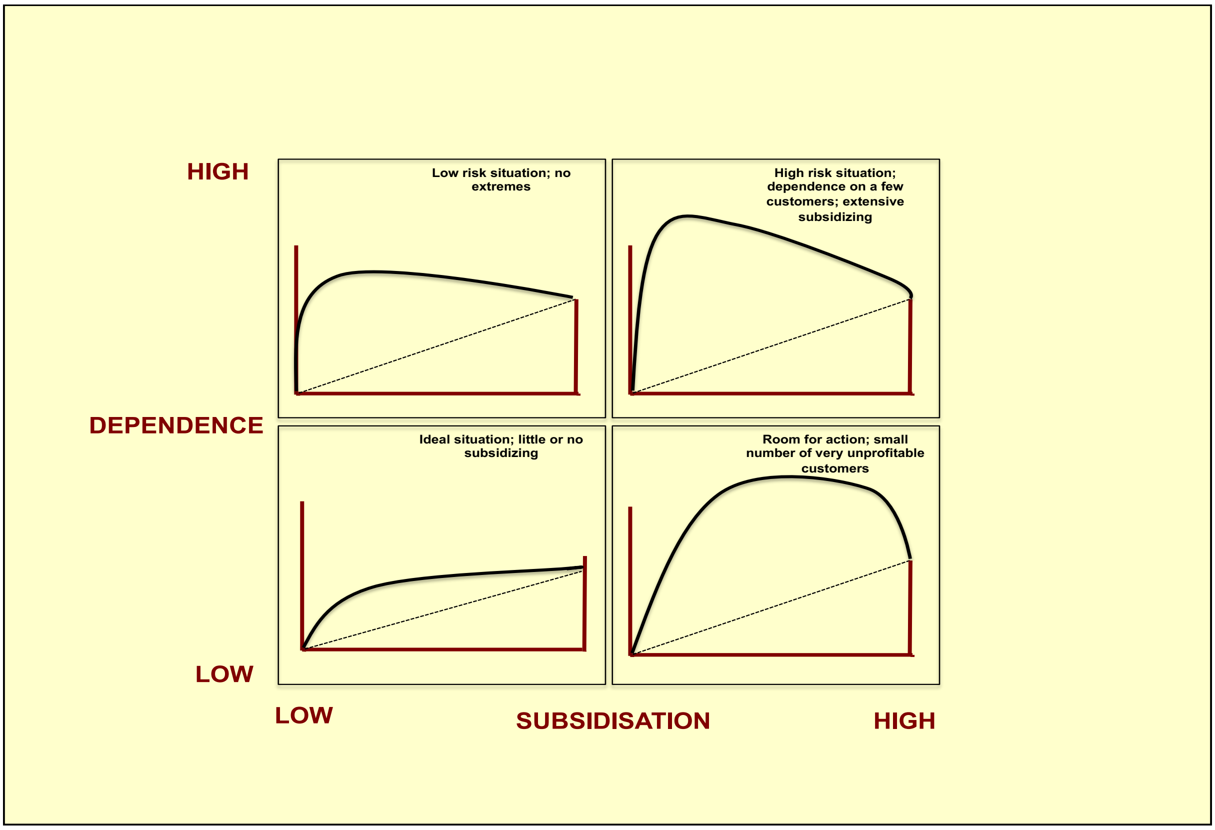


Figure 3.11. Four Different Stobachoff Curves

The profitability matrix: the second interesting concept related to CPA is a profitability matrix[167] which combines the price a customer pays and the cost to serve that customer. Such a profitability matrix is presented in Figure 3.12.[168] The equity axis is the equilibrium where the price versus cost to serve leads to an equitable value to both the supplier and the customer. The 'bargain basement' customers receive the 'core' product (no-frills product without much service) and pay a low price because the supplier's costs are low. The 'carriage trade' customers pay a high price that is in line with the expensive proposition they get.

This is the ideal world. But in the real world, various factors like the nature of the buying center, who has the power, and buying behavior, influence the customers' positions in this profitability matrix.

- ✓ Buying center: who is ultimately in charge in the buying center has a large impact on the bargaining position. The purchase staff is sensitive to price, while engineering and production personnel are sensitive to products and service. See also § 1.6.
- ✓ Power: this is influenced by the position in the customers' product life cycle (PLC)[169]. Product lifecycle theory contends that prices tend to drop as the product market matures. Two underlying forces cause this trend. The first is that customers learn during the lifecycle and become less willing

to pay for certain services, for example because they can do the activities themselves. The second force is caused by actions of competitors offering similar products at lower prices (the commodity trap effect). See also § 1.5.

- ✓ Buying behavior: customers are more sensitive to price when the product is a big part of their purchasing volume or when the product has a big impact on their operations. See also § 1.4.

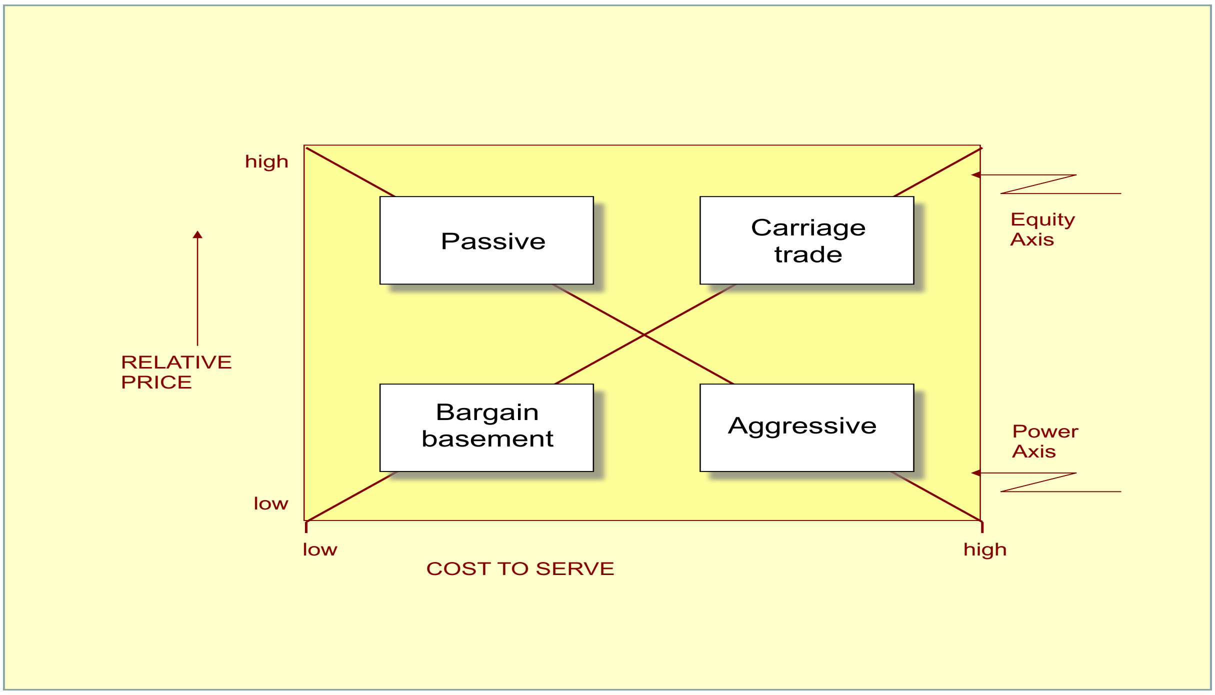


Figure 3.12. The Profitability Matrix

These factors can cause customers to not align themselves along the equity axis. Conversely, they may prefer to operate in a position on the power axis. The bargain hunters have a high cost to serve but pay a relatively low price ('Aggressive' customers). They pay the least and get the most. However, at the other side of the axis there are the 'passive customers'. Serving these customers costs less, as they are willing to accept high prices. Reasons for this could be that the product is insignificant for them and/or these customers are not very focused on this exchange relationship.

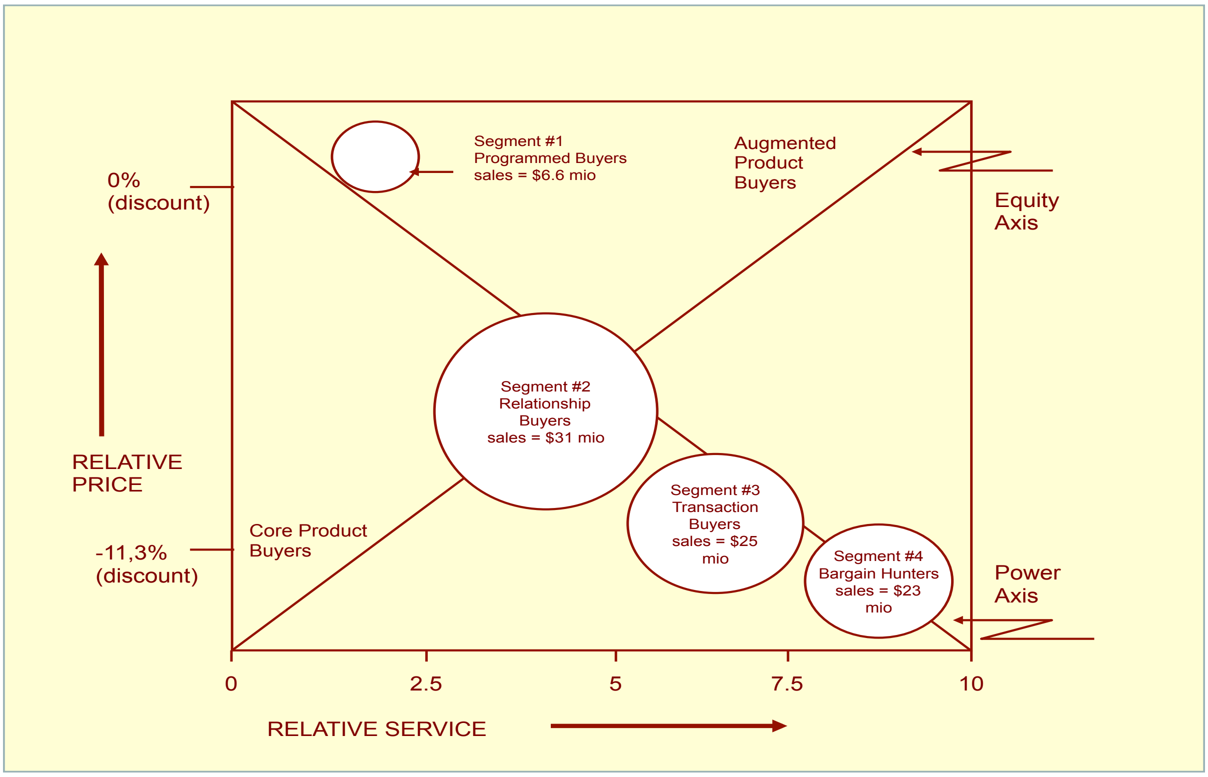


Figure 3.13. The Profitability Matrix of Signode

Rangan et al.[170] used this model to segment the national accounts of an industrial company (Signode) in a mature market (see Figure 3.13.). Managers had expected that most of the customers could be placed on the equity axis. However, the analysis showed a totally different result: three of the four segments were positioned on the power axis. This showed that the customer portfolio wasn't as healthy as expected and hoped.

Customer lifetime value (CLV)

Kumar and Shah[171] analyzed the customer portfolio of a B2B company. In their research, they concluded that whereas the top 20% of the customers accounted for 91% of total profits, the bottom 20% had a negative CLV. The company expected to make a loss on these customers in the next years. They segmented the customer portfolio in high CLV (top 20%), the medium/low CLV (the middle 60% of customers), and the negative CLV segment (the bottom 20% of customers). CLV is the mainstream VOC concept researched in academic literature. Where CPA has a retrospective angle to determine the value of a customer, the CLV analysis has a prospective angle[172]. Some of the CLV-definitions used are presented Figure 3.14.

"The net present value of all earnings (i.e., revenues less costs) from an individual customer" (Bolton et al., 2004, p. 271).

"The present value of all future profits obtained from a customer over his or her life of a relationship with a firm" (Gupta et al., 2006, p. 141).

"The sum of cumulated cash flows, discounted using the weighted average cost of capital, of a customer over his or her entire lifetime with the company" (Kumar et al., 2006, p. 88).

"The expected total value of a customer over the life of the customer's relationship with the firm, also accounting for time value of money" (Mark et al., 2012, p. 11).

Figure 3.14. Four CLV Definitions

Figure 3.15. illustrates a simplified example of calculating the CLV. The ingredients are the yearly contribution margin, the interest rate, and the expected duration of the relationship. In this example I used a lifetime of five years. In literature, however, a lifetime of three years is used for most applications[173]. Of course, several more complex formulas are used in literature.

Customer Lifetime Value of a customer with a relation of 5 years, yearly margin is 9.000 Euro, Interest = 6%

CLV year 1 to 5

$$= 9.000 / (1{,}06) + 9.000 / (1{,}06)^2 + 9.000 / (1{,}06)^3 + 9.000 / (1{,}06)^4 + 9.000 / (1{,}06)^5$$

= 8.491 + 8.010 + 7.557 + 7.129 + 6.782 = <u>37.969 euro</u>

Figure 3.15. A Simplified CLV Calculation

When comparing CPA with CLV-analysis, several differences can be distinguished. These are presented in Figure 3.16.[174].

	Customer profitability analysis	**Customer lifetime value analysis**
Perspective	past and observed behavior (retrospective)	considers whether a customer is going to be active in the future (prospective)
Single/multi period	single period of time	multi period of time
Concept of profit	accounting profit	economic profit
Objective	Analysis	decision support
Market conditions	Stable	Dynamic
Important constraints	indirect cost allocation	Forecasting

Figure 3.16. Key Differences Between Customer Profitability and Customer Lifetime Value Analysis

Using CLV is seen as superior compared to using CPA[175]. However, also CLV has its limitations.

- ✓ The <u>first</u> is that CLV is often operationalized by only considering duration/retention as a relevant source[176]. CLV-analysis ignores other VOC clusters like indirect financial value.
- ✓ The <u>second</u> limitation is that CLV is calculated using an expected duration of the relationship. However, there is a difficulty in projecting the individual customers' retention, especially in non-contract-based situations. This makes predicting the duration difficult to estimate[177]. Due to this uncertainty of future customer behavior, CLV should be treated as an 'expected CLV'[178]. In practice, mainly suppliers with long term contracts with their customers use CLV.
- ✓ The <u>third</u> limitation reflects the type of retention leading to two different CLV-models[179]. Jackson[180] groups industrial buyers into two major categories: lost-for-good and always-a-share (see also § 18.4.). The lost-for-good CLV-model assumes that a customer is either totally committed to the supplier or totally lost. In the always-a-share CLV-model, the customer always stays a customer but easily experiments with new suppliers. The limitation is that it is often unclear what model to use.

Finally, CLV is a concept used on an individual customer level. Conversely, <u>customer equity</u> is used as an aggregate measure on a customer portfolio level. Customer equity, also named customer asset, is the total of the discounted lifetime values summed over all customers of a company[181]. Research has proven that investments in retaining customers are more positive than those for acquiring new customers or cost-cutting programs[182]. Blattberg and Deighton[183] present a customer equity model, in which they propose an optimal balance between keeping existing customers (retention) and getting new customers (acquisition) to maximize the long-term profitability of the organization[184].

Risk

What makes one customer more valuable than the other? Just imagine a supplier that has two B2B customers: both have an annual revenue with the company of 500.000 Euro, and the profit margin is identical. Customer A is operating in a stable and predictable market. Customer B is operating in an uncertain fighters-market with many new competitors. Which one of the two customers is more valuable for the supplier?

The risk of a customer for the supplier is an underemphasized VOC driver in academic literature[185]. However, in practice I see that it is often an important VOC driver. Risk can be associated with the volatility and vulnerability of cash flows from customers[186]. It could be defined as '*the chance that a customer harms the supplier'*. This broad definition shows that risk can be influenced by several factors like:

- ✓ The risk that a customer must <u>decrease its business dramatically</u> because of competition (market stability). Due to market changes, certain customers can drop their purchases radically. When this is an important customer, this action can have a dramatic financial effect on the supplier.
- ✓ The risk of a customer operating in a <u>market that is vulnerable for public opinion</u>. Being a supplier for B2B customers in certain industries (like oil, mining, certain agri-businesses) can have negative effects on the image of the supplier.
- ✓ The risk that a customer performs <u>unethical behavior</u>. Think about for example selling bad products, supplying to certain countries with ambiguous rules and regulations, violating agreements, and violating patents of the supplier. This could lead to abrupt changes in sales and/or lead to negative effects on the supplier's image.

It is important that risk is integrated in the VOC-calculations. This belief is echoed by Dhar and Glazer[187], who have introduced a 'customer beta' that measures the riskiness of customers. Consequently, they use a risk-adjusted customer lifetime value.

3.4. Indirect Financial Value

In this paragraph I describe the second value cluster: indirect financial value of a customer. This is also named 'strategic value'[188]. This cluster has a value for the supplier that ultimately could be measured in terms of money. But it is only indirectly linked to financial value: the company saves costs through easier acquisition of new customers and learning from customers, it also earns more new customers and revenues through word-of-mouth. Relatively recent VOC literature[189] recognizes that the indirect value of a customer could extend the direct profit it generates. The drivers of this indirect financial value are the ambassadorship and flagship effect of customers and the customer knowledge value. An interesting paper of Kumar et al.[190] proposes that the 'total engagement value' of a customer consists of the customer lifetime value, two types of ambassadorship ('customer influencer value' and 'customer referral value') and 'customer knowledge value' (see Figure 3.17.). As you will see, compared with Kumar's model, I have used a slightly different structure of this second cluster.

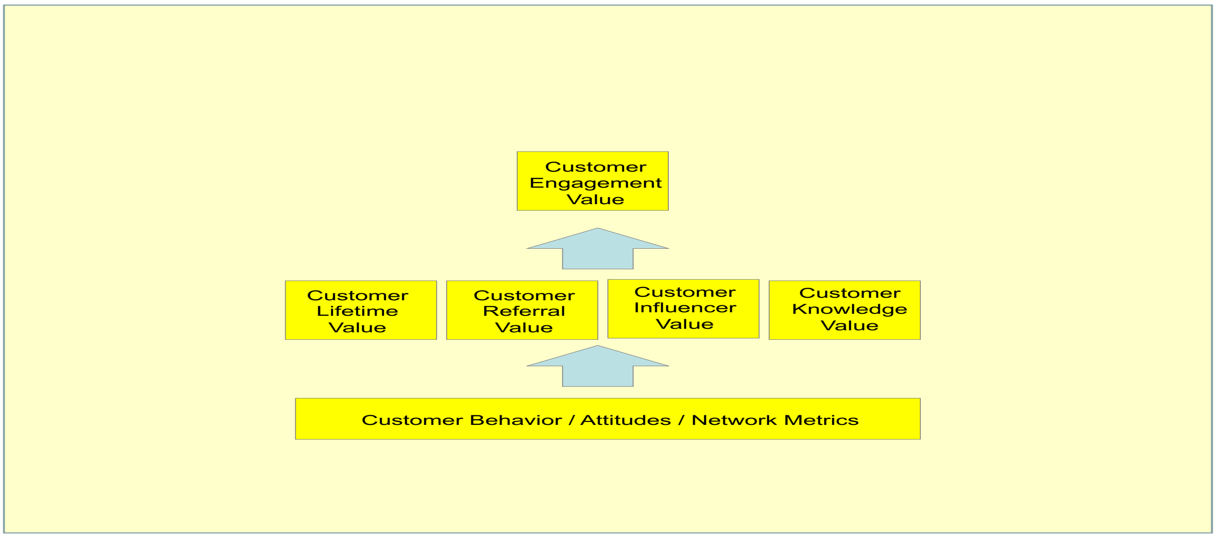


Figure 3.17. Conceptual Model of Total Engagement Value

Ambassadorship

An important VOC driver is the ambassadorship, in which new customers are acquired and new sales is generated due to customers acting as ambassadors and non-employee salespeople. In literature, I see two types of indirect sales behavior: the effects of word-of-mouth, and the effects of referrals.

1. Indirect sales because of intrinsically motivated customers' positive word-of-mouth (WOM) behavior and support/assistance towards other customers. So, there is no materialistic benefit for the customer. Because of WOM, prospects are influenced and decide to become a customer. Additionally, existing customers are convinced to stay and spend more. Kumar et al.[191] name this the 'customer influencer value'.
2. Indirect sales of customers because of active referrals. In this case customers are extrinsically motivated to refer to the company because it is part of a referral program with a financial reward. Kumar et al.[192] name this 'customer referral value'.

A customer can be valuable for the company due to its ambassadorship value, even if the direct economic value (i.e., customer profitability) is not positive or negative[193]. Incorporating this value and valuing a customer correctly can be crucial for avoiding under- or overvaluation of customers[194].

	Financial services		Telecom	
	n	%	n	%
A. all customers	1000	100%	1000	100%
B. % of customers of A. that has the intention to recommend the company	680	68%	810	81%
C. % of customers of A. that recommended the company	330	33%	300	30%
D. % of customers of A. of which the referrals generated new customers	46	4,6%	36	3,6%
E. % of the customers of A. of which new customers became profitable customers	5	0,5%	3	0,3%

Figure 3.18. The Difference between Intention to Recommend and Financial Results

Concerning the value of WOM and referrals, not much research has been done in B2B settings. Therefore, I use some insights from B2C industries. An often-used indicator for WOM in B2C, but also in B2B companies, is the Net Promoter Score (NPS; see also § 18.8.). On a scale of 0-10, the customer's intention to recommend the company is measured. The NPS is calculated by subtracting the percentage 0-6 respondents from the percentage of 9-10 respondents (the 7-8s are neutral and not involved in the calculation). However, this NPS only shows a weak link with revenue growth[195]. This can be explained by research showing that there is a big difference between the intention to recommend a company, the actual recommendations, and eventually gaining new profitable customers (see Figure 3.18.[196]).

Despite these figures, the customers' ambassadorship value can be extensive. This value can be much larger than the average CLV[197]. Contrary to common belief, the customers with the highest CLV are often not the best in marketing and selling the organization. Figure 3.19. shows the results of an analysis done by Kumar et al.[198]. It shows that the segment with the highest CLV (the 'affluents') has the lowest customer referral value. A segment with a relatively low CLV (the 'advocates') has the highest customer referral value. So again, this shows that it makes sense to determine other value sources than only the profitability/CLV of a customer.

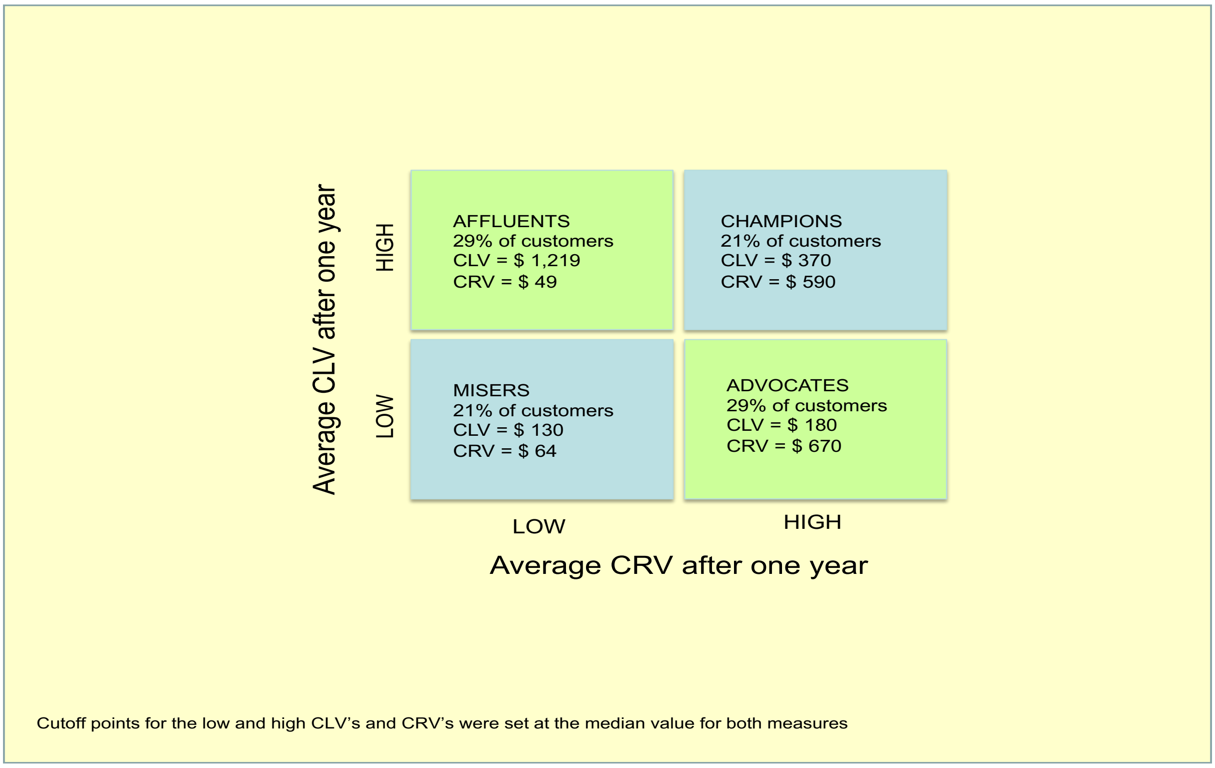


Figure 3.19. Four Segments based on CLV and Customer Referral Value (CRV)

Research among B2C customers of a German bank[199] shows that the customers that make referrals are good matchmakers. It reveals that new customers obtained through customers' referrals were both more loyal and more valuable than other customers. The researchers concluded that referred customers were about 18% more likely than others to stay with the bank. They also estimated that these customers generated 16% more in profits. It would be interesting to determine if these effects are similar in B2B settings.

Flagship effect
Just by having certain well-known customers with an outstanding reputation on the customer list improves the credibility of the supplier's CVP. This is important for reducing the perceived risk of potential customers[200]. This effect, however, does not get much attention in literature.

Customer knowledge
Co-creating customers that share their knowhow and involve the supplier in innovations and improvement programs represent a certain value for that supplier[201]. This customer knowledge is valuable to the supplier, it saves money because it does not have to hire expensive consultants and experts for this topic. This learning can be on a broad range of topics. Some examples are customers' feedback to improve or innovate operations, information on new markets the company wants to enter,

or technologies the company wants to use. Also, some customers can add value to the company as co-development partners. This could lead to improved or even new goods or services[202]. See also § 18.7.

3.5. Relational Value

Discussing the value of customers in workshops with B2B management teams not only leads to financial VOC drivers. Often more relational aspects like trust, the cooperation, and interpersonal characteristics are specified by managers. The third and final VOC-cluster is this relational value, which is not or very difficult to calculate in monetary terms. This is in line with one of the principles of the social exchange theory, which states that an exchange relationship is not only based on economic exchanges, but also on social exchanges (see § 2.4.)

Even though this is an important cluster in business practice, academic literature has given little attention to it. In fact, the content of this paragraph is solely derived from the papers published in a special issue on 'customer attractiveness' in the journal 'Industrial Marketing Management' (2012, volume 41). Customer attractiveness is defined as "the positive characteristics of the buying company towards the supplier"[203], or as the "expected economic and social reward-cost outcomes from the relationship over time"[204]. Customer attractiveness is determined by the difference between the expected reward from this relationship and the costs of being involved in it[205]. But these definitions are too broad given the cluster and elements as presented in Figure 3.1. As such, I would define relational value as:

> *The social and emotional value a customer has for the supplier and its members of the buying center.*

This definition excludes the direct and indirect financial value and focusses on the relational value. Based on the literature in this special issue of Industrial Marketing Management, I have structured the relational value cluster in four drivers: compatibility, interpersonal relations, communication/openness, and trust/commitment (outcomes).

Compatibility

This is the compatibility and similarity between the customer and the supplier. When I conducted research for a family-owned paper-manufacturing company, customers explained that one of the reasons to do business together was the fact that the organizations were both family-owned, resulting in shared business values and principles. This organizational compatibility could for example be concerning company culture, business ethics, use of power, or sustainability.

Interpersonal relations

A while ago, I had a conversation with an event manager of a big congress and exhibition organization in Amsterdam. He had just finished a large event with an English organization. The contact person of this organization had been terrible to work with, as she had been disrespectful to all employees, including the event manager. The event manager indicated in the conversation that if there were more of such customers, it could be a reason for him to resign. In this case, the interpersonal relationship had negative effects on employee morale. However, I have also seen many situations where there were positive effects. These human interactions and relations between the customer's and the supplier's employees play an important role in relational value. Intensive social and professional contacts between the employees reinforce the relationship and influence VOC. This is most likely to occur between employees who enjoy geographical and/or functional proximity and/or repeated exposure[206].

Communication/openness

A third driver is the way of cooperation between the two companies. The openness of a customer (i.e., not hiding information) makes the cooperation more valuable, since an attractive customer implies joint improvement efforts where the exchange partners are open to each other and not a kind of unilateral demand from the supplier[207].

Trust and commitment (outcomes)
Eventually, the openness leads to a relationship based on trust and commitment. The value of a customer can be influenced by the perceived trust in a customer. This trust and commitment is established through a long relationship based on fairness and reliability[208]. See the last two chapters for more information on trust and commitment.

3.6. Sustainability Value
In the last year I had several workshops wit marketing and customer experience managers. When discussing the VOC clusters and the definition: 'VOC is the extend to what a customer contributes to the realization of the supplier's goals', people from companies with a strong sustainability ambition indicated that the VOC is also determined by the way contribute to sustainability. This is a new development that, as far as I now, not yet has been discussed in academic papers on VOC. An employee indicated that the investment company she was working for wants to invest for 100% in CO^2-neutral companies by 2030. Customers, companies putting their money in that investment fund, that support this goal are more valuable than customers not supporting it. This is really a new development with a large scientific gap.

3.7. VOC in Business Practice
In the previous paragraphs you have read the 'ins and outs' about the three VOC-clusters and their drivers. But how are they used in business practice? Based on personal observations within more than a hundred B2B companies I can say that this subject does not get a lot of attention within most of them. Most companies use revenue, or the number of customers, reach (number of unique website visitors) or eyeballs (number of website views) as easy to measure VOC-drivers[209]. Concerning Customer Lifetime Value and customer equity, most managers have heard about it, but they are only seldom used in practice.

This is very strange, since the value of customers is extremely important. Rust et al.[210] state "for most companies, customer equity is certain to be the most important component of the value of a firm". Why does this subject not get the attention it deserves? I think, one of the reasons is that it is not allowed to be integrated in the bookkeeping, only tangible assets can be used[211]. An asset is: "any physical, organizational, or human attribute that enables the firm to generate and implement strategies that improve its efficiency and effectiveness in the marketplace"[212].

Customer equity cannot be on the financial balance sheet according to accounting rules. Barnes[213] states: "although this stream of earnings represents the future of the company, it is not accounted for the company's financial statements, and customer loyalty never show up on the balance sheet". Customer equity can be seen as an intangible asset of a company and cannot be activated according to accounting rules. Intangible assets are all factors/elements that contribute to the companies' future results minus the assets. I think that Gummesson[214] explains this very well: "accounting systems do not catch the value of customer relationships although building relationships is an investment in marketing. The accounting tribe has often been suspicious against intangible, soft values, and sometimes for good reasons. When profits are down, it is tempting for management to misuse soft values and claim that book values are not telling the whole truth and that the situation is not all that precarious. These values have therefore acquired a bad reputation".

To overcome this problem Blattberg and Deighton[215] propose that companies should use a customer value statement as an off-balance report in addition to the formal bookkeeping. They express this as "a company that churns its customer base (acquires customers just as fast as it loses them) can report good sales and profits even as its customer equity is evaporating. As it churns, the company has an increasingly difficult time acquiring new customers cost-effectively, and, finally, when it has churned all prospects through the system, acquisition costs become impossibly high. Whereas an income statement gives no indication of churning, a customer value statement reports whether the company's marketing programs are building or eroding the customer base".

Hartfeil[216] states: “Products aren’t profitable, customers are”, Blattberg and Deighton[217] state: “Brands don’t create wealth, customers do”. The second issue and problem concerning VOC and bookkeeping is the excessive product focus of bookkeeping. Companies normally use the ‘profitable product paradigm’[218]. They measure the profitability of products, determine acceptable levels of profitability per product and eliminate those products that do not get to that level. However, these companies forget that products can have a synergetic effect on each other. Customer do not buy individual products, but a combination of them. When certain products are not available anymore, because they are not profitable enough, this could harm the relationship leading to lost customers. Rust et al.[219] name this the ‘profitable product death spiral’: companies improve profitability by eliminating unprofitable products, leading to a reduced value for customers because they can’t buy their product choice combination anymore, leading to losing customers and less profits. My suggestion is in line with that of Rust et al. and Howell and Soucy[220]: do both, analyze profits of products and customers. This gives the possibility to combine this information in the decision to continue or stop with a product.

3.8. Summary

In this chapter I have given some insights in the value of customers. This is important to understand because it is one of the two dimensions of customer value. Here I give a short summary of this chapter.

(1) What are the main value drivers that contribute to the value of a customer?
The drivers can be divided in four clusters. The first is direct financial value consisting of the drivers: revenue, buying patterns, profitability, customer lifetime value and risk. The second cluster (indirect financial value) consist of indirect sales and customer knowledge. The third, the relational cluster consists of four drivers: compatibility, interpersonal relationships, communication/openness, and trust and commitment. Finally, the fourth relates to the amount customers help realizing the supplier’s sustainability goals. Each company decides on the relevant drivers when defining the value of a customer.

(2) And, consequently, what is the value of a customer?
VOC is the extend to what a customer contributes to the realization of the company’s goals. Depending on the choices a company makes, VOC can be a unidimensional construct (e.g., only revenue, or only customer lifetime value), or a multidimensional construct. In this case the VOC is determined/calculated by adding the value of two or more drivers.

(3) What is customer lifetime value?
The major VOC driver in academic literature is CLV, although it has a very limited use in business practice. CLV is the expected contribution to profits for the lifetime of a relationship adjusted by the decreasing value of money during the years of this relationship.

(4) How vulnerable is the company? Looking at the constitution of the customer portfolio and the division among the customers, how dependent is the company on a limited set of customers?
The Stobachoff curve is a graphical presentation of a customer portfolio. It is established by lining up all the customers on the horizontal axis from the highest absolute profitability to the lowest profitability and plotting cumulative profitability on the vertical axis. Such a curve gives a good view on the dependency within the portfolio (the extent to which profitability depends on a small proportion of customers) and the subsidization within the portfolio (the extent to which profits generated by profitable customers subsidize losses generated by other customers).

(5) How is the value of customers used in business practice?
In business practice often simple proxies are used like revenue, the number of customers, or for web shops the number of visitors or views. Two possible reasons for this are that customer equity is an intangible asset that cannot be activated on the balance sheet. The second reason is that organizations are dominantly focusing on products and product profitability.

Chapter 4. Value for the Customer (VFC)

4.1. Introduction

Why do B2B customers choose for s specific product or supplier? Starting with research on modeling purchase decisions, scholars[221] have explored the value for the customer (VFC). This is the value as desired, expected, and perceived by customers. Basically, B2B customers choose for a good, service, or supplier because they believe that they get a better value than they could expect from an alternative[222]. Suppliers need to understand what customers value, what they want and where they want to pay for. Consequently, these organizations must implement VFC strategies that enable them to satisfy customers, grow, and survive on the long term[223]. Or as Kumar and Grisaffe[224] state: “customer value is the widespread belief among practitioners and academics that providing value to customers may be the best way to win customer loyalty and improve the firm’s customer retention rates”. The increasing competition necessitates B2B companies to have a competitive advantage and differentiate in VFC from the competition[225], leading to a VOC-increase for the company. As indicated in the previous chapter: customer value has two sides of the same coin; value for and value of the customer[226]. VFC can be seen as “the cornerstone of business market management”[227]. Furthermore, Eggert et al.[228] state: “creating and communicating customer value is the basis of B2B marketing”. So VFC could be seen as an essential concept in B2B marketing. In this chapter I give answers on the following questions:

1. What is VFC?
2. What are the two concepts of VFC?
3. How is VFC researched in practice?

4.2. Characteristics of Value for the Customer

VFC has been studied since 1967, but it has truly become a fundamental building block in B2B marketing over the last two decades[229]. Numerous studies have examined and described VFC and the drivers influencing it. However, findings are mixed and often inconsistent due to a lack of consensus among scholars on the concept of VFC[230]. This is rather surprising as four recurring characteristics can be identified in almost all definitions and descriptions of VFC[231]. These four recurring characteristics are listed below:

1. It is a trade-off between benefits and sacrifices.
2. Benefits and sacrifices are multi-facetted.
3. It is a subjective concept with three levels.
4. Value perceptions are relative to alternatives.

A trade-off between benefits and sacrifices (1)

In Figure 4.1. I have presented six VFC-definitions. What they all have in common is that they describe a kind of give (sacrifices) and get (benefits) equation for the customer. Based on these definitions, my definition of value for the customer would be:

> *The customers’ perceived trade-off and difference between what they get (benefits) and what they must sacrifice for it.*

“Value involves a trade-off of the salient give and get components” (Zeithaml, 1988, p.14).

“Customer value can be conceptualized as a comparison of weighted get attributes to give attributes” (Heskett et al., 1994; Lam et al., 2004, p. 295).

“Customer value is operationalized as a ratio or trade-off between total benefit received to total sacrifices, taking into consideration the available suppliers’ offerings and prices” (Lam et al., 2004, p. 295).

“A business customer’s overall assessment of the utility of a relationship with a vendor based on perceptions of benefits received and sacrifices made” (Menon et al., 2005, p. 5).

“The trade-off between product, service, know-how, time-to-market and social benefits, as well as price and

process costs in a supplier relationship, as perceived by key decision-makers in the customer's organization and taking into consideration the available alternative supplier relationships" (Ulaga and Eggert, 2005, p. 81).

"The customers' net valuation of the perceived benefits accrued from an offering that is based on the costs they are willing to give up for the needs they are seeking to satisfy" (Kumar and Reinartz, 2016, p. 37).

Figure 4.1. Six VFC-Definitions

Multi-facetted benefits and sacrifices (2)

VFC is a multi-dimensional rather than a single, all-encompassing concept[232]. In Figure 4.2. I have given, in a random order, nine examples of VFC-related drivers of benefits and sacrifices that have been published. As you can see, there is no uniformity. Depending on the VFC concept used (see next paragraphs) the drivers of both the benefits and sacrifices differ. Therefore, no general concept of VFC can be given. In each of the two paragraphs describing a concept I give an indication of the drivers of benefits and sacrifices.

Source	Drivers of benefits	Drivers of sacrifices
Zeithaml, 1988	perceived quality	monetary price, time costs, search costs, psychic costs
Grönroos, 1997	core solution, additional services	price, relationship cost
Lapierre, 2000	product, service, relationship benefits	monetary costs (price), relationship costs (time, effort, energy, and conflict invested)
Lindgreen and Wynstra, 2005	product performance and design, quality of the services, the staff, the image of the brand	products' price and costs of using/owning it (e.g., installation, insurance, staff training, maintenance energy consumption, trade-in value, psychological costs of risking a switch to a new supplier)
Menon et al., 2005	core benefits, add-on benefits	purchasing price, acquisition costs, operations costs
Ulaga and Eggert, 2006	core benefits, sourcing benefits, operational benefits	direct costs, acquisition costs, operation costs
Anderson et al., 2009	economic, technical, service, and social	Price
Candi and Kahn, 2016	functional, emotional, and social	-
Arslanagic-Kalajdzic and Zabkar, 2017	functional, emotional, and social	functional, emotional, and social

Figure 4.2. Examples of Drivers of Benefits and Sacrifices

A subjective concept with three levels (3)

VFC is something expected or experienced by customers rather than objectively determined by a supplier[233]. VFC can be divided into three different levels:

- ✓ Customer desired value: what customers want to have happened when interacting with a supplier and/or using the supplier's goods or services. Flint and Woodruff[234] define this as "the value that customers want to receive from goods/services and their suppliers".
- ✓ Customer expected value: what customers expect to happen when interacting with a supplier and/or using the supplier's goods or services. These expectations are based on the customers' frame of reference[235] and relates to the value it expects to receive from goods/services.
- ✓ Customer perceived value: judgments or assessments of what a customer perceives he has received from a supplier in a specific purchase, use situation or relationship. This concept is described more in detail in § 17.2.

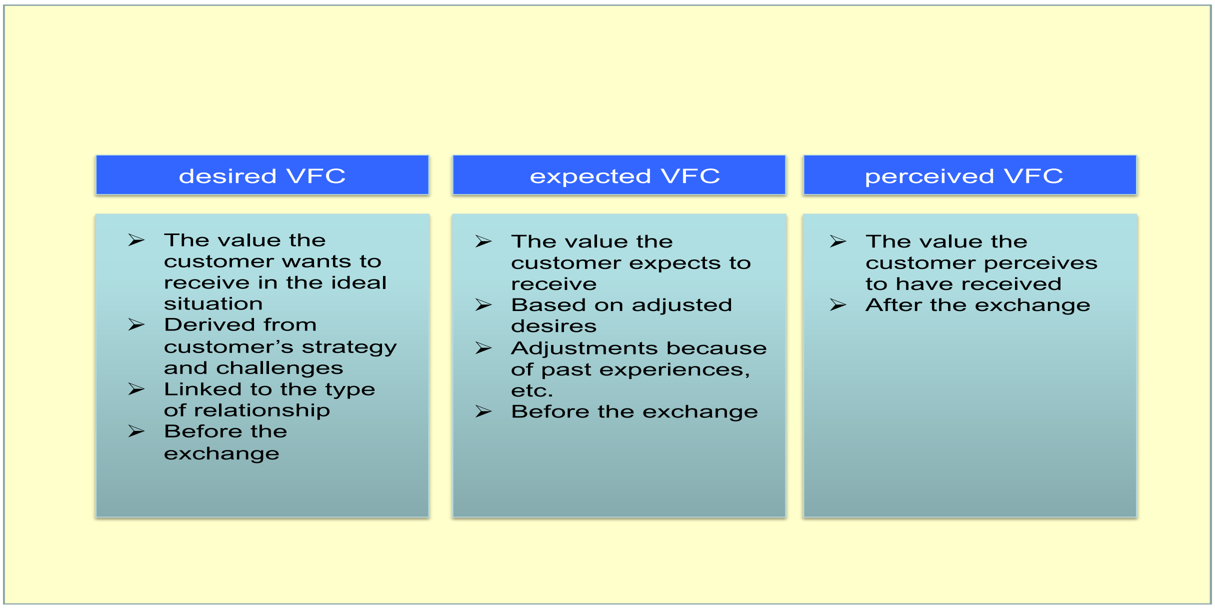


Figure 4.3. Three different Value Levels

Relative to competition (4)
The VFC of a market offering is not evaluated in isolation. B2B customers buy from those companies that they perceive as offering the best value[236]. Customers compare the value offered by a good, service or supplier in relation to that of known alternatives. In some cases, this could also be doing the activity, or making the product in-house instead of using a supplier. When comparing the market offering of a supplier with the next best alternative, the drivers of benefits and sacrifices can be divided into points of parity, difference, and contention (see Figure 4.4.[237]).

Points	**Definition**
Points of parity	VFC drivers with essentially the same performance or functionality as those of the next best alternative. The supplier is not better nor worse than the alternative.
Points of difference	There is a difference in the supplier's performance with the next best alternative. These are VFC drivers that make the supplier's offering either superior or inferior to the next best alternative.
Points of contention	There is no agreement between the supplier and the customer. It are VFC drivers about which the supplier and its customers disagree regarding how their performance or functionality compares with those of the next best alternative.

Figure 4.4. Points of Parity, Difference, and Contention

Some of the methods to compare the VFC of alternative offerings are the market-perceived quality profile (see § 4.5.[238]) and customer value models based on Value-in-Use (see § 11.9.[239]).

4.3. Two VFC Concepts

Since the mid-2000s, the thinking about and the concept of VFC has undergone a fundamental change in perspective[240]. The perspective of customers' perceived value at the moment of the exchange (Value-in-Exchange) has evolved into the perceived value of using the product (Value-in-Use). In this concept there is not only a functional, but there are also emotional and social drivers of benefits and sacrifices. Not only the company's perceived value is involved, but also the value experienced by the employees working with the supplier in the buying center (see § 1.6.).

Value-in-Exchange: in this concept there is a focus on value at the moment of the purchase (the exchange). Value is created through acquiring a product, and important product related drivers are compared with the sacrifice in terms of price. This is a transaction specific view on VFC. Value is only created by the supplier; the customer has no role in it.

Value-in-Exchange = quality of the product (good or service) compared with the price at the moment of the purchase.

Value-in-Use: in this concept there is a focus on the value of a product when using it. Value is created through satisfying certain needs and is created both through processes of the supplier and the customer itself (value through co-creation). Since also the value drivers are involved as perceived by members of the buying unit, emotional and social are added.

Value-in-Use = functional, emotional, and social benefits of using a product (good or service) compared with the total cost and other sacrifices when using it.

In Figure 4.5. the main differences between the two concepts are presented.

	Value-in-Exchange	**Value-in-Use**
Focus	Time of purchase	Time of using a product
Perspective	Product	Product and relationship
Benefits	Product related drivers (functional)	Effects of using the product (functional), and social, and emotional aspects of the relationship
Sacrifices	Acquisition price	Total cost of ownership of a product, all direct and indirect costs and disadvantages
Placeholders (important drivers that cannot be translated into money)	None	Functional, social and emotional (dis)advantages that cannot be calculated
Role of supplier in value creation	Active	Active, also value of other parties involved
Role of customer in value creation	Passive, receiver	Active, co-creator in joint value creation. Members of the buying center have an important role

Figure 4.5. Two VFC Concepts Compared

4.4. Value-in-Exchange and Value-in-Use

The 'oldest' and first described VFC-concept is that of Value-in-Exchange. In Figure 4.6. two definitions of VFC using this concept are given.

> *"Value is Quality minus Price. Quality is Product and Customer Service"* (Gale, 1994, p. 29).
>
> *"The product or service attributes promised by the supplier and expected by the customer at the time of purchase"* (Macdonald et al., 2016, p. 98).

Figure 4.6. Two Definitions of Value-in-Exchange

The benefits are product related value drivers at the moment of buying it. These could reflect aspects of the quality of the product. The main component for the sacrifices is the price. Since VFC is an equation, there could be various quality-price combinations.

Around the year 2000 the academic focus evolved from Value-in-Exchange to Value-in-Use. Here the focus is not on the quality/price ratio of the product when buying it, but on the value it offers to the customer during the period when using it. In Figure 4.7. seven definitions that fit to this concept are presented.

"A customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations" (Woodruff, 1997, p. 142).

"The worth in monetary terms of the technical, economic, service, and social benefits a customer company receives in exchange for the price it pays for a marketing offering. Benefits: net benefits in which any costs a customer incurs in obtaining the desired benefits, except for purchase price, are included" (Anderson and Narus, 1998, p. 54).

"The difference in value minus the difference in price that a supplier's (f) offering provides a customer firm relative to a competitive offering (a). $VIU_{fa} = (Value_f - Value_a) - (Price_f - Price_a)$*"* (Anderson et al., 2009, p. 113).

"Benefits: the fundamental need or want that customers satisfy when consuming a good or service. Three types of benefits should be taken into account: functional benefits, emotional benefits, and social benefits" (Candi and Kahn, 2016, p. 177).

"All customer-perceived consequences arising from a solution that facilitates or hinders achievement of the customer's goals" (Macdonald et al., 2016, p. 97).

"The perception of the functional, emotional, and social benefits and sacrifices related to a service provider's offering as recognized by key decision-makers in the client's organization" (Arslanagic-Kalajdzic and Zabkar, 2017, p. 48).

"CV consists of 40 fundamental 'elements of value' that fall into five categories: table stakes, functional value, ease of doing business value, individual value and inspirational value" (Almquist et al., 2018, p. 75).

Figure 4.7. Definitions of Value-in-Use

Several scholars have tried to determine the drivers of the benefits and sacrifices of Value-in-Use. Just to give you an example I have added the conceptual model of Ulaga and Eggert[241] used in one of their papers (see Figure 4.8.).

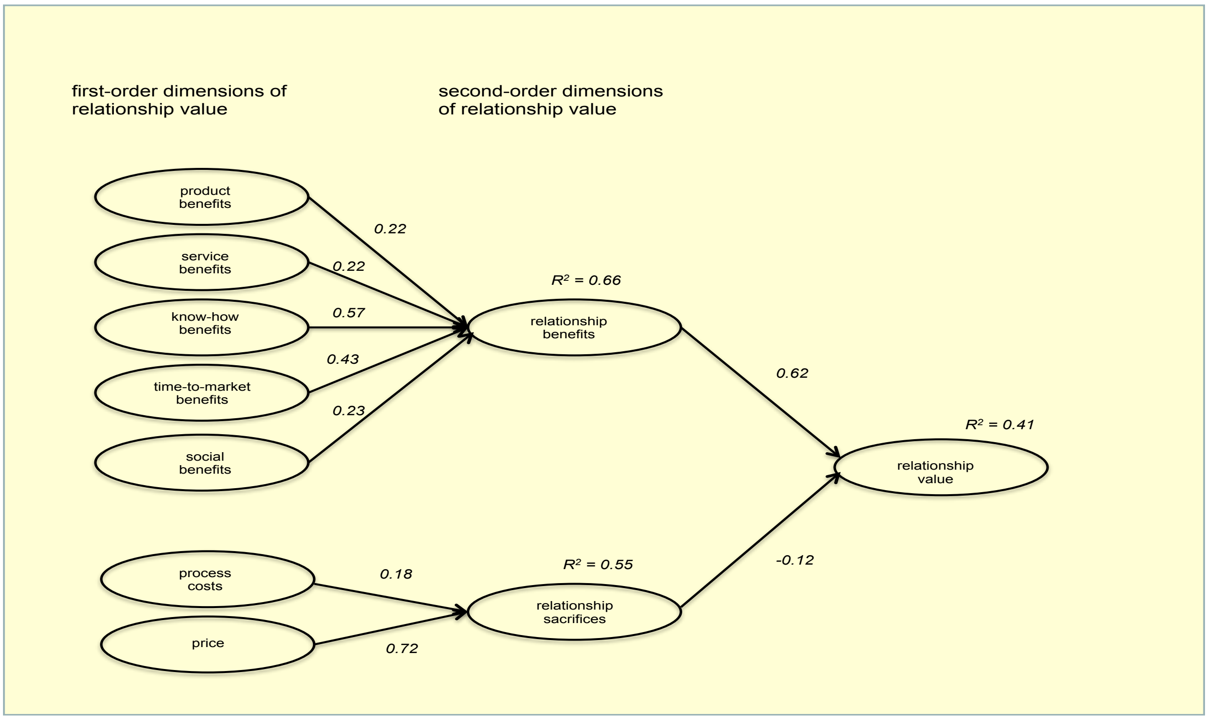


Figure 4.8. Example of a Value-in-Use model

Concerning the value drivers there are four important differences between Value-in-Use and Value-in-Exchange.

First, while Value-in-Exchange focuses on the acquisition price, Value-in-Use uses total cost of ownership. This is "the sum of purchase price plus all expenses incurred during the productive lifetime of a good or service minus its salvage or resale price"[242]. For a more extensive description, see § 11.2.

Second, Value-in-Use is created not only by the supplier, but also by other parties involved and the customer itself. Value is created in a co-creation process before, during and after using the product. Or, as Grönroos and Ravald[243] state it: "creating customer value is a multi-laned process consisting of two conceptually distinct sub processes. These are the supplier's process of providing resources for customer's use and the customer's process of turning service into value". These two processes and the changing role of the customer reflects the service dominant logic theory, according to which customers perceived value as a function of their use situation[244] (for a description of service dominant logic theory see § 2.3.). The consequence is that the VFC differs per customer depending on 'how' and 'why' the customer uses a product[245].

Third, Value-in-Use is both perceived on a corporate and on a buying center member (individual) level. Macdonald et al. [246] call this collective and individual Value-in-Use.

- ✓ Collective Value-in-Use: the value perceived by the company on a corporate level. Drivers are mainly related to functional value.
- ✓ Individual value-in-Use: the value perceived by individual members of the buying center. Drivers are mainly social and emotional.

They revealed that customers link the perception of value to collective as well as individual VFC-drivers. This is in line with Goal Theory that suggests that people have both their own individual goals and shared, collective goals[247]. In Figure 4.9.[248], both the 9 collective and 6 individual Value-in-Use drivers of their research are presented.

Collective Value-in-Use drivers:

Improved operational performance:
(1) Avoiding downtime: Minimizing nonproductive time in the firm's operations
(2) Fast problem solving: Rapid resolution of operational difficulties
(3) Low costs: Low operational costs from low purchase prices or other operational savings
(4) Fixed capital reduction: Minimized use of the customer's fixed capital
(5) Process improvement: Simplification of or other enhancements to the customer's processes

Value through the solution itself:
(6) Innovativeness: Generation and use of ideas for business improvement
(7) Competitive advantage: Impact on the firm's own market position

Preventative goals:
(8) Reduced financial risk: Minimized uncertainty with respect to financial liabilities
(9) Dependence avoidance: Minimized dependence on the supplier

Individual Value-in-Use drivers:

Related to job ease:
(1) Task simplicity: Simplicity and time efficiency of the processes that make up one's job
(2) Pressure reduction: Minimized pressure and stress in one's daily job
(3) Perceived control: Perception of control over processes and resources that make up one's job
(4) Uncertainty reduction: Minimized uncertainty related to processes and decisions involved in one's job

Individual's social context:
(5) Social comfort: Feeling comfortable with other people at work
(6) Personal reputation: Being viewed as a person with high job competence

Figure 4.9. Collective and Individual Value Drivers

Fourth, because of individual Value-in-Use is involved also emotional and social value drivers are relevant. Literature on B2B-relationships has for a long time focused only on functional value drivers (Arslanagic-Kalajdzic and Zabkar, 2017). However, recent research acknowledges that business relationships, just like B2C relationships[249], can be decomposed to relationships between people acting as boundary spanners (see § 9.4.). See also Social Exchange Theory in § 2.4. These boundary spanners are the contact persons of both the supplier's selling centre and the customer's buying centre. Even though digitalization is increasing, B2B relationships are in fact often a 'people's business', which is something that has not been acknowledged for a long time. As Almquist et al.[250] state: "as B2B offerings become ever more commoditized, the subjective, sometimes quite personal concerns that business customers bring to the purchase process are increasingly important. Indeed, our research shows that with some purchases, considerations such as whether a product can enhance the buyer's reputation or reduce anxiety play a large role". Thus, research shows that B2B relationships also consist of interpersonal relationships between boundary spanners.

Decisions are made by humans and value is perceived by these humans. The members of the buying center do not only use functional, but also emotional and social value drivers to evaluate the value of an offering. The combination of these drivers explains customers' behaviour[251]. Not only rational, but also perceived emotional and social value can have a direct or indirect effect on customer satisfaction and loyalty. Purmonen et al.[252] state it in this way: "In practice, purchases and their assessment are also influenced by the individual goals of the persons involved, which range from job ease to uncertainty reduction, personal reputation, and social comfort, stemming from individuals' idiosyncratic preconceptions, past experiences, and expectations".

In Figure 4.10. relevant definitions of functional, emotional, and social value, as well as an explanation of their respective benefits, are given.

Functional value Functional value: "*the utility derived from perceived quality, a perceived reduction in short- and long-term costs, and the expected performance of service offers and processes for business client firms*" (Arslanagic-Kalajdzic and Zabkar, 2017, p. 48; adapted from Sweeney and Soutar, 2001). Functional benefits: "*benefits that derive from a given service being able to perform its functional, utilitarian, or practical purposes*" (Candi and Kahn, 2016, p. 178).
Emotional value Emotional value: "*the utility derived from the feelings or affective states that the service offers, and the process generated for the decision makers/ buying center participants of the business client firm*" (Arslanagic-Kalajdzic and Zabkar, 2017, p. 49; adapted from Sweeney and Soutar, 2001). Emotional benefits: "*benefits that appeal to the human senses and evoke emotions*" (Candi and Kahn, 2016, p. 178).
Social value Social value: "*the utility derived from the acceptance, positive impression and social approval of the business client firm and its goods/services that the service offers, and process generated. Social approval encompasses the approval of different stakeholders (e.g., owners, clients, industry partners)*" (Arslanagic-Kalajdzic and Zabkar, 2017, p. 49; adapted from Sweeney and Soutar, 2001). Social benefits: "*benefits that resonate with or support a customer's actual or desired self-image and their membership in, or desire to belong to, specific groups*" (Candi and Kahn, 2016, p. 178).

Figure 4.10. Functional, Emotional, and Social Value

Candi and Kahn[253] have investigated the effects of functional, emotional, and social benefits on customer satisfaction. The research findings indicate that these three types of benefits are separate and that each of these types has a statistically significant positive relationship with customer satisfaction in a B2B service context. For a description of customer satisfaction, see § 17.3.

A publication of Almquist et al.[254], based on results of quantitative and qualitative studies, took the next step in making the functional, emotional, and social value drivers for B2B customers more concrete. Based on their study, they identified 40 fundamental VFC drivers they clustered in five layers of a value pyramid, which shares some similarities with Maslow's Hierarchy of Needs Model (see Figure 4.11.). The layers/clusters are table stakes (1), functional value (2), easiness of doing business value (3), individual value (4), and inspirational value (5). Whereas the value drivers at the base have a more objective character, those at the top have a more subjective character.

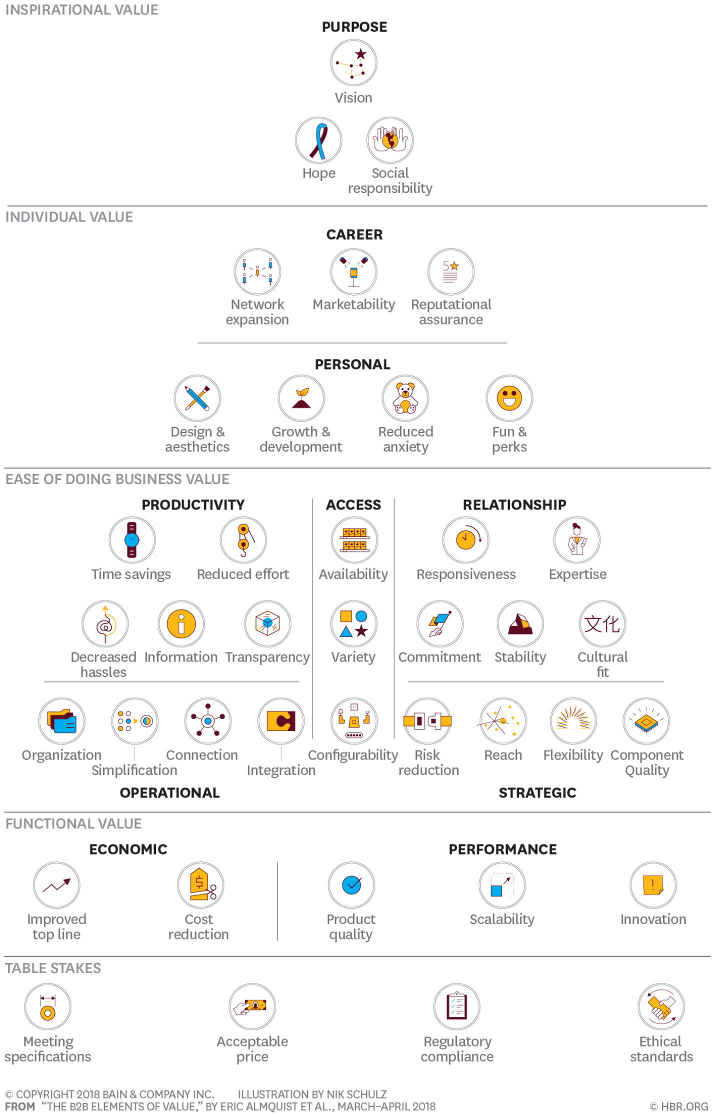


Figure 4.11. Business Customers' Value Pyramid

4.5. VFC Research

In the previous paragraphs I have described the concept of VFC. But how to research and measure it. In this paragraph I give some ideas on this subject. Woodruff[255] describes three aspects of VFC: desired, expected, and perceived value (see Figure 4.3.). From this perspective, deciding on how to compete on superior customer value raises difficult questions and challenges like[256]:

1. What exactly do customers value? What is the desired and what is the expected customer value? What are the relevant benefit and sacrifice related drivers? What is the relative importance of these drivers?
2. How well do customers think we deliver that value? What is the customer perceived value? And what are the perceptions when compared with alternative offers?
3. Do customers want to pay for specific features?

4. What is the price we can ask for a product?

In this short paragraph I give some information on the first two questions. The questions 3 and 4 are dealt with in Chapter 11 on total cost of ownership and customer value-based pricing. Before describing the practical side of VFC research I want to give a small warning concerning innovative solutions. If you ask customers what they want and offer them a solution, there is a possibility they will not buy your offered product or service. Why? Customers only indicate what they want concerning goods/services/solutions they already know. They will not give you information they do not know yet. In many cases customers are not informed enough to come up with innovative solutions[257]. Customers only know what they know and have experienced in the past. They cannot imagine what they do not know about new technologies, materials, and the like. Or, as the developer of the T-Ford (the first mass produced car) said: “if I had listened to my customers, I would have made faster horses”. Thus, due to the limited frame of reference of many customers, it is important for organizations to focus on the needs of customers. Research these needs and develop your own solutions accordingly.

Determining the relevant drivers and their weights

Techniques like focus groups or interviews with customers and observations can be used to determine the desired/expected VFC drivers. The focus depends on the value model that is used: Value-in-Exchange or Value-in-Use.

For example, I used a value model to make an inventory of the relevant VFC drivers with 20 B2B customers of a paper manufacturer. During in-depth interviews I asked the customers for the most important benefit and sacrifice related drivers of the relationship. This is a Value-in-Use approach of value. Per customer, a good overview of the most important drivers was developed. Examples were technical quality, product range, availability, delivery times and accessibility of employees. After that, the importance and experiences per driver were discussed. In this example the drivers were determined per customer. An alternative is to determine this per customer segment. In focus groups or interviews, the relative weights of the benefit and sacrifice related drivers can be determined. This can be done by asking the participants to rank them.

A method to determine the relative importance of drivers in B2B settings is the Q-Methodology. Potential important drivers are printed on cards and the customer must put the cards on piles of importance (e.g., least important, important, very important and most important). The number of cards must be equal for all four piles. Also, the cards must be put in order of importance per pile. This method helps customers to make a real division in the importance of drivers. The method is not often used in economics but more often in health care and social studies[258], but can also be verry handy in B2B settings.

Measuring VFC (the compositional approach)

At the basis of the compositional approach is a set of explicitly chosen value drivers of benefits and sacrifices[259]. How to determine these VFC drivers has been described in the first part of this paragraph. In the compositional approach, expected utility is a function of the performance of a value driver multiplied by its respective importance weight. An example of such a compositional approach based on Value-in-Exchange is the customer value analysis. By comparing the company with competitors using a method like that of Gale[260], a market-perceived quality profile is developed.

In Figure 4.12.[261], I have given an example of such a customer value analysis based on the compositional approach (Value-in-Exchange). First, the drivers of benefits and sacrifices and their weights are determined. The benefits related drivers (weight 0.9) and those of sacrifices (weight 0.1) add up to 1. The market perceived benefit ratio (MPB ratio; 1.222) is determined by comparing the perceived performance of the focal company (in this case CompA) with the next competitor (CompB). The same is done for the market perceived sacrifice ratio (MPS ratio; 1.900). Eventually the customer value ratio is calculated by adding the weights to the MPB and MPS ratios. Using this method gives companies the opportunity to determine their position in comparison with competitors. Based on the outcomes, a supplier can determine if and on what drivers it must improve. See for example Sinha and DeSarbo, and Ulaga and Chacour[262] for a more elaborate use of this method, also using value maps. Of course, a similar method could be used for the concept of value in terms of Value-in-Use. Although this will be much more complex. See § 11.9. for a method using Value-in-Use.

	Importance weights	Performance scores (1-10)				Weight ratio
		CompA	CompB	Ratio	X	
Benefit attributes:						
Core service:						
-Vendor acceptance	.30	9	8	1.125		0.337
-Phone calls	.20	10	6	1.666		0.333
-Protect purchases	.10	7	9	0.777		0.077
Customer service:						
-Company logo	.20	10	8	1.250		0.250
-Professional	.20	9	8	1.125		0.225
Sum of quality weights	1.00				MPB ratio:	1.222
Sacrifice Attributes:						
-Annual fee	.80	10	5	2.000		1.600
-Interest fee	.00	9	NA	NA		0.00
-Vendor service fee	.20	9	6	1.500		0.300
Sum of price weights	1.00				MPS ratio:	1.900
Weight on Quality (0.9) + weight on price (0.1) = 1.0						
Customer Value Ratio CompA versus CompB: = (0.9)1.222 + (0.1)1.900 = 1.290						

Figure 4.12. Calculating the Customer Value Ratio

4.6. Summary

In this chapter I have given some insights in the value for customers. This is important to understand because it is the second of the two dimensions of customer value. Here I give a short summary of this chapter.

(1) What is VFC?

Value for the customer is the customers' desired, expected, or perceived trade-off and difference between what they get (benefits) and what they must sacrifice for it. It is a subjective, customer experience related, concept; it is in the mind of the customer. It is based on various value drivers. Finally, value is determined by a customer in relation to known alternatives. Customers are happy with the value received as long as they do not know a better alternative.

(2) What are the two concepts of VFC?

There are two value concepts. The first (Value-in-Exchange) is the value as perceived by the customer at the moment of the exchange. This is a rather limited definition of value since many goods and services are used for a long time in B2B settings. Therefore, the Value-in-Use concept was developed. It focusses on the value perceived during the full lifespan of a good or contract for a service. All, functional benefits gained, and sacrifices made of a product or service are involved. Value is also seen from a relational perspective, benefits/sacrifices are not only functional, but also social and emotional on a company and individual buying center member level.

(3) How is VFC researched in practice?

VFC-research is relatively underdeveloped. There are methods to determine the relevant value drivers and their importance. Other methods are focused on comparing the value offered with competitors. One is the compositional approach where weighted VFC drivers are scored for the focal supplier compared with an alternative.

Chapter 5. Customer Value Segmentation

5.1. Introduction

In the last two chapters I have described both sides of the value coin: value of the customer (VOC) and value for the customer (VFC). In literature and in practice I see many applications where only one side is used. However, viewing VOC and VFC as separate concepts is too limited. Managing customer value effectively means working on both sides at the same time[263]. Only analyzing and segmenting customers in an outside-in approach on VFC gives interesting insights, but is the company spending the right amount of attention and money on the right customers? It does not give an answer on this question. Other companies use an inside-out approach and segment their customers only on VOC. But this approach neglects the differences in customers' needs, demands and expectations. Combining VOC and VFC is a powerful concept[264]. Customers get the value that is in line with both what the customer asks and what the company receives in return. This leads to loyal and valuable customers that contribute to shareholder value. The main questions answered in this chapter are:

1. What is customer segmentation?
2. How to segment customers on VOC?
3. How to segment customers on VFC?
4. How to make a combined VOC-VFC segmentation?

5.2. The Customer Portfolio

Focusing on customers, one can differentiate between the macro level (the full market), the meso level (the customer portfolio of a company) or at a micro level (the individual customer). Since the focus of this textbook is on what companies can do, I focus on the meso and micro levels. A customer portfolio consists of all the customers a company does business with. It represents one of the key levels for a company at which to manage a business market. Four possible dimensions of a portfolio are[265]:

- ✓ Broadness: this is the number of customers in relation to the company size.
- ✓ Concentration: this the percentage of sales that comes from the largest customers. See also § 3.3.
- ✓ Heterogeneity: this is the overall similarity (homogeneity) or dissimilarity (heterogeneity) of customers in the customer portfolio.
- ✓ Customer turnover: the rate of change in the composition of the portfolio. It reflects the loss of current and growth of new customers.

Furthermore, when looking at customers, one can also differentiate between four evolutionary stages in customer thinking; that of user, average customer, customer segment and n=1 (see Figure 5.1.). Let me explain, starting in the bottom left part of the figure, the user. There are extremely product-driven companies that view their customers as users of their products (stage 1). They see them as users, not as customers. These users are numbers, and they must be happy to do business with the company. However, after a while these companies start to understand that it are the customers that pay the employees' wages (stage 2). Customers must be treated as customers rather than just 'users', and all customers are treated equally. Organizations in this second stage think about customers as the average customer. When 60% of the customers wants a red product and 40% a black product, they make red products. These companies treat their customers similarly because 'all customers are king'. Then, after a while, these companies start to understand that the average customer does not exist. This is the stage of customer segmentation (stage 3). Based on VOC and VFC related criteria, customers are put in certain boxes. Finally, for certain customers the company understands that their VOC is so high that it is better not to put them in a certain box. That is the phase of n=1, each customer is a segment on its own (stage 4).

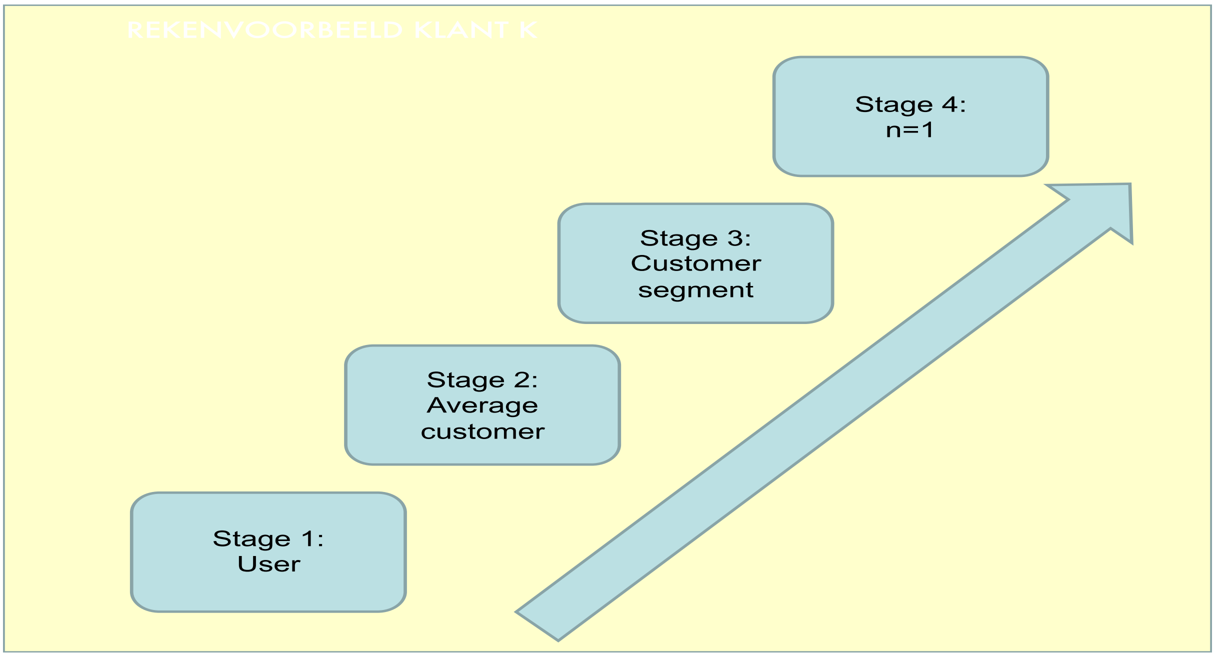


Figure 5.1. Evolution in Customer Thinking

Managing customers based on the average customer does not provide the insights necessary to manage a customer portfolio effectively. CVM asks for a view on customers related to the stages 3 and 4. Hereby, it goes further than the traditional ways of customer segmentation based on geography or types of customers (e.g., B2B versus B2C).

5.3. Segmenting the Customer Portfolio

Segmentation is “recognized by marketeers and academics as one of the core concepts in the marketing discipline – on par with the marketing mix (4Ps), product life cycle, and market orientation”[266]. Segmentation can be a significant competitive differentiator for a company and be very effective in applying a marketing strategy[267]. Also, segmentation of markets and customer portfolios is in B2B at least as applicable as in B2C markets. Since the first description of segmentation by Smith in 1956 (see Figure 5.2. for his definition), a vast stream of literature about segmentation in B2B markets has been published. In Figure 5.2. you find seven definitions used.

“Market segmentation consists of viewing a heterogeneous market (one characterized by divergent demand) as a number of smaller homogeneous markets in response to differing product preferences among important market segments” (Smith, 1956, p. 6).

“A market segment is simply a group of present or potential customers with some common characteristic which is relevant in explaining (and predicting) their response to a supplier’s marketing stimuli” (Wind and Cardozo, 1974, p. 155).

“The purpose of industrial market segmentation is to identify relevant segments that permit the development of better marketing strategies catering to the specific needs and wants of the selected segment(s). In other words, the delineation of usable market segments through relevant segmentation approaches is an essential and central aspect in designing all phases of a marketing strategy” (Chéron and Kleinschmidt, 1985, p. 101/102).

“Business-to-business market segmentation is an ongoing and iterative process of examining and grouping potential and actual buyers with similar product needs into subgroups that can then be targeted with an appropriate marketing mix in such a way as to facilitate the objectives of both parties. The process has strategic and tactical marketing implications and should be periodically reviewed to incorporate the lessons of experience and to maintain an optimal cost” (Mitchell and Wilson, 1998, p. 431).

"In principle, segmentation is about identifying and targeting customer groups through their needs and wants, as well as determining which customers and needs will be addressed and with what manner and intensity" (Freytag and Højberg Clarke, 2001, p. 473).

"In market segmentation, one distinguishes homogeneous groups of customers who can be targeted in the same manner because they have similar needs and preferences" (Wedel and Kamakura, 2002, p. 181).

"Segmentation divides markets into subsets of users who share a similar set of needs and wants. Marketers evaluate the segments and then implement strategies to target high value customers and prospects" (Brotspies and Weinstein, 2019, p. 164).

Figure 5.2. Segmentation Related Definitions

Analyzing these definitions, you'll see that segmentation could be defined as:

> *Dividing the market or a customer portfolio into smaller groups with present or potential customers with common characteristics that can be effectively targeted in the same manner with strategic and operational marketing programs.*

In the definitions in Figure 5.2., segmentation criteria like customers' preferences, needs and wants are given as a segmentation base. A segmentation base consists of the criteria used to group potential or current customers[268]. Beside preferences, needs and wants frequently used criteria are the SIC code (industry by using the Standard Industrial Classification code), geographic location, and other business demographics (firmographics), but also for example product use and buying habits[269]. Segmentation can be done on a customers' company level, but also on a buying center member level like the buyers' personal characteristics[270]. This is called segmentation on B2B personas. Any segmentation can be done as long as the segmentation leads to measurable, accessible, substantial, homogeneous and actionable segments[271]. Actionable means: does the segmentation base give an indication of the marketing strategy to be used?

Segmenting customers in B2B markets is as important as in B2C-markets but it is more complex and challenging. Some of the reasons are: products are complex and often have multiple applications, the heterogeneity among customers, the differences in buying centers, and the sometimes complex interactions between exchange partners[272]. Despite these difficulties, segmentation can effectively help "managers to better understand the market they face"[273]. Segmentation is "used for three goals: (1) to better understand the marketplace and why customers buy (analysis of the market), (2) making a rational choice of market segments that match best with the company's capabilities (selection of key markets), and (3) for the development of strategies and plans to profitably meet or even exceed the needs of the various segments and to give the company a distinct competitive advantage"[274]. In the previous chapters, and in the remainder of this textbook you find various segmentation criteria. Many of them are single-stage segmentations in which only one criterium is used to divide customers. But there are also many examples of two-stage segmentations in which after a first macro segmentation, each segment is again divided into micro segments based on other criteria[275].

But let's focus now on using VOC and VFC as a segmentation base. In the next paragraph I propose a single-stage macro segmentation using two criteria in line with; Laughlin and Taylor's[276] approach, although they used other criteria. Some scholars like Zeithaml et al.[277] use a single-criterium VOC segmentation as a starting point to build a customer pyramid. This is "a tool that enables the company to utilize differences in customer profitability to manage for increased customer profitability"[278]. Other scholars use customers' preferences, wants and desires as a single-criterium to segment customers[279]. This is also called 'benefit segmentation': "an aggregation of customers and prospects sharing a common set of needs different from the needs of other segments"[280]. I propose to combine these two approaches and use a segmentation base with two independent criteria (VOC and VFC) at the same time. In this way the segmentation both reflects customers' benefits (VFC) and at the same time supplier's benefits (VOC).

As described in § 1.2. and 1.3., one B2B supplier can have several completely different customer segments like OEM-manufacturers and wholesalers. These different segments cannot be put together in one customer portfolio, and it does not make sense to combine these different segments in one VOC-VFC segmentation. It does make sense, however, to treat them as different portfolios and to make several VOC-VFC segmentations. In the next two paragraphs I describe segmentation possibilities on VOC and VFC followed by the combined segmentation in § 5.6.

5.4. Segmenting Customers on VOC

Lambert[281] states: “all customers do not contribute equally to the firm’s success and the goal is to identify those customers who desire and deserve special treatment so that offerings can be tailored to meet their needs while achieving the firm’s profit goals for the customer”. In Chapter 3, I have described this concept of VOC extensively. What you saw is that it consists of three VOC clusters (direct financial, indirect financial, and relational) each with several drivers. Looking at both theory and practice you’ll see that there are single-criterium and multi-criteria VOC segmentations.

Single-criterium segmentations only use one VOC driver. This could be revenue, profitability, or Customer Lifetime Value[282]. An example of such a segmentation is given in Figure 5.3. The customer portfolio is segmented only on customer profitability with the most profitable customers at the left and the least profitable at the right. Customers are segmented in five segments ranging from Platinum (the most valuables) to Tin (the customers the company loses money on)[283]. As indicated earlier, such a segmentation should be based on a set of VOC drivers that truly reflects the value of a customer for the company. In Figure 5.3. the segment names are related to metals. To make the segment names less offending for customers, many companies use more neutral segment names like gemstones, colors, or an ABCD-customer pyramid (see Figure 5.4.) with the A customers as the most valuable. Concerning the number of segments, there are several examples with 4-5 segments. I would say that 3-5 segments are appropriate. With 2, the discriminatory effect between the segments is too limited. More than 5 on the other hand is not practical for a company.

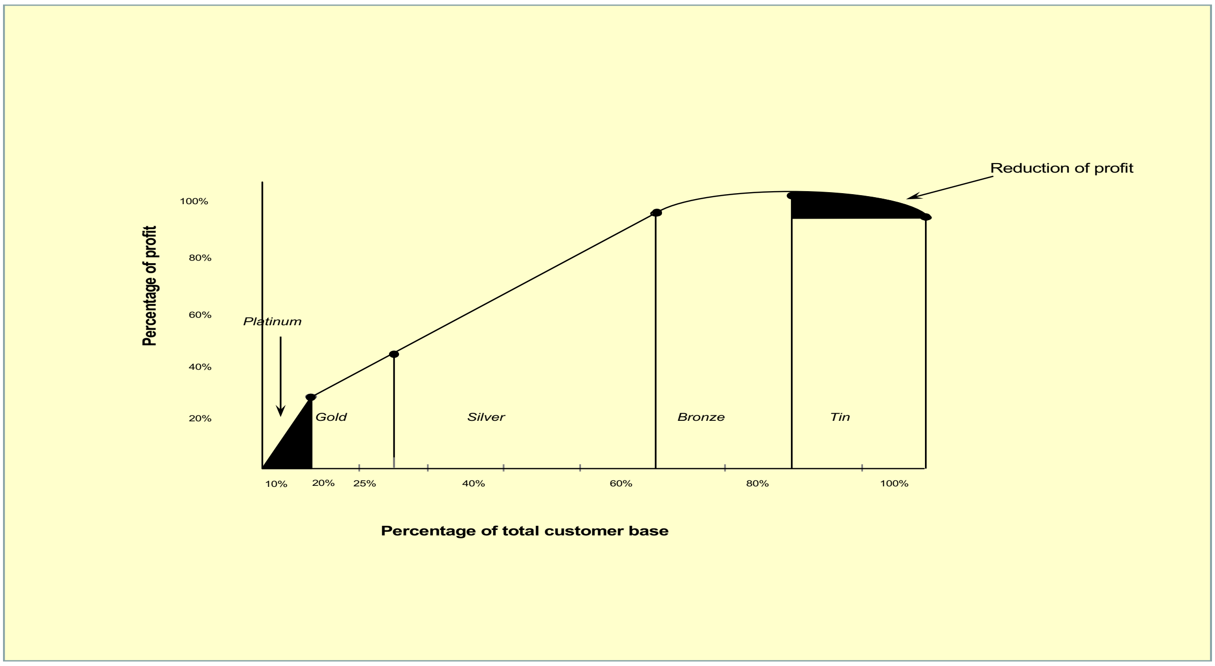


Figure 5.3. Segmenting Customers on Profitability

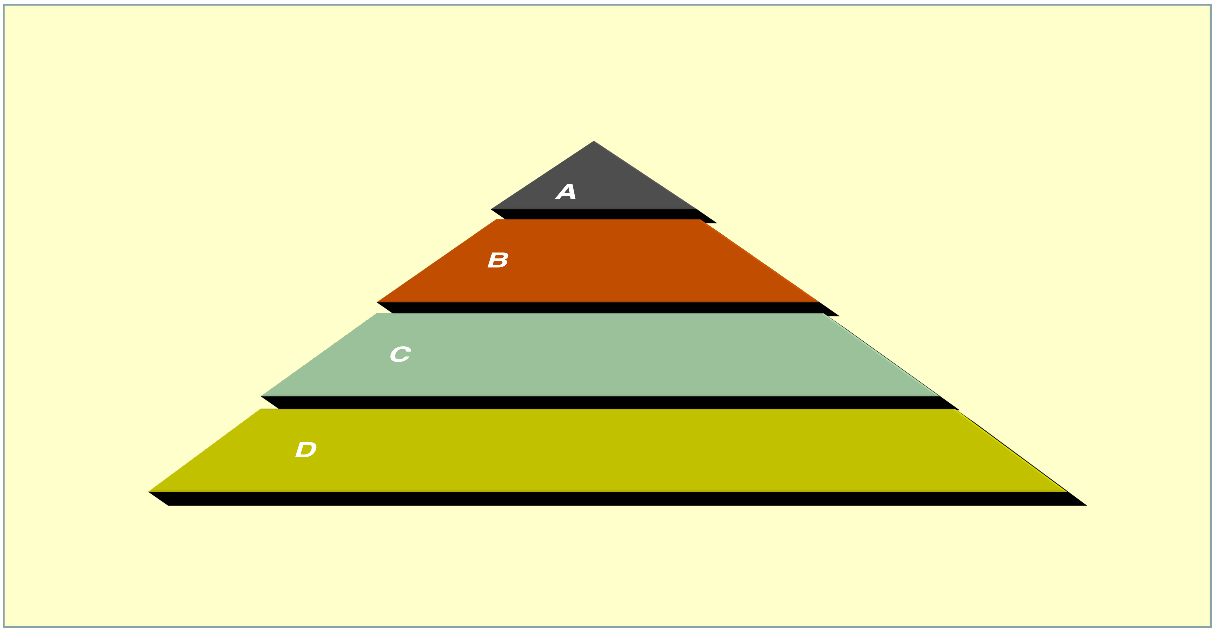


Figure 5.4. An ABCD-Customer Pyramid

Multi-criteria segmentations use several VOC drivers at the same time. In § 3.3., the segmentation of customers, based on length, breadth, and depth (LBD-Model), already has been described. However, many other examples are used in theory and practice. For example, Ritter and Anderson[284] describe a model using customer profitability, customer growth potential and customer commitment as the three criteria (see Figure 5.5.). Based on these criteria, six different customer segments are defined. The Cowboys and Time Bandits are non-profitable customers, the Skeptics and Potentials are profitable customers with growth potential, and the Cherry Pickers and true Loyalists are profitable but without growth potential.

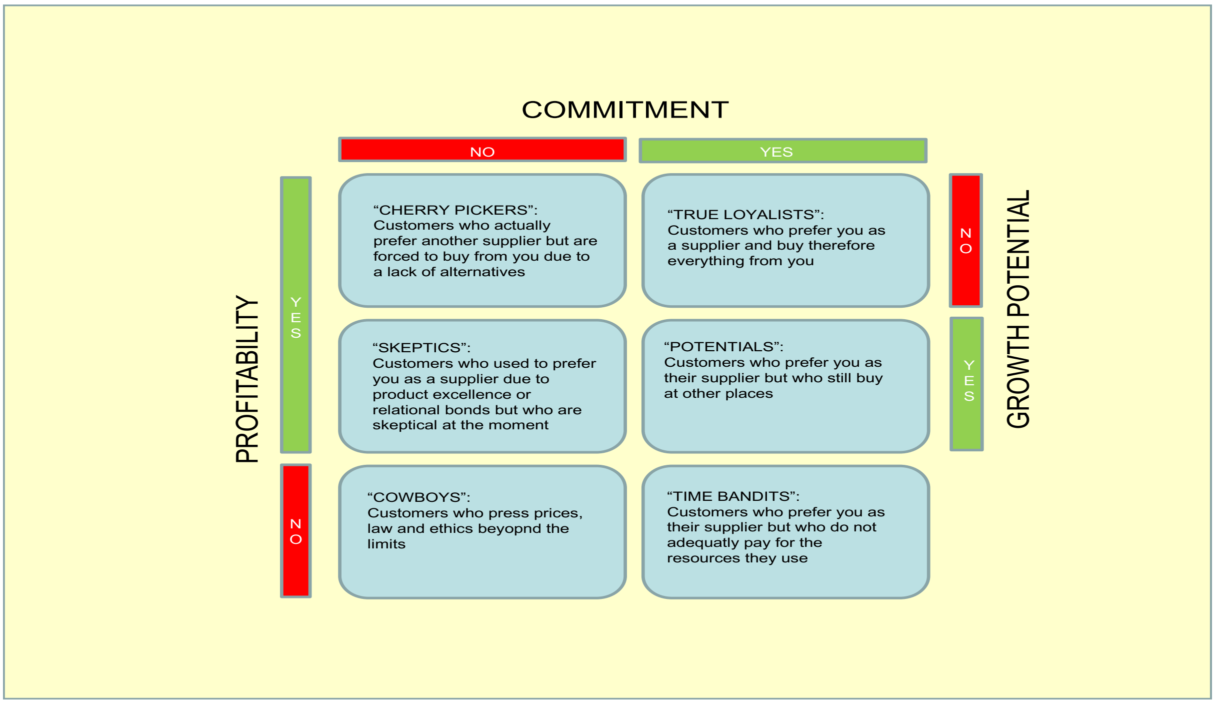


Figure 5.5. Segmenting on Three Criteria

An example of a segmentation where drivers of all three VOC-clusters (direct financial value, indirect financial value, and relational value) are used is given in Figure 5.6. What you see here is that a weighted scoring model is used. The weights per driver vary from 3-9, making certain drivers more important for the final score than others. Furthermore, rubrics are used to score each customer per driver on a 0 to 3 scale. Each customer is ranked against 11 criteria and can get a total score between 0 and 174 points. Depending on the score, the customer is allocated to a specific segment. Of course, developing such a model is not easy and can be different per organization depending on its strategy. It is important to determine why certain drivers should receive higher weights than others, and why these specific cut-off points of the different scores are used. Be aware that this is just an example for a specific situation. Depending on the actual situation, the VOC drivers, their weights, and their rubrics can vary per company.

VOC driver	**Weight**	**Score**			
		0	**1**	**2**	**3**
Maximum revenue potential	9	< $300.000	$300.000 – $600.00	$601.000 – $1.000.000	> $1.000.000
Potential growth in share of wallet	8	no	1-5%	6-10%	>10%
Potential margin	8	<10%	10-15%	16-20%	>20%
Organizational growth	6	decreases	0	Growth	strong growth
Financial strength	5	low, slow payments	Average	High	very high
Playing field	3	region	Country	Europe	global
Customer commitment	5	no customer commitments	only short-term commitment	commitments up to 12 months	long term commitments
Reputation customer	4	bad reputation	no reputation	reputation is good	reputation is excellent
Customer fit	4	acts aggressively	not involved	there is cooperation	intense partnership
Efficiency relationship	3	low, customer is very time consuming	Average	High	very high, customer is self-supporting
Logistics	3	tailor made, very expensive	Complex	Average	standard solutions
Minimum score = 0; maximum score = 174					

Figure 5.6. An Example of a Weighted Scoring Model

In practice, I have used a weighted scoring model, such as the one described above. The model I used focusses on the direct and indirect financial value of a customer. Frequently used VOC drivers in my models are:

1. Revenue: the actual revenue a customer generated in the last 12 months. Source: Bookkeeping.
2. Growth potential: the current share-of-wallet and potential to grow. Source: estimations of Sales/Account Management.
3. Profit: the actual profit (gross or net) a customer contributed during the last 12 months. Source: Bookkeeping.
4. Strategic value: this is an aggregate score of three value drivers: value of the customer as a flagship customer, the indirect sales because of intrinsically motivated positive word-of-mouth and the customer knowledge value (see § 3.4.). Source: estimations of Sales/Account Management.

Revenue	
0-100	0
100-5.000	1
5.001-10.000	2
10.001-25.000	3
25.001-75.000	4
75.001-150.000	5
150.001-300.000	6
300.001-500.000	7
500.001-750.000	8
750.001-1.000.000	9
More than 1 mio	10

Growth potential	
0-100	0
100-5.000	1
5.001-10.000	2
10.001-25.000	3
25.001-75.000	4
75.001-150.000	5
150.001-300.000	6
300.001-500.000	7
500.001-750.000	8
750.001-1.000.000	9
More than 1 mio	10

Profit	
Lower than 0%	0
0,1-1,0	1
1,1-1,5	2
1,6-2,0	3
2,1-5,0	4
5,1-10,0	5
10,1-15,0	6
15,1-20,0	7
20,1-25,0	8
25,1-30,0	9
More than 30,0	10

Strategic Value	
1-10	0
11-20	1
21-30	2
31-40	3
41-50	4
51-60	5
61-70	6
71-80	7
81-90	8
91-100	9
More than 100	10

	Score 0-10	Weigth (in%)	Total
Revenue	631.000 (8)	25	2,00
Growth Potential	100.000 (5)	30	1,50
Profit	7,3% (5)	35	1,75
Strategic Value	46 (4)	10	0,40
			5,65

customer	Revenue (25%)	Growth Potential (30%)	Profit (35%)	Strategic Value (10%)	Weighted score
...					
G	5	2	0	2	2,05
H	3	8	2	1	3,95
I	1	1	2	0	1,25
J	9	1	0	5	3,05
K	8	5	5	4	5,65
L	3	4	4	8	4,15
M	2	2	3	1	2,25
...					

Figure 5.7. Calculating VOC

For each of these four drivers, extensive rubrics are made. Based on these rubrics, a total score per customer is calculated using weights for the four VOC drivers. In this case profit has the highest weight (35%). However, a company that wants to increase its market share extensively could also choose to make revenue the most important driver. Alternatively, a company that enters the market could choose to make strategic value more important. Again, drivers, weights and cut-off points are situationally determined and depending on the organizational strategy.

Based on the total score per customer, a list with all scores is made (see lower part of Figure 5.7.). In this short overview you see that the lowest score is 1,25 and the highest 5,65. Based on these scores, logical cut off points are determined between the various segments. My experience is that you can distinguish several clusters when looking at such a ranking. These clusters could be the basis for determining the cut off points.

Determining the VOC, but also the VFC, is not a one-time action. Customers 'grow' and 'shrink' during the years. It is important to review each customer 1 or 2 times per year and adjust the segmentation. Not doing this could lead to false-positive customers and false-negative customers[285]. False-positive customers are those that have decreased their value for the company and are falsely overvalued. False-negative customers are those that have increased their value for the company and are undervalued at that moment. In B2C the following rules are used[286]:

- ✓ The 20–55 Rule. Of the top 20% best customers, approximately 55% is misclassified (and falsely do not receive special treatment).
- ✓ The 80–15 Rule. Of the bottom 80% customers, 15% is misclassified (and falsely receive a special treatment).

How these rules apply in a B2B setting is unclear, but they are likely to depend on the frequency and quality of analyzing and segmenting each customer.

5.5. Segmenting Customers on VFC

Eventually, VFC is what customers desire, expect, and perceive[287]. A few years ago, I did a customer value and satisfaction research for a mid-sized Dutch accountancy firm. In the individual interviews and focus groups with B2B customers it became clear that the average customer does not exist. Based on their basic needs, three customer desired value segments could be determined. The first were customers that just desired a value consisting of an annual report and no trouble with tax authorities. The second segment were customers that wanted the same as the first segment, but in addition they wanted the accountancy to act as a partner in helping them to make money. The third segment consisted of customers that wanted the added value as described for the other two segments. However, they also wanted their personal accountant to act as a trusted advisor and as the financial conscience for their business as well as their family life, both on a tactical and strategical level (see Figure 5.8.). The desired benefits in terms of basic needs were different for these three value segments. Consequently, they wanted different services and a different type of customer relationship management.

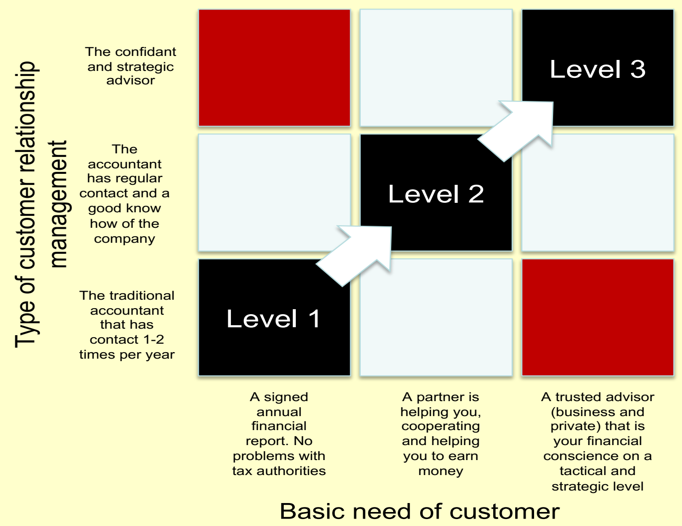


Figure 5.8. Different Types of B2B Customers of an Accountancy Firm

In another project, I did a customer value assessment for a Dutch paper manufacturing company. In 20 in-depth interviews with customers, I determined what the customers' most important VFC benefit and sacrifice related drivers were. Based on the results it became clear that these customers differed in their value desires and expectations (i.e., the benefits they expected from the supplier and the sacrifices they were willing to make). These differences were a direct consequence of the different value-based strategies of those 20 customers in terms of operational excellence, customer intimacy or product leadership[288]. Especially customers with an operational excellence strategy translated this to a kind of 'operational excellence buying'. Three segments could be determined in line with Figure 1.7. and those described by Rackham and de Vincentis[289] (see Figure 5.9.):

- ✓ Transactional exchange customers: they focus on the cost elements of value. They see the product as a commodity: a product which does not differentiate from competition and is substitutable by competitive offerings. All value is intrinsic to the product and price. These customers focus on the transaction. They are typical transactional exchange buyers that mainly buy on product and price characteristics.

- ✓ Value-adding exchange customers: these customers are interested in solutions and added value. They highly value advice, service and a good relationship and are willing to pay for this (within limits). These customers focus less on price; the value of using the product is core.
- ✓ Collaborative exchange customers: these customers want to leverage the suppliers' core competencies for their own businesses through intensive partnerships. They are focused on the relationship and are prepared to make radical changes in their organization to get the most value from the relationship with the supplier as a partner. These customers focus on the total cost of ownership (Value-In-Use) and not only on price (Value-in-Exchange).

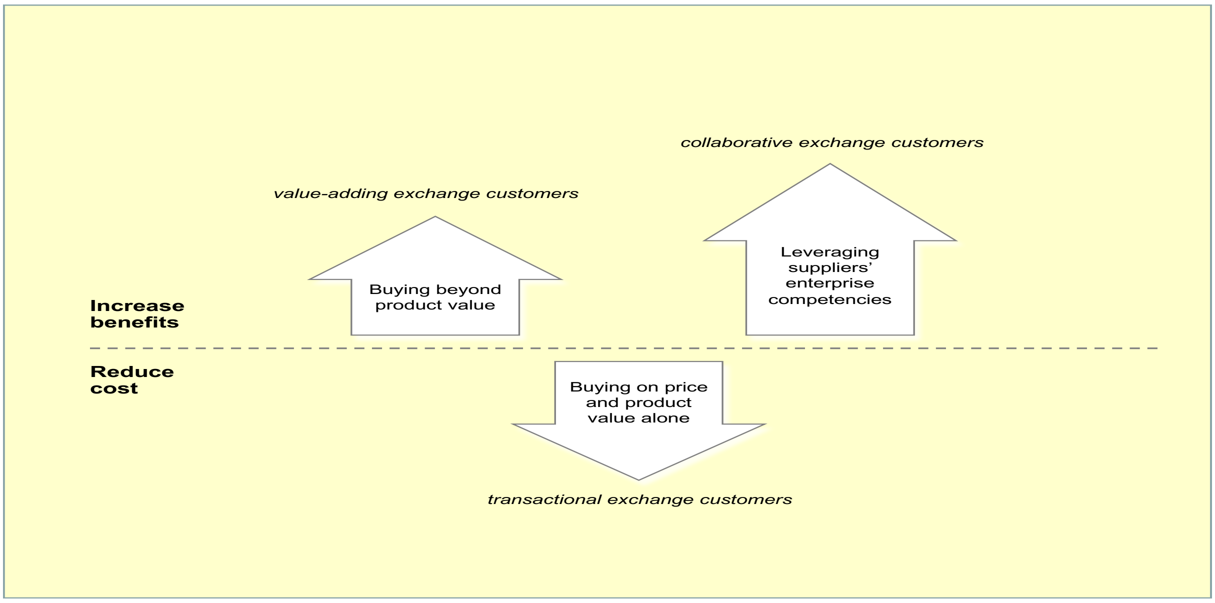


Figure 5.9. Value Creation Strategies

To sum it up: while transactional exchange customers focus on the value of the transaction, value-adding exchange customers assess the offering beyond the product value, and collaborative exchange customers focus dominantly on the value of the relationship. As such, the experiences I had have many similarities with customer segmentations in literature, like that of Day[290] (see Figure 1.7.) and Axelsson and Wynstra[291] (see Figure 5.10.). These last scholars have described the differences between transaction-oriented versus relation-oriented purchasing behavior. In Figure 5.10., the main differences are presented.

Transaction-oriented approach	Relation-oriented approach
Many alternatives are considered	One or few alternatives are considered
Every deal is a new business, and no-one should benefit from past performances	A deal is part of a relationship, and the relationship is part of a network context
Exploit the potential of competition	Exploit the potential of co-operation
Short-term, arm's length distance, and avoid coming too close	Long-term with tough demands and joint development
Renewal and effectiveness by change of partner, and choose the most efficient partner at any time	Renewal and effectiveness by collaboration and team effects, and combine resources and knowledge
Buying products: price-orientation, strong in achieving favorable prices in well-specified products	Buying capabilities: cost- and value orientation, strong in achieving low total cost of supply and developing new value

Figure 5.10. Transaction-oriented versus Relation-oriented Approach

In practice, companies may have several of the aforementioned customer segments. For example, Baxter (a hospital) has divided its business customers into transactional customers that do business on an order-by-order basis and the strategic customers that commit themselves in contracts to building a broad, long-term relationship with Baxter[292].

5.6. VOC-VFC Segmentation

At the basis of managing customer value lays the segmentation of the customer portfolio on two independent variables: VOC and VFC[293]. In § 5.4. I have presented examples of VOC-segmentation, followed by examples of VFC-segmentation in § 5.5. The essence of CVM is combining the two. This is a:

- ✓ single-stage macro segmentation (see § 5.3.);
- ✓ with two independent criteria as the segmentation base (see § 5.3.);
- ✓ and a post-hoc analysis where segments are discovered and defined afterwards through data analysis[294]. It's not an a-priori segmentation where relevant criteria and segments are defined before data is collected.

Depending on the situation and choices of the organization, a segmentation is used for VFC such as transactional exchange, value-adding exchange, and collaborative exchange customers. However, there are many alternatives. For example, for VOC a segmentation like ABCD, a metal type or an alternative is also used. Each customer is graded on VOC and VFC as two independent variables and allocated into a segmentation cell. Eventually, an overview appears of the number of customers per cell. Since it is not manageable to work with for example 12 segments, cells are clustered into new and fewer segments.

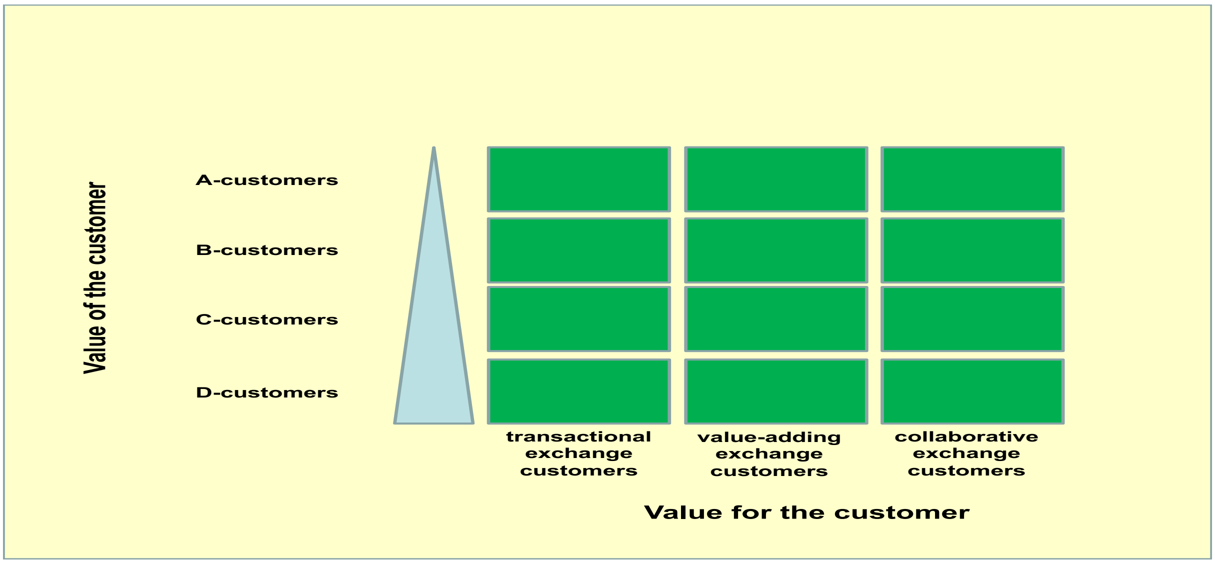


Figure 5.11. Combined VOC-VFC Segmentation (example)

There are many alternatives to segment customers. In Figure 5.11. I have given an example. Concerning VOC-VFC segmentation in general, and specific for this example there are some relevant issues:

- ✓ There could be cells that are empty because no customers are allocated to them.
- ✓ Often people think that transactional exchange customers are automatically D-customers and strategic value customers are always A-customers. In general, one could say that there is a positive relationship between VOC and VFC. But this is not necessarily always the case. I have seen many situations where a part of the transactional exchange customers is a B or even an A customer. Also, some of the collaborative exchange customers can be C or even D customers.
- ✓ It is important to use 3-5 segments to have sufficient discriminatory power between the segments.
- ✓ When possible, do not combine transactional and value-adding/collaborative exchange customers in one segment. Their needs and expectations are so different that they should be treated differently.
- ✓ Make sure both VOC and VFC are used. Companies often have the tendency to only use VOC.

This segmentation is the basis for developing CVPs per segment. In the next chapter I describe this more in detail. There are, however, some basic guidelines (also see Figure 5.12.):

1. Transactional exchange customers only want to pay for the good/service, not for additional features like account management and customer relationship marketing. This means that they should be given efficient 'economy' CVPs at a low price. To keep the costs low, they are offered standard packages.
2. Value-adding exchange customers will pay a premium for seamless service and a good relationship, but only to a certain extent. These customers could be given a kind of 'middle of the road' CVPs based on mass customization. This means that customers can choose between given alternatives. Of course, this should be in line with their VOC.
3. Collaborative customers in the A/B segments want intensive cooperation and partnerships. With these customers, tailormade agreements are made concerning the CVPs.

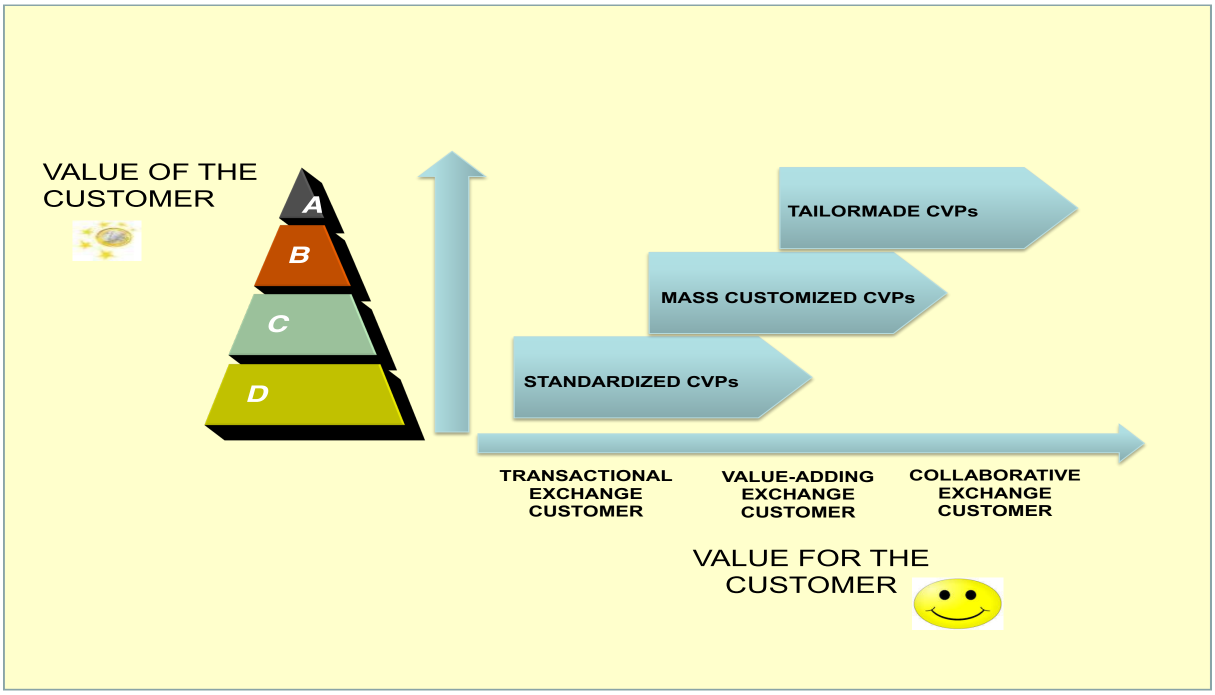


Figure 5.12. Various CVPs

As an example, I have included a customer portfolio of a paper manufacturer, with paper retailers and cleaning companies as customers. I have translated this concept into four different segments (see Figure 5.13.):

- ✓ Segment 1: the BCD-transactional exchange customers. There were no A-transactional exchange customers. These customers get a very efficient and standard CVP at a low price to make them profitable. Since the B-customers represent an important value, there are some customer service and customer relationship management activities for these customers that are not included in the price asked.
- ✓ Segment 2: the CD-value-adding exchange customers. They get a standard CVP with a customer service and relationship management package that is included in the price.
- ✓ Segment 3: the B-value-adding exchange customers. There is a CVP with customer service and relationship management packages that are based on mass customization. There are several options where these customers can choose from, the customer can only choose from the given options.
- ✓ Segment 4: the A-value-adding exchange customers and the AB-collaborative exchange customers. For these customers there are tailormade CVP based on individual customer desires. For these customers there is an 'n=1' policy based on one-to-one marketing[295]. Each customer is seen as a segment and individual partnership agreements are made.

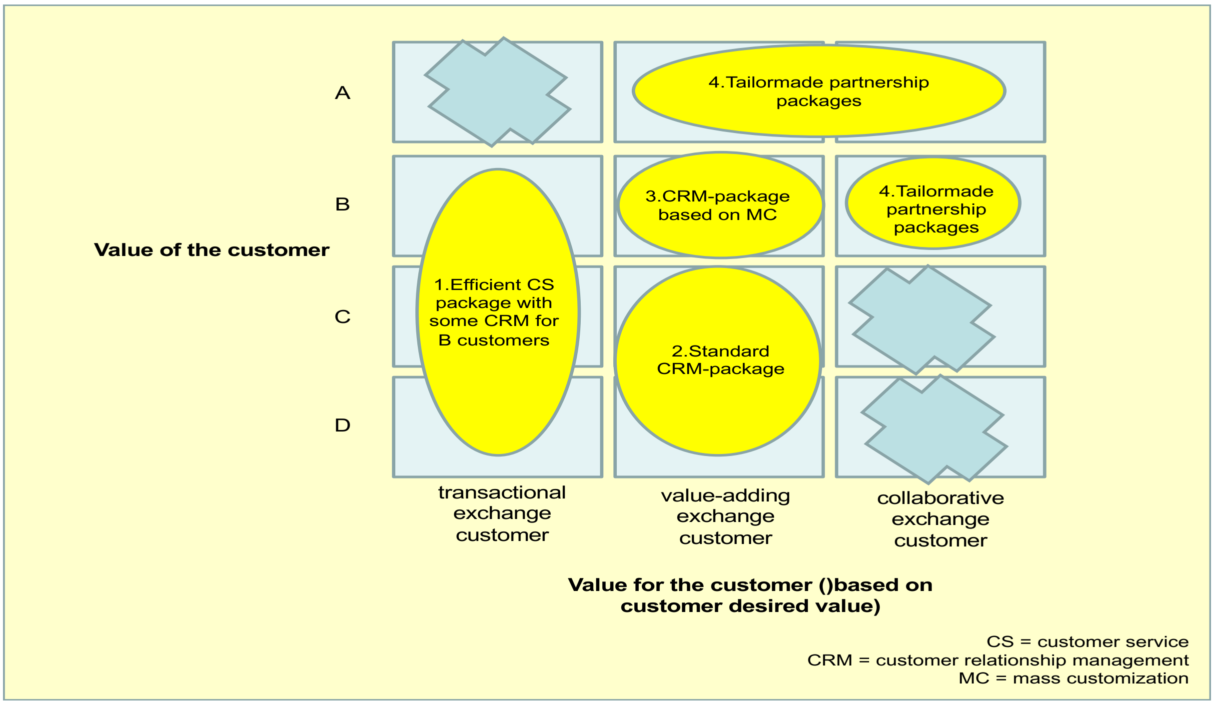


Figure 5.13. Segmentation of a Customer Portfolio

In Figure 5.13. you see three blue crosses. These are the empty cells, there are no customers in these cells. It is also possible that there are so few customers in these cells that the company decides them to transfer them to another cell and segment.

5.7. Summary

In this chapter I have given some insights in how to segment a customer portfolio on the combination of VOC and VFC. Various examples used in business practice are presented. Here I give a short summary of this chapter.

(1) What is customer segmentation

Customer segmentation is dividing the market or a customer portfolio into smaller groups with present or potential customers with common characteristics that can be effectively targeted in the same manner with strategic and operational marketing programs.

(2) How to segment customers on VOC?

There are various methods to segment a customer portfolio, these can be divided into single-criterium and multi-criteria segmentations. In the first only one criterium (like revenue or profitability) is used, in the latter two or more criteria are used. In that case also weights can be used for the various criteria. Often used methods are based on rubrics per criterium.

(3) How to segment customers on VFC?

There are many different methods. In this chapter I presented some examples, but in practice there are many more. In the case of VFC distinct segments are used with distinct customers' expectations. No rubrics nor weights are generally used.

(4) How to make a combined VOC-VFC segmentation?

A combined VOC-VFC segmentation is established by using both criteria as independent variables. In general, you'll see that there is a positive relationship between VOC and VFC, but that is not always the case. Based on the combination, 3-5 customer segments are conceived, each with their own VOC-VFC profile asking for a distinct CVP.

SECTION III

TARGETING, POSITIONING AND DESIGNING VALUE

Chapter 6. Designing Superior Customer Value Propositions

6.1. Introduction

In the previous chapter I have explained how to segment customers using the combination of VFC and VOC. This results in several segments varying from segments with a low to a high value for the company. In Figure 5.13. I have given an example of such a customer portfolio with four different segments. Customers can be seen as manageable strategic assets[296]. So, the next step is to decide on what segments to focus, and on what not. It can even be the case that for certain segments there is no business future because the value exchange is not sufficiently positive for the supplier. Remember that the essence of CVM is to deliver superior value and get an equitable return for it[297]. When that's not the case for certain segments, relationship termination could be the consequence. For the selected segments the next step is to determine the position of the company and to design superior CVPs for these selected segments. Depending on the customer segment, these CVPs can range from very lean and standard to tailormade and elaborate.

Kumar[298] states: "because it is the firm's decision makers who allocate resources to markets, customers, and products, the challenge for firms is to dynamically align resources spent on customers and products to simultaneously generate both value to customers and value from customers". Serving all customers in a similar fashion as 'the average customer' is a tremendous mistake B2B companies often make. Individual customer or customer segment profitability can have a moderating effect on the value-profitability relationship[299]. Therefore, it is important to offer different CVPs to different segments. High VOC-customers should be offered other propositions than low VOC-customers. Make sure that these high-value customers do not subsidize the low-value customers and make sure they are not underserved[300]. The main questions answered in this chapter are:

1. How to target and position customer segments?
2. What to do with customers with a too low VOC?
3. What is a CVP?
4. What are the elements of a CVP?
5. What is a superior CVP?
6. How to differentiate in CVPs?

6.2. Targeting and Positioning Customer Segments

Let me start this paragraph with a practical example that I have encountered. There was a big wholesale company trading electrical motors for machines. They had a large customer portfolio and a lot of sales, but ultimately the shareholders were not very satisfied because the profits were too low. The company had one CVP, which consisted of offering a lot of service to all customers. However, a profitability analysis of the customer portfolio showed that half of the customers received a lot of discounts, which were the aggressive bargain hunters (see Figure 3.12.). These customers received high service but did not pay for it because of the discounts. Based on this analysis the management decided to target both customer segments and establish a second company with a new, efficient, and low-cost value CVP for these customers, which consisted of approximately 50% of the 'original' customer base. Eventually, there were two companies with different customer segments and CVPs leading to increasing profits.

Targeting: the first step after a customer segmentation as described in the previous chapter is targeting; to decide on what customers to target. Since the resources of many companies are not unlimited, they must make choices. What are the segments the company:

- ✓ Wants to focus on; the 'must haves'.
- ✓ Wants to serve but with less focus; the 'nice to haves'.
- ✓ Does not want to serve; the 'must not haves'.

Too many B2B companies that are revenue driven want to have as much customers as possible. But as you have seen before, a part of the customer portfolio can have a huge negative impact on profitability. Selective demarketing is the answer to this (see § 6.3.).

One of the most fundamental marketing decisions to make as a company, is whether it chooses to have one positioning and one CVP or different ones depending on the segment and whether they are organized within one or more companies. The three approaches are:

- ✓ *Focus*: a company can choose to offer one positioning and CVP to only one selected VOC/VFC-segment and to make sure that it is superior to alternative offerings. In the case of choosing for the standard-economy proposition it means that the company focusses on cost-leadership; in the case of tailored-luxury on value-enhancement. The advantage is that there is a clear focus inside the company. The most important disadvantage is that a certain share of the customers will leave because of a CVP that doesn't match with their desired value.
- ✓ *Differentiation*: a company chooses as one company, to offer several different positionings and CVPs to different VOC/VFC-segments. The disadvantage is that employees must deal with various propositions, the advantage is that all customers can be served.
- ✓ *Segregation*: this is differentiation but, in this case, different companies/organizational entities offer various positionings and CVPs. The advantage is that each entity has its own focus and customers remain, but the disadvantage is that the economy-of-scale effects will be less.

Which approach is best is determined by several factors like the market and the organizational capabilities. However, I think that 'differentiation' could be a suitable approach for many companies.

Positioning: for the customer segments the company wants to serve, it's important to determine the positioning. This is "the act of designing the company's offering and image to occupy a distinct place in the targeted segment's mind"[301]. Per selected segment the company decides on the position in the market, relative to competition. This positioning can be done in two steps.

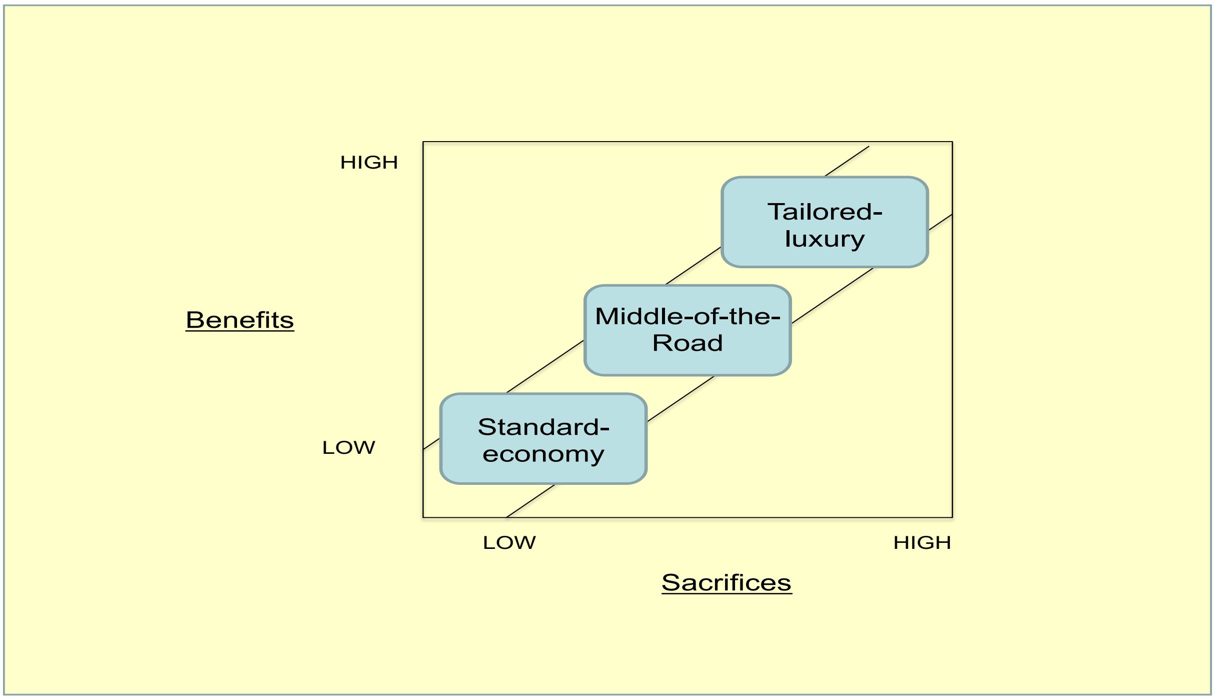


Figure 6.1. Various Value Positionings

Step 1. Basic positioning

Basically, there are three different basic positions (see Figure 6.1.; this has many similarities with Figure 7.2.). In the case of a 'standard-economy' position, the B2B customer pays a relatively low price and gets the products with low customer service and low customer relationship management levels. This is a positioning for transactional exchange customers that fulfills their need of low prices. Since the cost of offering for the supplier are low and there are only standard routines, there is a possibility for the supplier to serve this specific segment profitably. On the other side of the continuum, there is the ‘tailored-luxury’ positioning. Here, customers get a high level of benefits for the many sacrifices they make. Finally, a ‘middle-of-the road’ positioning is in the middle of the two others. Note that sometimes ‘standard-economy’ is described as low value and ‘tailored-luxury’ as high value. However, this notion is incorrect: ‘standard-economy’ can also deliver a high value for both exchange partners as long as the costs for the supplier are low.

Step 2. Detailed positioning

The detailed positioning is about making hard choices about what e.g., product to offer, what the service and relationship management is, the pricing and how to reduce risks for customers. Within the basic position, detailed choices are made about wat the supplier its customers want to offer, but also what not.

6.3. Selective Demarketing

What should suppliers do with the customer segments with a too-low VOC? Zeithaml and Bitner[302] state: “the assumption that all customers are good customers is also very compatible with the belief that ‘the customer is always right’ an almost sacrosanct tenet of business in the 1990s. Yet any service worker can tell you that this statement isn’t always true, and in some cases, it may be preferrable for the firm and the customer to not continue their relationship”. When segmenting a portfolio, it could be the case that up to 30% of the company’s customers has a negative contribution margin[303]. Gupta and Zeithaml[304] state that the variability is even more than the 80-20 rule; 80% of the profits is realized by 20% of the customers. They describe the 220-20 rule; 220% of the profits is realized by 20% of the customers. This implies that there is a share of the customer portfolio that has a negative effect on companies’ profits of 120%.

Additionally, going further than contribution margin and looking at all relevant VOC clusters and drivers (see Figure 3.1.), a substantial part of the customer base could have a negative value for the company. They “destroy value by misusing or misunderstanding how to integrate their operant (organizational) resources with those of the company”[305], or just because they do not have the potential to be sufficiently valuable. The first step would be changing the CVP by lowering the cost of serving these customers or increase prices. The aim of this is to make the customer sufficiently valuable again. If this does not work however, more drastic measures are necessary. In this case companies reduce the demand or even end the relationship of these customers. This is called ‘selective demarketing’ leading to relationship dissolution, termination, or exit[306]. If this is the case, it is important that this dissolution is done with respect for the customer, or as it is called ‘WOW them out’. Consequently, exiting customers may stay apostles.

6.4. Designing CVPs

For the customer segments the company wants to serve, and within their positioning CVPs are designed. Let me start with some history on this topic. The term ‘value proposition’ has been used since the 1988 publication of the internally circulated McKinsey Staff Paper written by Lanning and Michaels[307]. Since then, it has received a lot of attention both in business and academic worlds. It is said that it “should be the firm’s single most important organizing principle”[308]. In Figure 6.2. I have given nine definitions of CVPs. As you can see in the variety of definitions, there is no common and generally accepted definition of a CVP, which has also been concluded by various scholars[309]. The definition depends on the VFC-concept (see Chapter 4) and the product offered (see Chapter 7). In the context of CVM, I have formulated the definition of a CVP as follows:

> *What the supplier offers in terms of a combination of benefits and sacrifices bundles to a specific customer segment to fulfill customers’ desired value (VFC), adjusted by the value of these*

customers (VOC). A CVP can be supplier-created but also based on co-creation of the exchange partners and can be explicitly or implicitly communicated.

"A statement of how the firm proposes to deliver superior value to customers and to differentiate itself from competitors" (Webster, 1994, p. 60).

*"The entire set of resulting experiences … including some price, that an organization causes some customers to have. Customers may perceive the combination of experiences to be in net superior, equal, or inferior to alternatives" (*Lanning 1998, p. 55).

"Particular proposals to and from suppliers and customers seeking equitable exchanges of value" (Ballantyne and Varey, 2006, p. 344-345)

"An encapsulation of a strategic management decision on what the company believes its customers value the most and what it is able to deliver in a way that gives it competitive advantage" (Rintamäki et al., 2007, p. 624).

"A dynamic and adjusting mechanism for negotiating how resources are shared within a service ecosystem" (Frow et al., 2014, p. 340).

"An organization's offering to customers, representing a promise of benefits of value that customers will receive during and after the usage experience. It identifies both product and experiential benefits and costs (or sacrifices) that result from the relationship between customer and organization. A superior value proposition represents an offering to customers that adds more value or solves a problem better than other similar competitive offerings"' (Payne and Frow, 2014, p. 240).

"An implicit promise a company makes to its customers to deliver a particular combination of values" (Bititci et al. 2004, p. 4; Payne et al., 2017).

"A strategic tool facilitating communication of an organization's ability to share resources and offer a superior value package to targeted customers" (Payne et al., 2017, p. 472).

"The value proposition not only communicates value but is also a means of creating a dialogue that determines a unique customer solution" (Eggert et al., 2018, p. 88).

Figure 6.2. Definitions of CVPs

This is a definition from the supplier's perspective. But there is also the customer's perspective, the customers' experienced version of a CVP (see § 2.5.). This perceived CVP can be different from the actual proposition offered. Before going deeper into the content of CVPs, it is important to first discuss two relevant issues concerning CVPs:

1. They are much broader than only a communication tool and be supplier-determined or based on co-creation by the exchange partners.
2. They can be explicit or implicit (see also Chapter 13).

(1) Broader than a communication tool and supplier-determined or based on co-creation

Several of the definitions presented in Figure 6.2.[310] give the impression that a CVP is solely a communication tool. However, it is much broader than that. A CVP supports value co-creation and is seen as one of the key foundational premises of service dominant logic (see § 2.3.). In Figure 6.3. I have presented this evolution of approaches using four phases[311].

- ✓ <u>Supplier determined</u>: the CVP is based on the Value-In-Exchange concept (see § 4.4.) and is inside-out developed using a goods dominant.
- ✓ <u>Transitional</u>: the CVP is in a transitional phase towards Value-In-Use.
- ✓ <u>Mutually determined</u>: the CVP is based on the Value-In-Use concept (see § 4.4.) and is outside-in developed using service dominant logic.

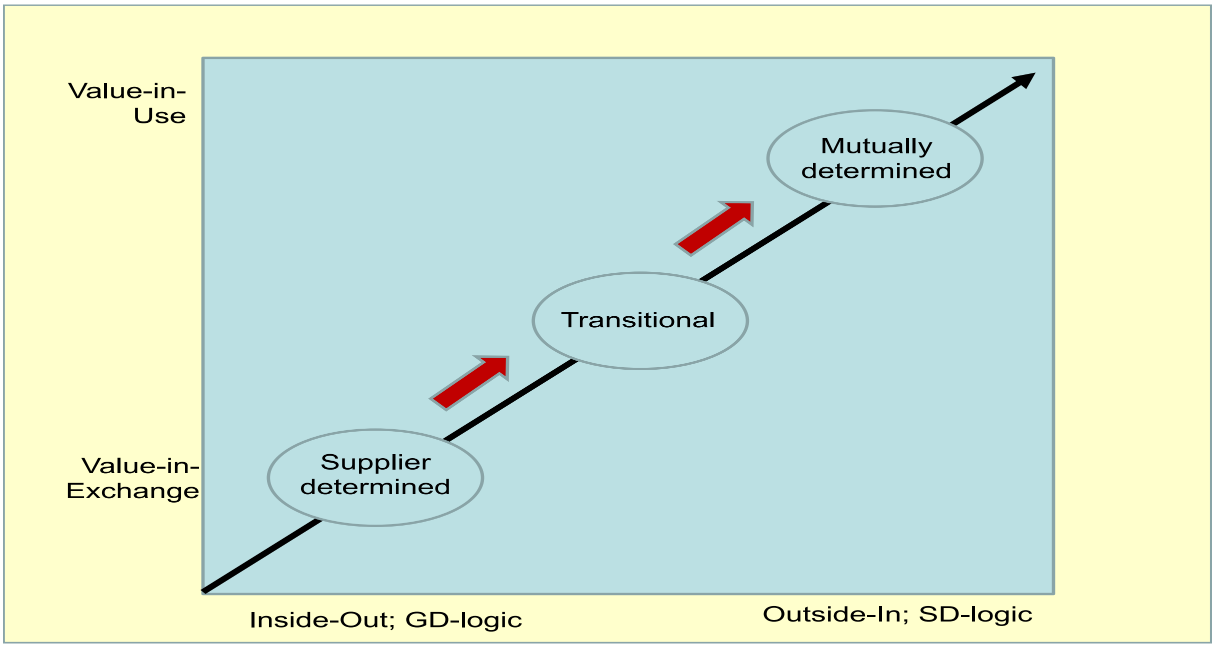


Figure 6.3. From Inside-Out to Outside-In Development of CVPs

I think that this academic approach makes sense. However, in various papers[312] it looks like the value-based approach is inferior to the co-creation-based approach. However, I want to put some question marks and nuances to this theoretical discussion. Because of various types of customers and their value for the supplier, in practice a company could use different levels of co-creation for developing different CVPs for the customer segments. I could imagine that the intensity of co-creation for transactional exchange customers with a low value is less than that of collaborative exchange customers with a high value for the supplier. So, depending on the type of customer and value exchange, the value of the customer (VOC) and the content of a CVP there can be a difference in the way a CVP is developed.

(2) Explicit or implicit
"While many firms espouse a CVP, far fewer firms explicitly articulate a CVP and communicate it externally or even internally"[313]. Communicating a CVP can be done implicitly without really communicating it to customers (see for example the definition of Bititci et al.[314]). In this case the customer gets indirect information about the CVP through quality levels, prices, and other indirect clues. In other cases, a supplier chooses to make its CVP explicit in a CVP statement and communicate it to (potential) customers. In § 13.3. I have described this in more detail.

6.5. The 2-Bundles CVP Framework
In the previous paragraph I have discussed two aspects of CVPs. As indicated in the first one, a CVP is not only about communicating value, but also about choosing and delivering value. Except for the 'old fashioned' product based CVPs, it is normally much broader propositions also involving aspects like brand, service, total solutions, relationship management, sustainability, and aspects of total cost of ownership and risk.

During the years as a consultant, I had many interviews with my B2B customers' customers. Using various methods (like the Q-Methodology) I tried to understand what customers value. Based on the answers of many interviews I concluded that a CVP consists of a bundle of benefits for the customer with four elements, and a bundle of sacrifices for the customer with two elements. In Figure 6.4. I have given a graphical representation of this 2-Bundles CVP Framework. As with every model, this is a simplification of reality. Furthermore, depending on various factors like the value concept (Value-In-Exchange, Value-In-Use) and the type of products offered (goods, services, goods-services bundles, total solutions) the content of the elements will differ. Finally, why are the benefits heavier than the sacrifices? Right, because that should be the customer experience: there are more benefits than sacrifices.

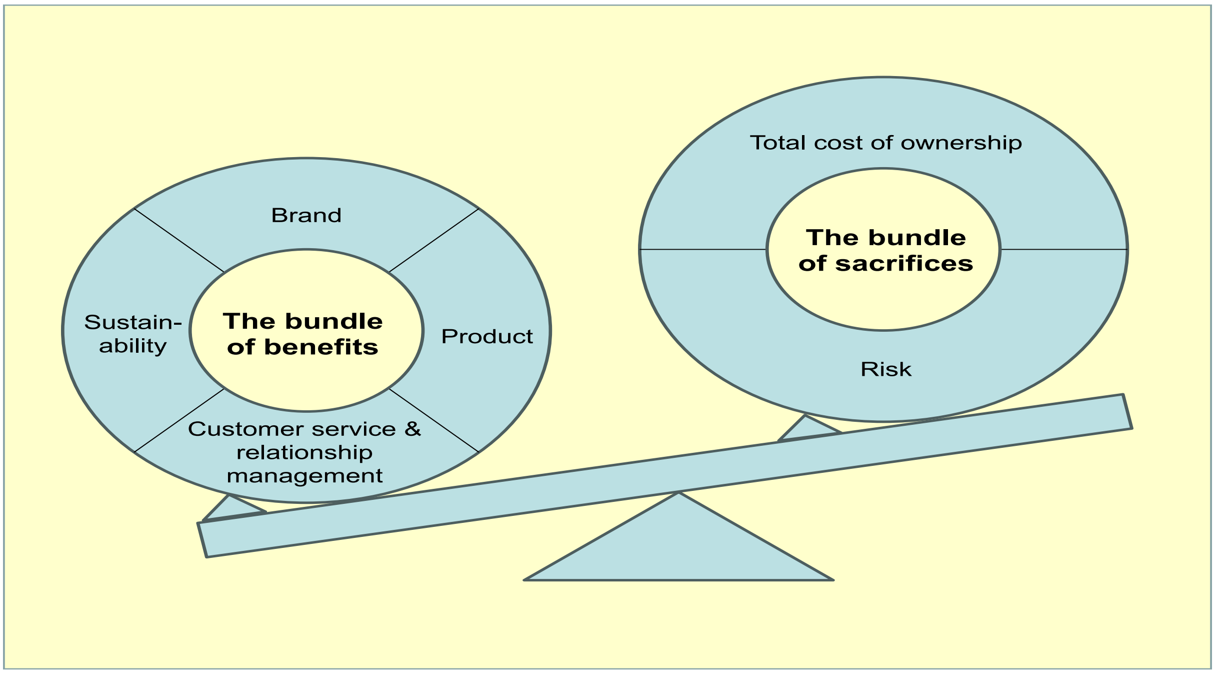


Figure 6.4. The 2-Bundles CVP Framework

The benefits in the 'bundle of benefits' consist of four elements:

- ✓ Brand: this is 'what' the customer experiences in terms of the company's brand. It's not tangible, but it gives the customer a certain feeling and added value. Doing business with a strong brand, a reputable organization has a certain value for the customer: brand equity (see Chapter 7).
- ✓ Product: this is 'what' the customer gets in terms of tangible goods and/or intangible services. In B2B this can be a container of raw materials, but also a total solution for a customer's problem. This could be seen as the core of the value exchange and is input for the company's production process, or for end-use. Companies in mature and commoditized markets are reinventing value to stay ahead of competition[315]. They are adding value by developing and offering goods-services bundles (servitization) or total solutions instead of only goods or services (see Chapter 8). Eventually, by delivering in a consistent way, these value CVPs lead to a superior customer perceived value.
- ✓ Customer service and relationship management: this is the 'how' of the value exchange relationship. It consists of product related customer service episodes like ordering, logistics, complaints, information and personal contacts between the customer and its supplier. But it also consists of customer relationship related episodes independent of specific transactions and processes and considers the whole relationship. It is about how customer centric the organization and its employees are. How does the company solve complaints, what is the relationship with employees, what is the quality of logistics, and how effortless are processes. However, it is also about how good the customer relationship management is organized. Do customers have an account manager, and how active is the cooperation in co-creation? This element is discussed in Chapter 9.
- ✓ Sustainability: this is the level of sustainability of the supplier's organization and products. Sustainability is not only the impact it has on scarce resources and nature. From a stakeholder theory perspective, it also focusses on customers/suppliers, employees, the direct environment, government, and shareholders. For a discussion on this element, see Chapter 10.

A differentiation can be made between core benefits and add-on benefits[316]. Core benefits are "the degree to which the supplier offers a set of minimum value drivers required by a B2B customer. Core benefits are said to be the basic features required and viewed as a 'must' for a relationship to exist. In B2B markets these might include specific product quality and pre- or post-sales service. These core requirements for a relationship must be met completely by the supplier to be in the consideration set of the customer”[317]. These core benefits are a kind of license to operate and can be seen as dissatisfiers (see § 17.4.). Add-on benefits are those value drivers, typically not required, that assist the customer in selecting a supplier from among a qualified set of potential suppliers. Add-on benefits can be viewed as ‘thrill-factors’ that differentiate the suppliers. These imply going beyond the basic denominator provided by all qualified suppliers and identifying drivers that create added value”[318].

Furthermore, in many CVP-related papers, it looks like it is only about the benefits and customers’ experiences with customer service. The sacrifices seem to be forgotten and non-existent. However, VFC-literature[319] indicates that value is a trade of between benefits and sacrifices. Therefore, sacrifices are an important bundle of a CVP. Lapierre[320] indicates: “customer sacrifices are the overall monetary and non-monetary costs the customer invests or gives to the supplier to complete a transaction or to maintain a relationship with a supplier. Non-monetary costs can be defined as the time/effort/energy and conflict invested by the customer to obtain the products or services or to establish a relationship with a supplier. Non-monetary costs are important, since many customers count time rather than Dollar cost as their most precious asset". Further, Lam et al.[321] state that the sacrifice for a customer is “the sum of costs (transaction costs, life cycle costs), and some degree of risk”[322]. Therefore, ‘the bundle of sacrifices’ consists of:
- ✓ Total cost of ownership (TCO): what is the cost for the customer? This for example in terms of the price and cost for acquiring the products and operational costs. TCO is discussed in Chapter 11.
- ✓ Risk(reduction): what is the risk for a customer doing business with the company and how does the company reduce this perceived risk by better operations, using contracts, service level agreements or other means? Risk is discussed in Chapter 12.

6.6. Superior CVPs

What makes a CVP superior? Various definitions as presented in Figure 6.2. indicate that a CVP should be superior to that of competitors. For example, Payne and Frow[323] state: “a superior CVP represents an offering to customers that adds more value or solves a problem better than other similar competitive offerings”. Thus, a CVP must be different from that of competitors. The afore mentioned statements are echoed by Mishra et al.[324] who argue: “at the heart of all these propositions is the philosophy that in order for a firm to excel in its chosen market, it needs to promise the customer something that is different, in a way that they value and would be prepared to pay for”. So, whether a CVP is superior is determined by the combination of:
- ✓ The customer experience with the brand.
- ✓ The customer experience with the goods and/or services.
- ✓ The customer experience with the customer service and relationship management.
- ✓ The customer experience with the sustainability of the supplier and its products.
- ✓ The customer experience with the total cost of ownership.
- ✓ The customer experience with the risk and how the supplier tries to reduce it.

The objective is to identify opportunities and develop CVPs with a more superior VFC, as perceived by customers, than that from the competition[325], and do so profitably[326]. Eventually, it is all about what CVPs the company offers to its customers. By offering a superior CVP and outperforming competition in the eyes of the customers, the company is highly competitive. This means:
1. Optimizing the benefits for the customer (what the customer gets). This can be the brand, tangible/intangible products, the way they are delivered, the customer service and customer relationship management, and of course the sustainability, but also positive social and emotional factors influencing members of the customer’s buying center.
2. Reducing the sacrifices for the customer in terms of total cost of ownership and perceived risk on a company and buying center member level.
3. Making sure that the customer’s comparison of benefits versus sacrifices is better than that of competitors.

4. Making sure that the organization earns with this CVP enough money to be sustainably profitable and contribute to shareholders' value.

A CVP is only superior when both customers and shareholders perceive it to be superior.

Finally, I want to elaborate on tools to map value as a basis for CVPs. Whereas Kambil et al.[327] have described value maps, Osterwalder et al.[328] introduced the CVP canvas. This canvas is a framework with an "integrated design approach to a CVP"[329]. Such a canvas consists of a customer profile and a value map.

6.7. Differentiating in CVPs

Basically, there are two different approaches to differentiate in CVPs. These are:

✓ Different propositions for different VFC segments
✓ Different propositions for different VOC segments

As already mentioned, for me the ultimate way is to use a combination of both. But to make things concrete let me here focus on the two different ways of differentiation.

VFC-differentiation in CVPs focusses on the differences in customer desired value. Different segments have different needs, to address these in a superior way different propositions are designed. Christopher and Gattorna[330] (see Figure 6.5.) give an interesting example. They describe four different supply chain types, with different VFC-based customer segment types. Each type has its own needs/demands concerning elements like logistics, innovation, customer service, customer relationship management, total cost of ownership/price and risk. Based on these the supplier develops different CVPs that contribute to the success of both the customer and supplier.

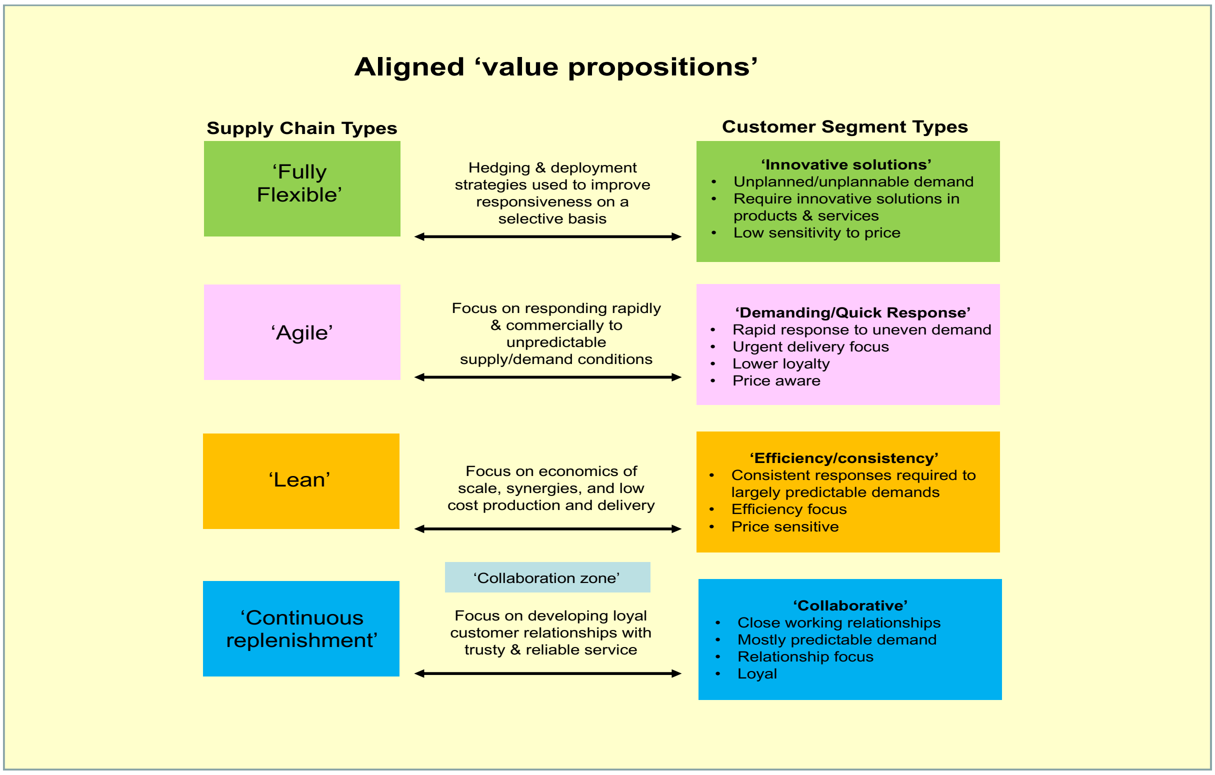


Figure 6.5. Different CVPs and Strategies Require Different Supply Chain Solutions

VOC-differentiation: let's start with an example. Doyle[331] describes the customer segmentation of the Swedish company 'Salo Polymers'. The segmentation criteria are the size of the account, the expected future developments, and the type of business relationship. Based on these criteria, there are three customer segments with their own CVPs:

- ✓ Segment 1: Partnership. The customer agrees to buy at least 80% of its requirements at Salo. In return, these partners get a high service level. Examples are: three weeks consignment stock so the customer is always ensured of delivery, order handling within a day, no necessity for the customer to have stock, a dedicated account manager, free laboratory, and technical services.
- ✓ Segment 2: Base load. No consignment stocks, billed laboratory and technical services, order handling within three working days.
- ✓ Segment 3: Swing. Irregular customers that normally buy from competitors. The CVP is limited to delivery, all additional services are billed. There is a delivery only after a bank guarantee is given.

in some industrial B2B markets the number of suppliers is limited. So, suppliers can become highly selective with respect to with what customers to do business with and how much to invest in these customers[332]. Some customers are more attractive than other customers. So, suppliers can upgrade customers with whom they are very satisfied with to a preferred status and give a regular status to the remaining customers that provide adequate satisfaction. As a result, suppliers differentiate in the way they cooperate with customers. Examples are new product development and prioritization in case of product shortages.

Based on the segmentation, companies deliver different CVPs. The higher the attractiveness of a segment or customer, the 'better' the CVP is. Or as Homburg et al.[333] state: "it seems to be common sense that to increase profits, firms should prioritize customers (i.e., focus their efforts on the most important customers)". This phenomenon is called 'customer prioritization'. Certain segments get a better service, and more value than other segments. "Customer prioritization implies that selected customers receive different and preferential treatment regarding marketing instruments"[334]. In Figure 6.6. I have given two examples[335].

"Federal Express Corporation has revolutionized its marketing philosophy by categorizing its business customers internally as the good, the bad, and the ugly based on their profitability. Rather than marketing to all customers in a similar manner, the company now puts its efforts into the good, tries to move the bad to the good, and discourages the ugly".

"The customer service center at First Union, the sixth-largest bank in the U.S., codes customers by different colors on computer screens using a database technology known as "Einstein". Green customers are profitable and receive extra customer service support while red customers lose money for the bank and are not granted special privileges such as waivers for bounced checks. Providing different service levels to customers depending on their profitability is becoming an effective and profitable service strategy for firms like FedEx, U.S. West, First Union, Hallmark, GE Capital, Bank of America, and The Limited".

Figure 6.6. Examples of Customer Prioritization Based on VOC[336]

Prioritized customers, because of their special treatment, ultimately become preferred customers. A preferred customer is "a buying organization who receives better treatment than other customers from a supplier, in terms of product quality and availability, support in the sourcing process, delivery and/or prices"[337]. Other characteristics of the 'preferred customers' include a more intense customer relationship, offering better prices, early access to innovations and new technologies and having a priority in case of shortages. A selected customer in a high-tier segment gradually becomes a recurrent customer, and lastly becomes a preferred customer (see Figure 6.7.[338]).

What could be the case is that the top-tier customers are being overcharged and, in this way, they subsidize the non-profitable bottom-tier customers. However, this problem can be resolved by allocating the right number of resources to the right customers. Homburg et al.[339] did research on the effects of customer prioritization among 310 B2C and B2B companies. They concluded that customer prioritization leads to an increase of the average customer profitability and return on sales because:

- ✓ It positively affects the relationship with prioritized customers.
- ✓ It does not negatively affect the relationship with bottom-tier customers.
- ✓ It reduces marketing and sales costs.

It also has a positive effect on the ability to assess customer profitability, the quality of customer information, selective organizational alignment, selective senior-level involvement and selective elaboration of planning and control. They all have a positive moderating effect on profitability. Nevertheless, customer prioritization can also have its risks[340]:

- ✓ The less-prioritized customers get less attention and could be dissatisfied, defect and spread negative word-of-mouth leading to a decrease in sales.
- ✓ It could increase the dependence of the supplier on a limited number of customers making it vulnerable. To avoid this, building a balanced portfolio of top-tier and bottom-tier customers might enable companies to hedge the risk of top-tier customer relationships[341].
- ✓ Focusing only on the limited number of preferred customers neglects the economies of scale effects that are caused by a large group of customers[342].

Therefore, it's important to define different CVPs with different service levels and spend the right amount of attention and resources to each segment. All customers are king, but some are more king than others. This is echoed by Homburg et al.[343] who state that "customer prioritization implies that a firm is highly customer centric for the most important customers and at a lower level for less important customers".

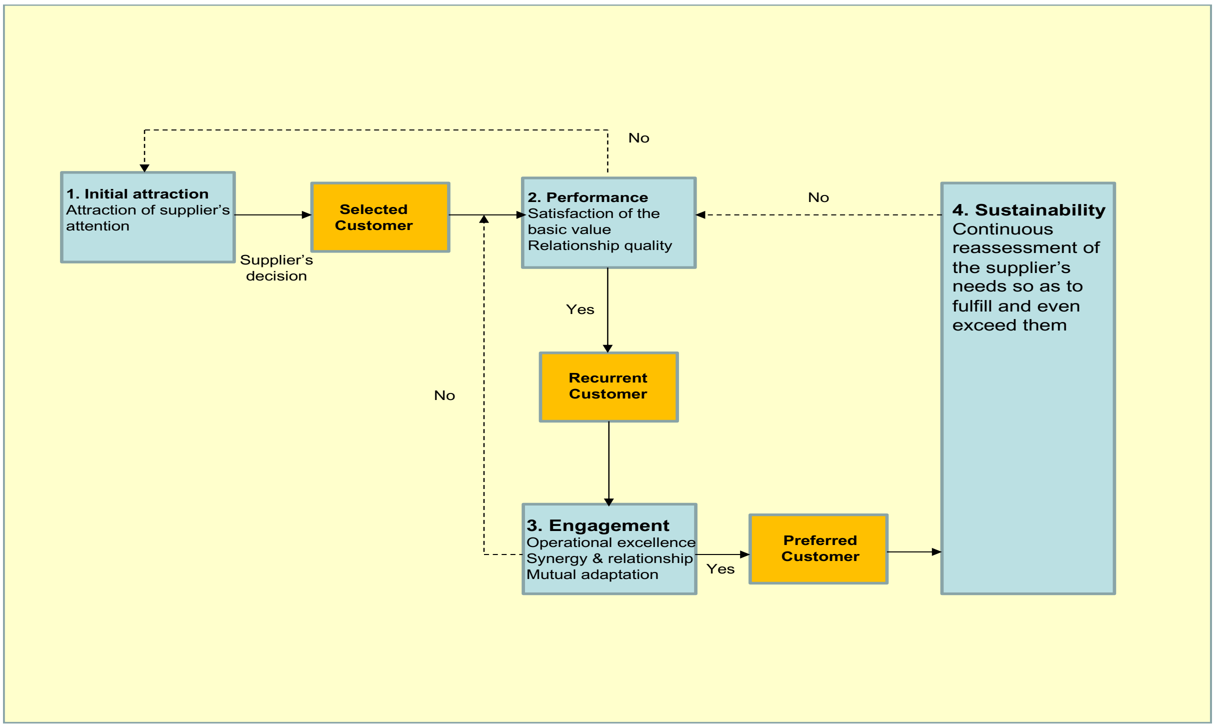


Figure 6.7. The Four Steps in the Process of Becoming a Preferred Customer

6.8. Summary

In this chapter I have given some insights in the concept and the elements of a CVP. Also, the main consequences of combining VOC-VFC segmentation with CVPs are described. Here I give a short summary of this chapter.

(1) How to target and position customer segments?

Many companies have limited resources. Therefore, they should select the segments they want to serve (targeting). Next, they determine the value positioning. What kind of value do they want to offer?

(2) What to do with customers with a too low VOC?
On the other side of the value spectrum there are the customer segments with a too low VOC or even a negative VOC. The first challenge is to increase their VOC by reducing costs, increasing prices or other methods. Does this not offer a solution, then selective demarketing could follow. This means ending the exchange relationship with these customers.

(3) What is a CVP?
A CVP is what the supplier offers in terms of a combination of benefits and sacrifices bundles to a specific customer segment to fulfill customers' desired value (VFC), adjusted by the value of these customers (VOC). A CVP can be supplier-created but also based on co-creation by the exchange partners and can be implicitly or explicitly communicated.

(4) What are the elements of a CVP?
The CVP-elements are the benefits a supplier offers its customers in terms of the product (the 'what), customer service and customer relationship management (the how), sustainability and the brand. But it also consists of the sacrifices customers must make in terms of total cost of ownership and risk.

(5) What is a superior CVP?
A CVP is superior when both customers and shareholders see it as superior. For customers it means that their customer experiences towards the combination of the six elements should be superior to that of the competition. For shareholders it is superior when the CVP contributes to the long-term profitability of the company.

(6) How to differentiate in CVPs?
There are two ways to differentiate. Suppliers can differentiate CVPs on the different VFC-segments (customer desired value), or on VOC. Instead of 'all customers are equal' and 'all customers are king', many B2B suppliers have a prioritization for their most valuable customers. These customers receive privileges and a superior treatment than the other customers. For me, the best way is to make a combined differentiation based on both VOC and VFC

Chapter 7. Brand Equity

7.1. Introduction

For many years scholars have thought that a brand is not important for B2B-companies. The main line of reasoning was that B2B-relationships are only based on functional and rational values, and that B2B-customers are unaffected by social and emotional values. In B2B "the purchase process is more rational than emotive and therefore feelings are not so relevant"[344] was the idea. Therefore, branding would have no added value in B2B-relationships. Consequently, the topic has received little attention in B2B compared with B2C. However, as we have seen in Chapter 4, in the concept of Value-in-Use also emotional and social value can play a significant role in potential and existing B2B-relationships.

Just imagine there are two companies with similar products and prices. Company A has no reputation and is not very well known. Company B is well known and has an outstanding reputation. Which supplier would you choose? In practice it are often the companies that you know, give you a good feeling and trust. Apparently B2B exchange relationships are less rational as we have thought for a long time. Therefore, a growing body of management and academic literature is focusing on the emotional side of a B2B-brand. In this chapter I try to give answers on the following questions:

1. What is a brand?
2. What is brand equity?
3. Why is it an important element of a CVP?
4. Why is the higher purpose of an organization essential for a brand?

In this chapter I focus on the brand itself and its impact on customers. How to do the branding is discussed in Chapter 13.

7.2. Brand, Brand Image, and Brand Equity

First have a look at what a brand is. In Figure 7.1. you see seven definitions from in literature.

"A brand is a name, term, sign, symbol, or design, or combination of them which is intended to identify the goods and services of one seller or group of sellers and to differentiate them from competitors" (Kotler, 1991, p. 442)

"A brand is different from a label. A label is a name, symbol, or design that is used to distinguish the company's goods or services. But in marketing a brand has another element besides being recognizable: this is the promise of added values to the customer – advantages not possessed by competitors" (Doyle, 2000, p. 224)

"A brand is a cluster of functional and emotional benefits that extend a unique and welcomed promise" (Chernatony and McDonald, 2003)

"A brand is emotional, has a personality, and captures the hearts and minds of its customers" (Kotler and Pfoertsch, 2007, p. 358)

"A brand is a name, term, sign, symbol, or design, or a combination of them, [that] is intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competitors" (Homburg et al., 2010, p. 202)

"A brand is the sum total of all user experiences with a particular product or service, building both reputation and future expectations of benefit" (Konecný and Kolouchová, 2013, p. 24)

"A brand is made up of elements like culture, story, history, artefacts, experiences, language, tone of voice, visual identity and purpose" (Cash and Trezona, 2021, p. 61)

Figure 7.1. Brand Definitions

Based on these definitions, one can conclude:

1. A brand is much more than just a name, a sign, a logo, symbol, design, advertisement, or the combination of them.

2. It's a promise to customers and other stakeholders.
3. As you have seen in Chapter 4 on value for the customer, value is not only about functional benefits, but also about emotional and social benefits. In B2B-settings with buying centers and mainly a rational process based on functional value, even then social and emotional values can play a role because people perform the process. Procuring products to gain a person's status, prestige, and self-security happen. Also, in B2B, products are bought because of social and emotional reasons, as long as the persons can justify it later. Often, this kind of justification is not necessary in B2C-settings.
4. Value is not only about benefits, but also about sacrifices.

This brings me to the following definition of a brand:

> *An explicitly communicated promise to (potential) customers and other stakeholders of functional, emotional, and social benefits and sacrifices as included in a CVP.*

The brand image is the effect on the receiver. It's a set of beliefs about a brand's attributes and associations. As Jeff Bezos from Amazon said: "It's what your customers say about you when you're not in the room". This is built from sources like past experiences, information from friends, mass media and commercial exposure of the organization. The three characteristics of brand image are[345]:
1. It's the totality of perceptions about all elements of the CVP and the company.
2. It's a short-cut of benefit and sacrifice related value drivers, beliefs, and values that differentiate, reduce complexity, and simplify the decision-making process.
3. It's the result of the supplier's actions including those of its ecosystem of business partners[346].

Finally, there is the brand equity. This is the distinctive position of a brand in the mind of people. People compare the brand with other brands.

> *Brand equity is a differentiation in the mind of the customer. It's the perceived value for the customer on top of an unbranded product.*

Rust et al.[347] describe it as follows: "The marketing effects uniquely attributable to the brand. That is, brand equity relates to the fact that different outcomes result from the marketing of a good or service because of its brand name or some other brand element, as compared to outcomes if that same good or service did not have that brand identification. Brand equity represents the added value endowed to a product as a result of past investments in the marketing for the brand".

It is the (potential) customer's perceptions of the organization and its CVP as a result of the marketing and communication of it. What influences this brand equity? The three drivers of brand equity are[348]:
1. Customer brand awareness: the customer must be aware of the brand. Therefore, an intensive communication of the brand is necessary. Important aspects are the communications mix, the used media, the intensity, and the message (see Chapter 13). Rust et al. [349] state it as follows: "Companies must create a seamless and consistent message to their current and potential customers. Integrated marketing communications is an approach to communicating with customers that enables a company to engage in a synchronized, multichannel communications strategy that reaches each customer segment with a single, unified message". Online communication for branding is essential. Why? Cash and Trezona[350] state: "Research shows that B2B buyers are more than 70% of the way through their decision-making process before they even pick up the phone to speak to a supplier. With all the content on social media an blog posts, they're informing themselves in a way that suits them, ahead of time. If all they receive when they speak to you is more of the same, you'll never be in the competitive frame".
2. Customer attitude toward the brand. Influence the customer's emotional connections to the brand, and the customer's associations with the brand.

3. Customer perception of brand ethics. Customers examine the extent to which the values of the supplier are consistent with the customer's values. Values can be related to e.g., sustainability, ethics, and social engagement. Here, the concept of 'brand legitimacy' is important. This can be defined as "The social fitness of a brand. A generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"[351]. There should be a congruence between the brand's actions and the shared beliefs of stakeholder groups like e.g., (potential) customers.

Brand equity can also be seen from a financial perspective, albeit an intangible asset, it has a certain value for companies as you can see in Doyle's[352] definition of brand equity: "The net present value of the future cash flow attributable to the brand name. It is the incremental value above what an unbranded product would possess. Brand equity arises from the trust that customers place in the company's brand". Financial results are based on the following effects[353]:

1. The brand acts as the magnet. It builds awareness and attracts new customers.
2. The brand serves to remind existing customers about the supplier's goods and services to ensure that the company stays top of mind. It reminds customers to repurchase.
3. The brand acts as the customer's emotional tie to the supplier (capturing the heart of the customer). It builds emotional connections with customers.

A study found that companies with well-known brands outperform the stock average by between 15 and 20 percent over a 15-year period[354]. That's probably the reason John Stuart, the CEO of Quaker once said[355]: "If this company were split up, I would give you the property, plant and equipment and I would take the brands – and I would fare better than you".

7.3. Types of Brands

There are many different typologies of brands. I limited myself here to two different ones.

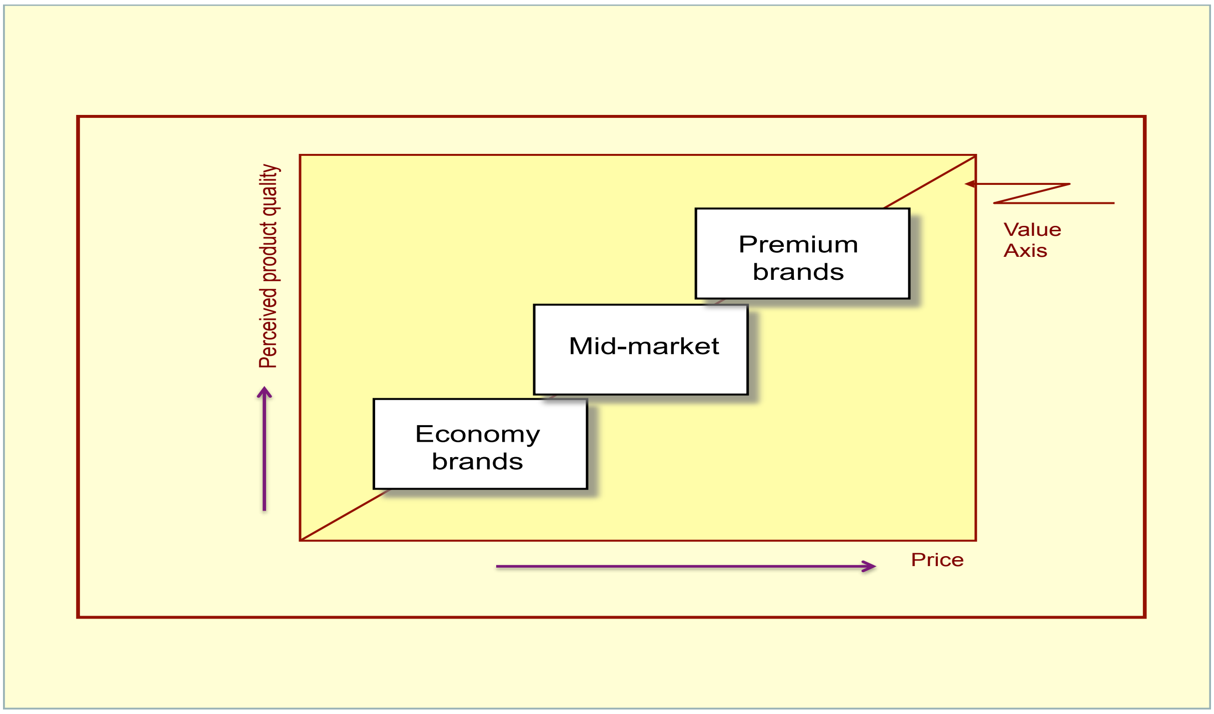


Figure 7.2. Three-Tier Brand Positioning Map

The first is that of the three-tier brand positioning map (see Figure 7.2.; this is in line with Figure 6.1.). The central axis is the value axis that represents a fair value for both the customer and the supplier. On this axis there are three types of brands:

- ✓ Economy brands: companies with goods/services with a perceived low price and an adequately product quality. These are the organizations with budget goods and services. In terms of airline carriers this could be Ryanair and EasyJet.
- ✓ Mid-market: organizations with goods/services with a perceived medium price and product quality.
- ✓ Premium brands: organizations with goods/services with a perceived high price and a high quality luxurious product quality. In terms of airline carriers this could be British Airways, KLM, and Singapore Airlines.

A second way to differentiate brands is presented by Doyle[356]: He describes three types of brands:

1. Attribute brand: it possesses an image that conveys confidence in the product's functional attributes. It's a product related brand where the unique functionalities and results of the brand are central. These can be good, service, relationship, but also price related. This type of branding is best suited for situations where it is difficult for (potential) customers to assess the quality and features of the product. Since this is becoming more and more easy for customers, the power of attribute branding is diminishing.
2. Aspirational brand: it conveys an image about the type of people who buy the brand. Central is the desired lifestyle and not the product itself. By buying the product the customer identifies itself with a certain group, like the rich and famous. I expect that this type is not much used in B2B, however the scientific interest for this type seems to be increasing.
3. Experience brand: it conveys an image of shared associations and emotions. It's about a shared philosophy between the brand and the customer. These brands are more robust since they do not depend on a certain product. They are about personal values that trigger emotions, and these emotions have a significant impact on our behavior. Experience branding is a kind of corporate branding; see Chapter 13.

As you have seen before, in B2B there are two schools. The 'rational school' saying that buying is a strictly rational process. In that case attribute brands would be most effective. The other school, the 'emotive school' saying that it is people working in B2B-companies and buying is an emotional process. In this case the experience brands would be most effective. I think that both schools could be right. It all depends on the situation.

- ✓ You could imagine that for attracting new customers experience branding is more effective, while for selling more to existing customers attribute branding is more effective.
- ✓ The type of relationship has an effect (see Figures 1.7. and 5.9.). You could imagine that for transactional exchange customers attribute brands are more effective, while for collaborate exchange customers experience brands could be more effective.
- ✓ Also, the kind of product, is it a tangible good, a service or a total solution could have an impact on what's most effective. For example, services are not tangible and cannot be tested before buying them. For these so called 'credence goods' the brand is a proxy for the quality of the service.
- ✓ Also, the customer's perceived risk could have an impact.

Finally, choosing for an attribute or an experience brand? In practice it is not that black or white. Many companies use a mix of the two, with one of them as the dominant one.

7.4. A Step Back: It's Peoples Business

In § 1.6. you have red some information about buying centers. You have also seen that buying situations are different. The more valuable a product is for a potential customer the longer the sales cycle is from first idea until the buying of the product. This can take up to one year, I have even seen longer buying processes at a paper manufacturer buying a new paper machine of several million Euros. Also, the number of people involved can strongly vary per buying situation. But the average group size of a buying center is around 11 people!! Within a part of the buying situations two effects from behavioral economics theory happen: the risk aversion effect and the thinking fast and slow effect, Behavioral economics tries to explain human behavior in economic situations. Nobel prize awarded scientists like Kahneman[357] and Thaler have done groundbreaking research giving us many insights in human behavior.

One of these effects is the risk aversion effect. People have a loss aversion bias. They are focusing on avoiding risks. Human behavior is focusing on avoiding the wrong decisions, not on making the right decisions. Purchasers withing buying centers don't believe sales talk of potential suppliers anymore, they also must deal with more purchases with less capacity, so there is some frustration. Within this setting, purchasers are afraid to make the wrong decisions, lose time, lose credibility, being punished, or even being fired for it. So, because of this risk aversion purchasers go for the safe side. No-one ever got fired for buying IBM. Why do companies hire extremely expensive companies like McKinsey? Right, to be safe. People buy on emotions and justify their decisions afterwards with logic. Suppliers with a strong brand trigger the right emotions and make sure that they are in the share of mind of purchasers. They make sure that purchasers are emotionally attached to them. By choosing for a company where they are emotionally attached to, they focus on risk reduction and not on making the right choice.

The second effect is the thinking fast and slow effect. As people we have two parts of our brain. One part is using the thinking fast part (system 1). It's using our intuition, makes very fast decisions based on routines. This is our favorite part because it requires the least energy. The other part is the thinking slow part (system 2). Here our brain uses a lot of energy to consider things thoroughly and make the right decisions. People dominantly use the intuitive fast part in daily life. That's not different in many purchasing situations. Estimates are that 95% of all purchase decisions are dictated by our subconscious mind, because it's easier. Also, managers and board members that often in a split second must agree with a proposal use this intuitive part. So, therefore it is important that a supplier and its brand have a share of mind of these members of the buying center. These decision makers make no use of suppliers' white papers and fact sheets. They use their lazy system 1 for an easy decision making. They choose the company and its brand that are known and where they have the most positive emotional connection with. Therefore, branding should also be directed towards these members of the buying center. Experience branding can help with making people feel good, safe, easy and comfortable.

7.5. Humanizing the B2B Brand: The Emotive School

As you have seen in the previous paragraph: people buy on emotion and justify with facts. This is also the fact in many B2B-purchase situations. This can only be done by an experience brand. "Only by putting people instead of products at the heart of marketing, it becomes a likeable brand"[358]. Attribute brands with a focus on product features do not help to differentiate and avoid the commodity trap, experience brands do. Storytelling and emotion led marketing, builds emotional connections between a supplier and the members of the buying center.

So not the product but people and the company are the focus of the brand. It can be employees with stories, customers as ambassadors or the higher purpose of the organization that are the content of branding. Cash and Trezona[359] call this 'Humanizing the brand'. Making it human. "Customers don't just want to buy from you, they want to buy into you" state Cash and Trezona. They illustrate this with the following quote[360]: "It's the language of feelings, influence, and clarity, encouraging your customers to buy again because it makes them feel positive about you. It's the language of storytelling. Many customers are bored with standard marketing. Customers want to be entertained, educated, and made to feel special. They crave recognition and approval. They want to understand the company's sense of purpose and value so they can gain a feeling for its people and culture. They'd love to know what you care about, and they demand to see you demonstrate all of these elements in an authentic and meaningful way. They want to be treated as human beings and not as buying machines".

Emotional storytelling is the method to convey these messages to customers. In storytelling, stories and human narratives are used leading to memorable and enduring impressions on receivers. It's a new trend in B2B-marketing. Especially customers telling stories about a supplier are extremely powerful. Customers telling their experiences in case studies, customers speaking at seminars, customers talking directly to potential customers are forms of 'customer referral marketing' using storytelling. But, as mentioned earlier, often building a brand is a mix of short-term rational attribute branding and long-term emotional experience branding. For existing customers, rational messages focusing on customer activation and products could be effective. For potential customers the more emotional messages could be most powerful. Binet and Field[361] have introduced the 46:54 rule for B2B: 46% of the recourses should be directed towards emotional brand building, 54% towards rational activation messages.

7.6. The Higher Purpose

One of the ways to appeal to (potential) customers' emotions is having a higher purpose as an organization that aligns with their personal beliefs and values. This is not only the case in B2C, but also in B2B. As you have seen in § 7.2. B2B-customers examine the extent to which the values of the supplier are consistent with their own values. Values can be related to e.g., sustainability, ethics, and social engagement. The social fitness of a brand, called 'brand legitimacy', determines the emotional connection. This social fitness is not determined by products, services, or pricing. Simon Sinek[362] states it as follows: "Brands that mean something to people don't win that love because of what they do or even how they do it: they're loved because of why they do it". Sinek describes this in the golden circle (see Figure 7.3.). It are not the products or service/relationship management that make the difference but it's the 'why', the higher purpose of the organization.

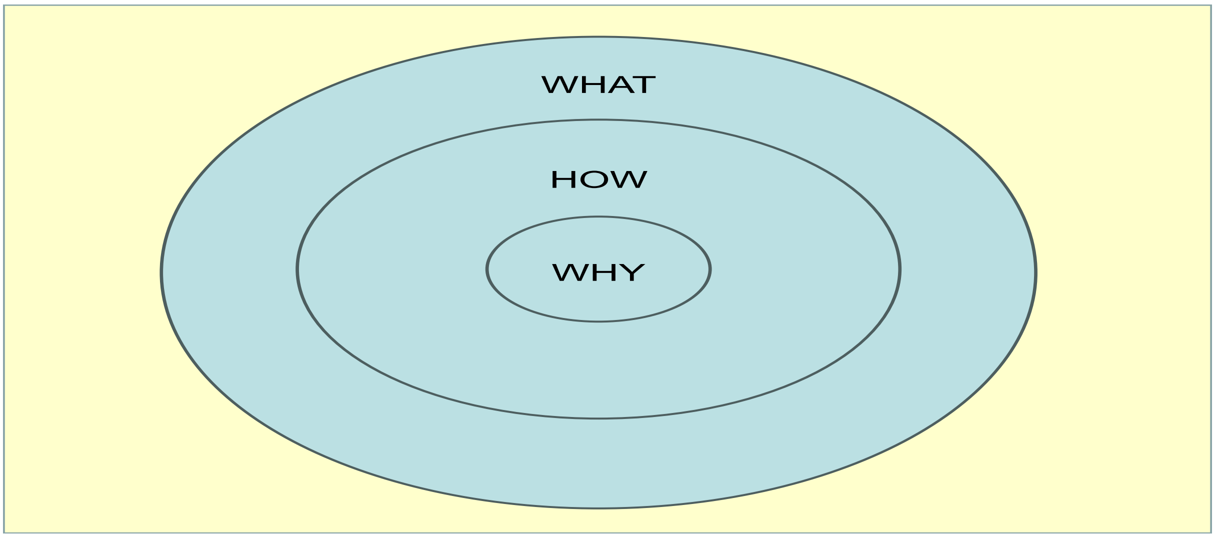


Figure 7.3. Golden Circle

Companies like Patagonia and Ben & Jerrys that have a strong mission, a company motive that goes much further than making money, that appeals to others' beliefs build strong relationships with customers leading to profitable business. So, profit isn't a purpose, it's the result states Sinek. Many B2B-companies are working on this because customers are asking for it. But it is not easy. Greenwashing and other superficial measures have no effect, or even lead to negative emotions. Only by integrating the higher purpose in the DNA and culture of the organization, it will succeed.

7.7. Summary

In this chapter I have given some insights in the first CVP-element: the brand. Here I give a short summary of this chapter.

(1) What is a brand?

A brand is much more than just a name, a sign, a logo, symbol, design, advertisement, or the combination of them. It is an explicitly communicated promise to (potential) customers and other stakeholders of functional, emotional, and social benefits and sacrifices as included in a CVP.

(2) What is brand equity?

People compare the brand with other brands. Brand equity is the distinctive position and differentiation of a brand in the mind of people. It's the perceived value for the customer on top of an unbranded product.

(3) Why is it an important element of a CVP?
Brand equity is a certain benefit for customers. It can help differentiating from competition and in this way avoid getting into the commodity trap. Especially, an experience brand using emotional storytelling can develop an emotional connection with members of the customers' buying center.

(4) Why is the higher purpose of an organization essential for a brand?
One form of an experience brand is using the higher purpose of the organization. Organizing a high level of brand legitimacy by aligning the organization's beliefs and values with those of (potential) customers is very strong concept for building emotional relationships. It's not what and how products are offered, it's the why (the higher purpose) that builds a strong emotional brand.

Chapter 8. From Products to Total Solutions

8.1. Introduction

The second of the six CVP-elements is the product. This can be a tangible good such as a container, a ton of coal, an electronic battery, or a car. But it can also be an intangible service such as consulting, cleaning, staffing, or a security service. It can be a combination of goods and services, or a total solution for a customer. As discussed in Section II, the product is WHAT the customer gets and experiences. What I often see in CVPs offered by B2B companies is that the products are almost similar for all customers. But also, in B2B relationships suppliers can differentiate in their products offered. For example, products for high value customers can be more tailormade to their individual needs, whereas for low value customers these products are in conformance with standard specifications.

When talking with B2B customers about the most important product related value drivers you will hear mostly the same ones. These include, the quality of products, technical specifications of the products, the design, and the assortment of the products. Many of these are core benefits that are basic features required and viewed as a 'must' for a relationship to exist. These features, like product quality, are core for a B2B exchange relationship: "the quality of the supplier's product has a critical impact on the customer's own product output, and thus the success of the customer's company"[363]. Although, these basic features are key for business relationships, I will not focus on this issue in this chapter. In § 1.5. I already described commoditization in business markets, this chapter focusses on how to use products to deal with it as a company. The main questions answered are:

1. What are the differences between goods and services?
2. How do companies tackle the commodity trap?
3. What are service infusion, servitization and goods-services bundles?
4. What are total solutions and what are the consequences for organizations?

8.2. Tangible Goods and Intangible Services

The three B2B sectors include the primary and secondary sectors that mainly produce and delivere tangible goods, but also the tertiary sector that mainly delivers intangible services (see § 1.2.). Both goods and services are products. Services can be defined as: "the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself"[364]. Where many B2B markets in the past were dominated by goods, this is changing. In B2B markets in develeoped economies services today dominate[365].

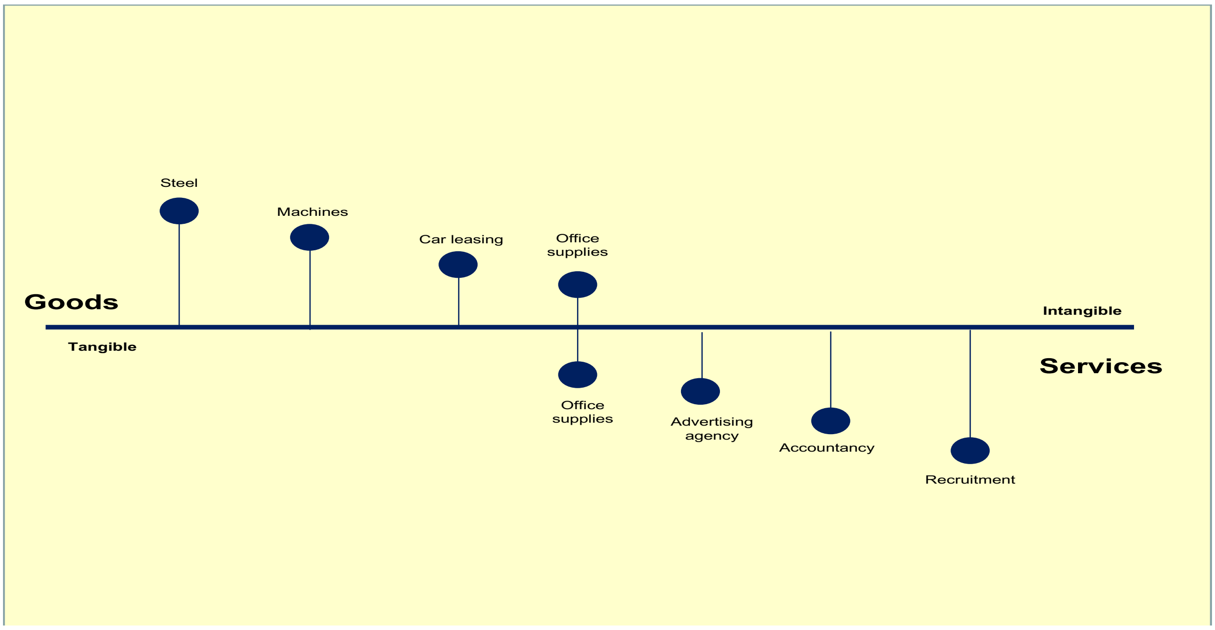


Figure 8.1. Tangibility Spectrum

However, tangible goods and intangible services are not black or white, but more a spectrum with different levels of (in)tangibility (see Figure 8.1.[366]). Products often consist of a mix of both tangible and intangible value drivers. A product is characterized as a good when tangible characteristics are dominant, and it is a service when intangible characteristics are dominant[367].

For B2B suppliers and their customers, delivering tangible goods or intangible services makes a difference when doing business. They have fundamentally different characteristics, resulting in significant differences as presented in Figure 8.2.[368]. Ultimately, these differences influence how value for customers is created.

Goods	**Services**	**Resulting implications**
Tangible	Intangible	-Services cannot be inventoried -Services cannot be patented -Services cannot be readily displayed or communicated -Pricing of services is difficult
Standardized	Heterogeneous	-Service delivery and customer satisfaction depend on employee actions -Service quality depends on many uncontrollable factors -There is no sure knowledge that the service delivered matches what was planned and promoted
Production is separate from consumption	Simultaneous production and consumption	-Customers participate in and affect the transaction -Customers affect each other -Employees affect the service outcome -Decentralization may be essential -Mass production is difficult
Nonperishable	Perishable	-It is difficult to synchronize supply and demand with services -Services cannot be returned or resold

Figure 8.2. Differences between Goods and Services

Jackson et al.[369] have investigated how purchasers of B2B customers perceived the differences between buying goods and services from suppliers. These differences could be caused by the different characteristics of goods and services as presented in Figure 8.2. The results of Jackson's investigation are presented in Figure 8.3.

The time taken to assess quality, variation in quality of different brands, variability in quality for a particular brand, price as an indicator of quality, number of people involved in purchase decision, ease of developing specifications and difficulty of in-house production as opposed to contracting for it	Similar for goods and services
Switching costs	At least as high for services as for goods
Risk associated with purchase	At least as high or higher with services
Determination of quality	More difficult with services than with goods
Degree of collaboration required between buyer and seller	Higher degree with services than with goods
Persons involved in the decision process	Different set of people for goods and services

Figure 8.3. Similarities and Differences when Buying Goods or Services

8.3. Dealing with the Commodity Trap

To be successful and respond to the commodity trap (see Figure 1.9.), B2B companies develop a market positioning strategy in which target customers are chosen and CVPs are defined[370]. As you have seen in the previous chapter, these CVPs offer strategic guidance for the deployment of resources and marketing programs[371]. Two different strategies can be chosen: cost-leadership and value differentiation.

Cost-leadership: there are companies that deliberately choose to stay in the commodity business. For certain products, like low-tech products without a scope for product improvement, companies choose for a CVP with a low-cost positioning. These companies have a value strategy of operational excellence[372]. They address the needs of the price-sensitive business (transactional exchange customers; see § 5.5.) by developing a very efficient organization and providing customers with low prices. Consequently, these companies can also be very profitable[373].

Value-differentiation: other companies react on the commoditization by pushing it back by increasing the value of their offerings for customers. Companies do this by investing in the value strategies of product leadership and customer intimacy[374]. They add services to their products (servitization). Some even offer total solutions that solve their customers' problems and challenges. Consequently, a part of the customers, especially those that "have adopted lean, low-inventory production systems that depend on reliable, precisely scheduled shipments, have understood that getting their supplies at the lowest price may not be in their best economic interest because other factors like quality of products and logistics and customization may be more important than price"[375]. In this chapter I focus on value-differentiation.

Years ago, there was a Dutch trading company importing barrels with graffiti remover, a liquid that cleaning companies and building owners could use to remove the graffiti of their walls. In its first few years, the trading company was a very profitable business since it was the only graffiti removal supplier in the Netherlands. However, after a few years, more and more companies offered the same barrels, resulting in a dramatic price drop. The management saw the profits vanishing, and thus measures had to be taken! Research on end users (e.g., business owners of buildings) had shown that their need was not a barrel with liquid, but graffiti free walls. After several meetings, the management decided to change the mission and business model of the company. They changed it from offering barrels with graffiti remover to graffiti free walls. They skipped the cleaning companies in the value chain and directly offered a solution for building owners. For a fixed fee per year the company made sure that when there was a tag, it was removed within 48 hours. This was the total solution that customers wanted and were willing to pay for. The company eventually became profitable again.

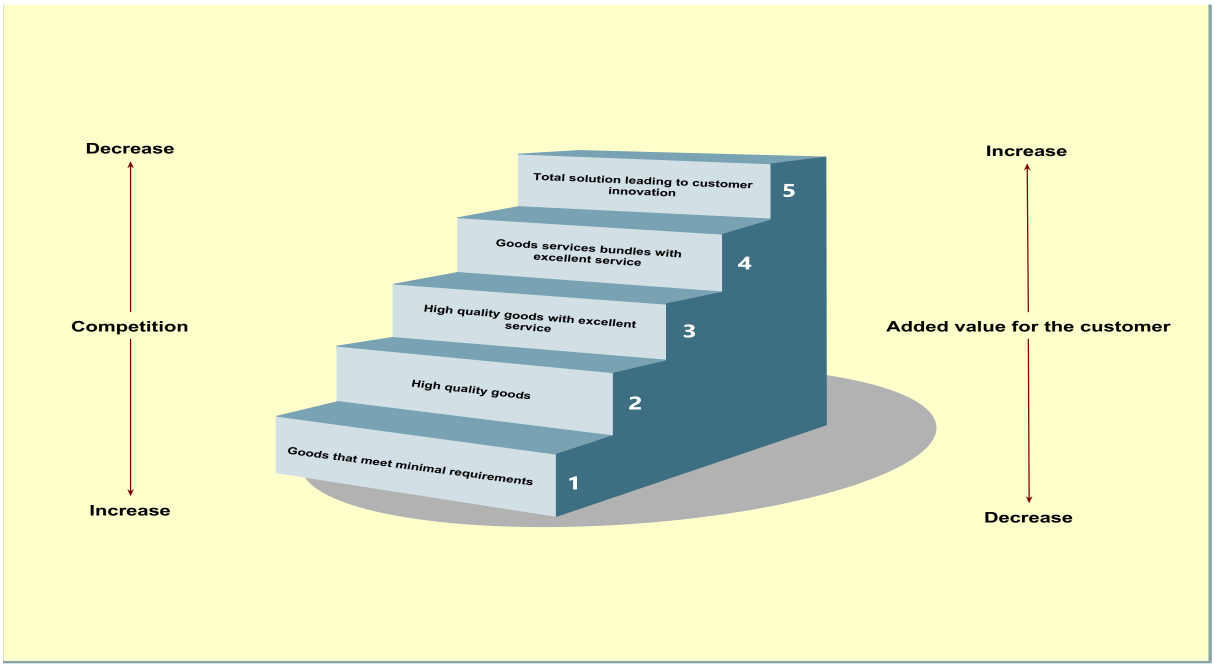


Figure 8.4. The Value Ladder

The example given above illustrates the notion that customers do not want drills; they want holes. The strategy of value-differentiation is a reaction to the dangers of commoditization by extending the value a supplier offers to its customers. B2B companies can overcome the commodity trap through offering goods-services bundles or total solutions to their customers. This concept can be explained by the value ladder (see Figure 8.4.[376]). There is a development from goods to combined goods and services and eventually to total solutions. The development starts with 'companies offering goods that meet minimal requirements' and ends with 'total solution leading to customer innovation'. The added value for customers increases and the competition decreases.

This development asks for a fundamental change, not only of the products offered, but of the complete organization[377]. The suppliers' product orientation (goods dominant logic) migrates to a market orientation and eventually to a customer orientation (service dominant logic). See § 2.3. for a more extensive description.

8.4. Products and Digitalization; Industry 4.0

Digitalization in European B2B was for years far behind compared with B2C markets, but it is catching up very fast through 'Industry 4.0'. This can be seen as the 'fourth industrial revolution'[378] "in which there is an integration between manufacturing operations systems and information and communication technologies"[379] leading to new digital solutions for customers. For certain B2B-industries like IT-companies that offer software through the web (Software as a Service/SaaS) and web-hosting companies their raison d'etre is digitalization. But also new companies, start-ups and scale-ups use digitalization to offer completely new products and solutions to their B2B-customers. These companies could offer disruptive and more attractive CVPs than those of the 'old businesses'. These must transform quickly into agile companies with attractive CVPs. For example, a tech-scale-up in the sustainable cloth industry has developed software for customers to design their own fabrics and determine the level of sustainability of these fabrics. Based on these digital software designs samples are made and eventual end products are delivered.

Relevant technologies perform four functions related to data: (1) data generation and capture, (2) data transmission, (3) data conditioning, storage, and processing and (4) data application[380]. Some of the digital technologies related to these four functions that change the business game and disrupt markets are:

- ✓ Internet of Things; connecting tangible products with the internet.
- ✓ Smart machines: machines with sensors that are connected to the internet leading to new innovative product features (see below).
- ✓ Cloud computing: having the data in the cloud.
- ✓ Mobile applications: increasing mobility through digital connection with mobile devices.
- ✓ Global positioning systems (GPS): the connection with satellites to determine locations real time.
- ✓ Artificial intelligence: using programs like Chat GTP.
- ✓ Deep learning using big data[381]: using large quantities of data to analyze performance.
- ✓ Augmented reality: creating a virtual 3D reality using software.
- ✓ 3D-printers: printing products in a 3-dimensional format.

Next to the companies with digitalization as the core business, there are many companies that next to their core products try to add value to customers using digitalization to enhance their products. This to attract potential customers, bind existing customers, and improve revenues, and profitability. For example, a manufacturer of harvesting machines offers along the machines several added value digital services to its customers. One of them is a digital GPS-product that helps the farmer to use the most optimal harvesting route leading both to maximum harvest and the least use of fuel.

Digital product features are part of the goods-services bundles and/or total solutions. One example are the remote services. Producers offering smart machines can see remotely whether a machine is going to have problems and solve the problems proactively, give customers important information, service and upgrade the products remotely, and offer spare parts proactively. Some of the new product features of smart machines are:

- ✓ The supplier proactively analyzes the status of the machine and determines machine failures.
- ✓ The supplier proactively determines what spare parts must be replaced and delivers them.
- ✓ The supplier can help remotely with product problems.
- ✓ The supplier can update/upgrade the product remotely.
- ✓ The supplier can analyze the functioning/usage of the machine and provide the customer with data and advice on how to improve usage.
- ✓ The supplier gets information on the machine to help calculating the total cost of ownership.

All these new features decrease manufacturing lead times, reduce customer effort, reduce downtime, increase product quality and productivity, and decrease customers' total cost of ownership. All these digital services help a company to improve performance[382], differentiate from competition, offer goods-services bundles, or even total solutions and avoid that they get into the commodity trap.

8.5. Service Infusion, Servitization, and Goods-Services Bundles

A couple of years ago I did qualitative research among customers of a Swedish producer of machines for the process industry (e.g., breweries and oil plants). The customers were satisfied to very satisfied with the quality of the goods and the regular maintenance services. But on the question what services they were missing, customers were very clear with their answers. Several customers wanted that the supplier helped them to reduce costs, that the supplier was much earlier involved in planning new or refurbished plants, that the supplier acted as a systems integrator and that the supplier was more active in training the customers' employees. As you can see, it became clear that customers wanted more services aside the high-quality machines.

Since the 1980s there is a development of an increasing importance of value adding services. Along the core products additional services are offered. The concepts of service infusion and servitization are therefore highly relevant. Kowalkowski et al.[383] have described the differences between 'service infusion' and 'servitization'.

Service infusion: this is the process whereby the relative importance of service offerings to a company or business unit increases, amplifying its service portfolio and augmenting its service business orientation. This service business orientation can be operationalized in terms of three dimensions that are positively associated with service infusion:

- ✓ The number of services offered.
- ✓ The number of customers to whom services are offered.
- ✓ The relative emphasis on services.

In service infusion the company has still a goods dominant logic (see § 2.3.) with the focus on tangible goods. Gradually it offers more services to gain more money or as an extra free service for customers.

Servitization: this is the concept that includes but goes beyond service infusion. It was first described by Vandermerwe and Rada[384] and requires a redeployment and reconfiguration of organizational resources, capabilities, and structures. It also requires a redefinition of the company mission, routines and shared norms and values[385]. It leads to offering a new business model based on the commitment for Value-in-Use with a greater responsibility for the value-creating process as compared to using a goods-centric and transaction-based business model. Figure 8.5. presents five definitions of servitization. As you can see in these definitions servitization is about changing the organization from a goods dominant logic to a service dominant logic to deliver more value to customers.

The offering of market packages or 'bundles' of customer focused combinations of goods, services, support, self-service, and knowledge to add value to core product offerings (Vandermerwe and Rada, 1988).

"The transformational processes whereby a company shifts from a product-centric to a service-centric business model and logic" (Kowalkowski et al., 2017, p. 8).

"Manufacturing companies shifting their business focus from designing and selling physical goods only, to designing and selling a system of goods and services" (Kuijken et al., 2017, p. 33).

"Innovation to create mutual value through a shift from selling goods to selling integrated services and goods" (Li et al., 2021, p. 3).

"A firm's transition from a product-centric business model and logic that focus on selling products to a more service-oriented business model and logic that focus on facilitating customer value creation through advanced services and solutions" (Kowalkowski et al., 2022, p. 59).

Figure 8.5. Five Definitions of Servitization

B2B manufacturers develop and market goods-services bundles (GSB's) to gain a competitive advantage[386]. GSB's[387] involve offerings that include one or more goods functionalities and one or more associated service (customer journey) functionalities. These additional services are much more and can go further than the standard delivered equipment installation, maintenance and technical problem solving[388]. Examples are programs that help customers to design their products or reduce their costs, rebates or bonuses that influence how customers do business with a supplier, logistics management, electronic data interchange for placing orders and tracking their status or expert systems that determine the materials that deliver the desired functional performance[389]. Services are becoming more and more important to do business with customers. Managers explained to some researchers, "When we can't directly break into a new customer account with a good, we'll offer to provide our services on a competitor's good"[390].

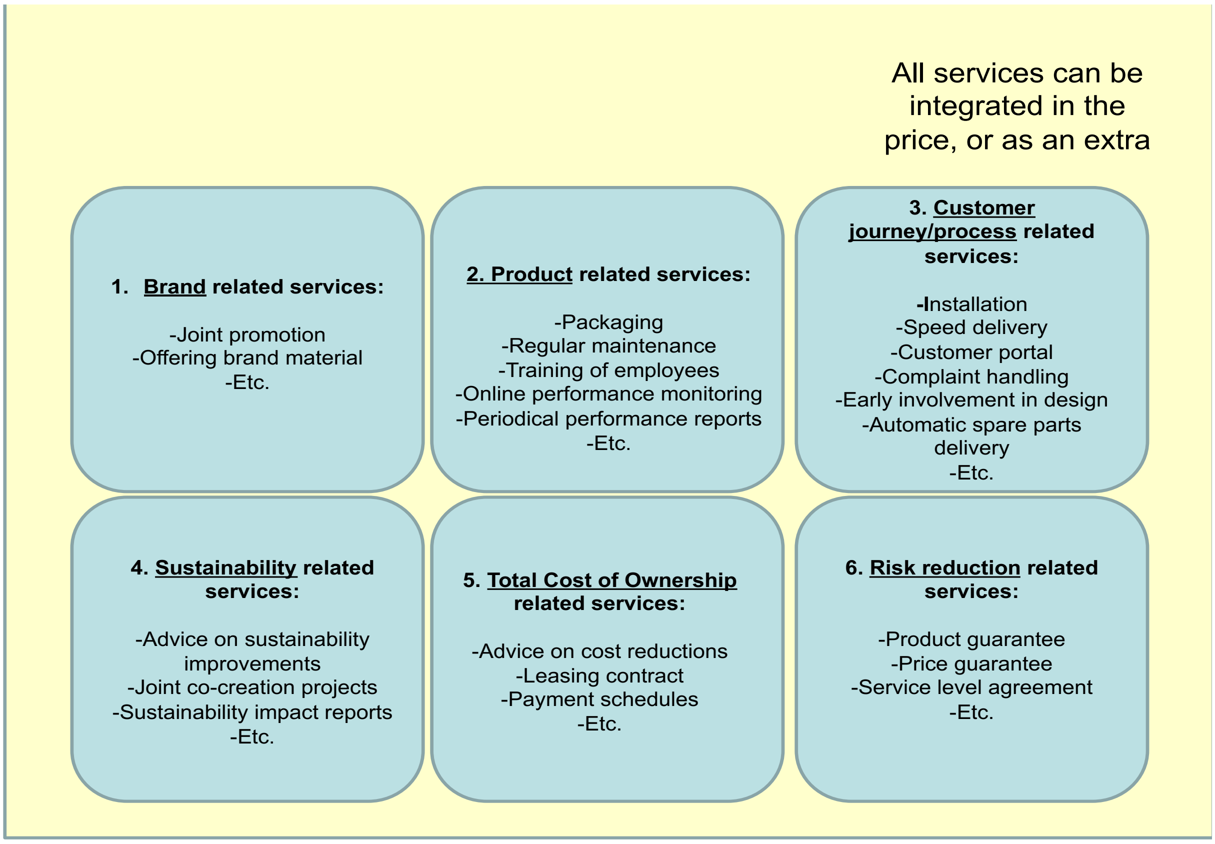


Figure 8.6. Six Categories of Services

Figure 8.6. offers a structure for categorizing services in a company's portfolio. The structure is based on the 2-Bundles CVP Framework as presented in § 6.5. Note that these services can be offered as a standard service and integrated in the selling price, or as an ad-on. An extra service where the customer is charged for. The problem with many companies is that services that should be extra charged are included in the price as a 'free service'. But more about this later in this paragraph where the servitization paradox is explained.

The goal of servitization is "to enhance the firm's competitive position by focusing on service provision"[391] and to avoid getting stuck in the commodity trap (see § 1.5.). Specific objectives of servitization and offering a GSB could be to create a more personalized and tailormade customer experience and increase the perceived value[392]. A GSB could strengthen ties and cooperative relationships and foster an understanding and appreciation of Value-in-Use[393], but also work as a switching barrier that locks the customer in a long-term relationship[394]. This eventually leads to a supplier's strategic competitive capability[395] to increase revenue and market power[396]. Companies with a service revenue of 20-30% of total revenue have a positive impact of services on profitability[397].

But service infusion and servitization are not without risks. Reinartz and Ulaga[398] describe the example of an IT business unit that made 3-4% net margin on its product offerings in an increasingly commoditized market. It expected to generate margins of 15% of the new additional services it introduced. However, these services were so unprofitable that the business unit's profit margin dropped from plus 3-4% to minus 10%. Business companies often offer additional services to customers at a price that does not reflect the value they offer to customers nor the cost to produce them[399]. Often, they are offered as an ad on for free, to acquire a new or retain an existing customer. These practices could lead to the so called '<u>servitization paradox</u>' (also named service paradox): GSB's do not always produce the returns or shareholder value that companies expect[400]. Services can be real 'value drains': they cost the supplier more to provide than they are worth to the customer receiving them, and they have no strategic significance to the business[401]. Manufacturers offering GSB's could have lower profits than those that do not. Their margins decrease, especially early in a servitization-transition when services provide less than 20% - 30% of the company's revenue[402].

To avoid the servitization paradox, Kuijken et al.[403] suggest developing an effective GSB of which customers perceive it as added value. This is the case when the individual goods and services of the GSB have autonomous value for the customer. The goods and services could be sold separately as stand-alone offerings on the market. Furthermore, the combination of the goods and service elements should be 'super additive' or 'synergetic' (i.e., the whole is valued higher by the customer than the sum of its parts) rather than simply 'additive' (i.e., the whole equals the sum of its parts) or 'sub additive' (i.e., the whole is less than the sum of its parts). To determine the optimal set of services offered and avoid the 'servitization paradox' Anderson and Narus[404] have developed the '<u>flexible service offerings model</u>'. It helps companies "to figure out how to reduce the number and cost of services they use to augment their core products". This model makes a difference between two groups of services:

- ✓ <u>Naked solutions (naked systems)</u>: only those services that all customers within a market segment value. It is the bare-bones-minimum number of services that are sold at the lowest price possible that still yields a profit.
- ✓ <u>Options</u>: these are options-specific services that 'wrap' the naked solution. It consists of specific services that are valued by individual customers.

In this way companies could make a division between existing standard services, existing optional services, and new services. Furthermore, Reinartz and Ulaga[405] give some suggestions regarding how to make money with services in their 'Path to Profits in Industrial Services'. These are:

- ✓ Recognize that you are already a service company.
- ✓ Industrialize the back-office.
- ✓ Create a service-savvy sales force.
- ✓ Focus on customers' processes.

In Figure 8.7. these ideas of Reinartz and Ulaga are made more concrete in terms of key questions and key goals.

	Recognize that you are already a service company	**Industrialize the back office**	**Create a service-savvy sales force**	**Focus on customers' processes**
Key questions	How do we currently sell services across business units and countries? What are the best practices inside our organization? Which services can be moved from free to fee?	Which services are profit drains or moneymakers? How can we ensure cost-efficient service processes? How can we tailor services to customers' needs?	Is our sales force ready to promote services along with goods? Can we explain the benefits of our services to customers? Are we willing to move to longer sales cycles?	Are our offerings aligned with our customers' goals and processes? Can we address their problems holistically? What further expertise do we need?
Key goals	A list of services we currently provide to customers Revenue from easily chargeable services A senior executive who oversees the development of service capabilities	Standardized service processes and control mechanisms Service platforms flexible enough to fit individual customer contexts	Service-selling know-how or separate sales forces Incentive systems that promote service sales Tools for documenting value and communicating it to customers	Detailed descriptions of core customer concerns and operating processes A shift from activity-based to outcome-oriented performance indicators A checklist of capabilities needed to compete in new service spaces

Figure 8.7. Questions and Goals Related to the Path to Profits

Finally, the counter movement of increasing this service-centeredness is named 'deservitization', this is "the transformational process whereby a company shifts from a service-centric to a product-centric business model and logic"[406]. This could be caused by the servitization paradox; companies are disappointed because of unsatisfying business results of servitization.

8.6. The Power of Total Solutions

Many business customers want to be unburdened and have hassle free operations. It has become a trend in B2B markets to state that the company is a solutions provider that offers solutions to its customers. However, many suppliers tend to regard solutions as service infusion or servitization: a bundle of goods and services they want to sell[407]. But this is nothing more than an inside-out and seller-based GSB. They add services to their goods and call this a 'solution', whereas it is nothing more than a form of service infusion or servitization.

Total solutions are products that go much further than just a GSB. In this textbook I use a 'total solution' from an outside-in and customer perspective for which the relational processes of solution design and delivery are important. In figure 8.8. you see five different definitions of total solutions.

"Longitudinal relational processes, during which a solution provider integrates goods, service and knowledge components into unique combinations that solve strategically important customer specific problems and is compensated on the basis of the customer's Value-In-Use" (Storbacka, 2011, p. 699).

"Longitudinal, relational processes that comprise the joint identification and definition of value creation opportunities, the integration and customization of solution elements, the deployment of these elements into the customer's process, and various forms of customer support during the delivery of the solution" (Storbacka et al., 2013, p. 707).

"Companies sell combined goods and service offerings to address important customer problems and are compensated on the basis of achieved performance" (Raddats and Kowalkowski, 2014, p. 20).

"The combining of supplier and customer processes and resources through a joint resource integration process to create collective and individual Value-In-Use, which is monitored and optimized through value-auditing processes" (Macdonald et al., 2016, p. 114).

"Offerings that combine supplier and customer resources to create Value-In-Use" (Kowalkowski et al., 2017, p. 7).

Figure 8.8. Five Definitions of Total Solutions

Combining and synthesizing these definitions leads to the following definition of total solutions:

> *Outside-in concepts that create Value-in-Use and helps solving a customer's problem/challenge by integrating and customizing the exchange partners and third parties' resources and capabilities through intense co-production. Success is measured by concrete outcomes and pricing is based on fixed price per use/period.*

There is a trend towards companies as solutions providers offering total solutions in B2B relationships that is caused by several developments. As mentioned earlier, commoditization is one of them. To get a strategic position and to differentiate from competition, suppliers offer total solutions[408]. But there is an important second reason. In many business markets, customers rely more and more on the expertise and capabilities of their suppliers[409]. Due to cost-reductions customers have outsourced many activities and core competences to suppliers that were previously performed in-house. These suppliers get increased responsibilities as a consequence. This development took place at the same time as a strong reduction of the number of suppliers. Suppliers became scarce in many B2B markets like the luxury car industry, the biotech field, software production and the railway industry[410]. This made it necessary for suppliers to offer solutions. Total solutions are a rather vague concept[411]. However, based on my definition of a total solution, it has five specific characteristics:

1. It creates value and helps solving a customer's problem/challenge.
2. It requires co-creation.
3. It demands the solution provider to act as a systems integrator.
4. Its success is measured by outcomes (not activities).
5. It is based on a fixed price per use/period.

(1) It creates value and helps solving a customer's problem/challenge

A total solution is developed from a service dominant logic perspective[412] (see also § 2.3.). It is a perspective on value creation for customers and not a perspective of market offerings[413]. Solutions solve a customer's business problem or challenge like increasing efficiency and reducing costs, improving their customers' experience, or revamping the company's reputation[414]. A company offering solutions is in the business of making its customers more successful. This means that a supplier should understand its customers' challenges, objectives, operating practices, and competitive environment. Armed with these customer insights suppliers can develop effective solutions.

(2) It requires co-creation
Value-in-Use depends not only on suppliers' resources and capabilities, but also on those of the customer (see § 4.4.). Both parties become co-creators of value by integrating resources through activities and interactions[415]. According to Grönroos and Ravald[416] creating customer value is a multi-laned process consisting of two processes: the suppliers' process of providing resources and the customer's process of turning these resources into value. Macdonald et al.[417] add a third process to this: the joint resource integration process of the supplier and customer. For example, both parties need a joint resource integration effort to make customization decisions such as where the boundary between the firms should lie. This requires a large operational adaptiveness of both the supplier and the customer. To be flexible and cost-effectively adaptive to the specific situation, companies need to apply modular thinking[418] or even tailormade thinking in their operational processes.

(3) It demands the solution provider to act as a systems integrator
Total solutions often consist of a mix of goods, services and other capabilities and organizational resources that cannot be delivered by one supplier alone. Often a network of suppliers offers a solution (see also § 1.3.). However, customers do not want the burden and hassle of coordinating several suppliers. Super additive value[419] may be created for the customer through being served by one, single organization acting as a systems integrator, instead of contracting and coordinating several suppliers. Solution providers aim at organizational networkedness: they orchestrate a network of suppliers that provide solution elements to the customer. This 'one-stop-shopping' for the customer adds value through enhanced efficiency and effectiveness.

(4) Its success is measured by outcomes (not activities)
Offering total solutions requires changing how the company measures quality and value, and how it defines success[420]. Quality and value are no longer internally defined by the supplier (e.g., process indicators like failure rates and delivery time) but instead how well a solution performs in customers' operations and leads to the promised results. Solutions are often combined with performance agreements in which concrete performance levels and results are agreed. A supplier is responsible for agreed results and operations and is compensated based on system's performance, using metrics like return on investment, process efficiency, and consistency[421]. "An outcomes-based mindset requires recognizing that success is measured in terms of the value received by the customer" according to Grove et al.[422]. The implication is that suppliers need to continually audit and enhance the solutions' value instead of simply meeting the contract[423]. Combining this characteristic with the third one (co-production) implies that not only the suppliers' inputs are audited but also the customers' inputs.

(5) It is based on a fixed price per use/period
The last characteristic of a total solution is offering customers a pay per-use or pay per-period concept. In this scenario, the customer does not have to invest in machinery or other hardware. Furthermore, the maintenance, repair and replacement of products are organized and paid by the supplier. Customers pay a fixed price per use, per access or per period (see § 11.5.). I did research for a computer manufacturer and its preferred dealers among accountancy firms several years ago. These firms indicated that their core business was accountancy and not information- and communication technologies (ICT). However, at the time, they had to organize ICT themselves. They had in-house departments responsible for ICT and bought the hard- and software themselves. By thoroughly investigating their desires, it became clear that they wanted a solution offered by ICT-companies that involved an annual fixed pay per working station. For that amount all ICT should be organized, and current ICT-employees taken over. So, the accountancy firms could focus again on their core business: accountancy.

Many similar examples of pay per-use are described in literature. For example, Macdonald et al.[424] describe the case of Rolls Royce airplane motors. This company offers a total solution called TotalCare by organizing all activities concerning these motors. The customer pays per flight-kilometer. Also, a

German manufacturer of paint finishing systems introduced a pay per-use service. This enabled car manufacturers to pay for each painted car rather than investing in equipment and services[425].

There are two main limitations concerning implementing total solutions. First: the possibilities for offering solutions are different for 'installed-base' (and within this capex and opex) and 'input-to-process' (I2P) companies (see § 1.2). It looks like it is easier for installed-base-capex businesses to develop solutions than for I2P-companies[426]. Second: the type of relationship and type of customer determine if there are possibilities to develop a solution exchange relationship. You could imagine that transactional exchange customers are much less eager to set up such a relationship than strategic value customers with collaborative exchanges (see Figures 1.7. and 5.9.). In business practice, solutions are primarily offered to the high-value customer segments.

Finally, there are also risks and limitations associated with total solutions. The main risks for the supplier arise when the customer does not fulfil its role in cocreation, third parties do not fulfil their role, or the supplier itself is not ready for it. In these situations, offering a solution does not lead to profits but to substantial losses.

8.7. Service (Delivery) Networks and Ecosystems

Offering a GSB or total solution from an outside-in and customer perspective can require many organizational capabilities that the supplier not has. Resources are scarce nowadays. Therefore, suppliers seek cooperation with other suppliers to develop and offer joint GSBs or total solutions through resource integration. This enables the supplier to concentrate on core competencies and at the same time fulfill its customers' requirements. During the years, this kind of network cooperation (see also § 1.3.) is called service networks, service delivery networks, service systems, or service ecosystems[427]. See Figure 8.9. for three definitions. Just like companies as Amazon, Google, and Uber, also B2B companies could make steps to offer customers enhanced value by combining the competencies of various partners by using service networks. A B2B example is that of Rolls-Royce airplane engines. The company's core competence is designing and manufacturing these motors. For the installation, repair, and maintenance of the engines Rolls-Royce cooperates with several other companies/partners like Lufthansa Technik in a service network. Other examples of B2B suppliers using service networks are IBM, Siemens, General Electric, Microsoft, ABB, and Nokia[428].

> *"Value-co-creation configurations of people, technology, value propositions connecting internal and external service systems, and shared information" (*Maglio and Spohrer, 2008).
>
> *"A team of individuals who establish relationships among homogeneous peers to provide a specific service" (*Razo-Zapata et al., 2012, p. 47).
>
> "*Business networks in which partner firms jointly produce services or goods-services bundles with a dominating service share" (*Weigel and Hadwich, 2018, p. 255).

Figure 8.9. Definitions of service networks

Such a service network could be defined as:

> *a network of companies acting as partners that collaborates to serve a broad set of customer needs by offering value-added services around core goods or to provide multiple goods and services through one centralized hub.*

Such a service network can be looked at from various perspectives. Examples are:

- ✓ Focus on tangible goods versus intangible services.
- ✓ Levels of organizational integration.

These are discussed more in detail below. Concerning the focus on tangible goods versus intangible services Henneberg et al. identify three different services network layers (see Figure 8.10.[429]).

- ✓ First order service networks: these are networks dominantly offering tangible goods, but some services are infused. The network partners offer tangible goods, in addition some services to add value.
- ✓ Second order service networks: in these networks the collaboration between partners offers a balanced mix of goods and services.
- ✓ Third order service networks: here the network is formed around a knowledge or information-based core. Think about education, and other knowledge-intensive business services.

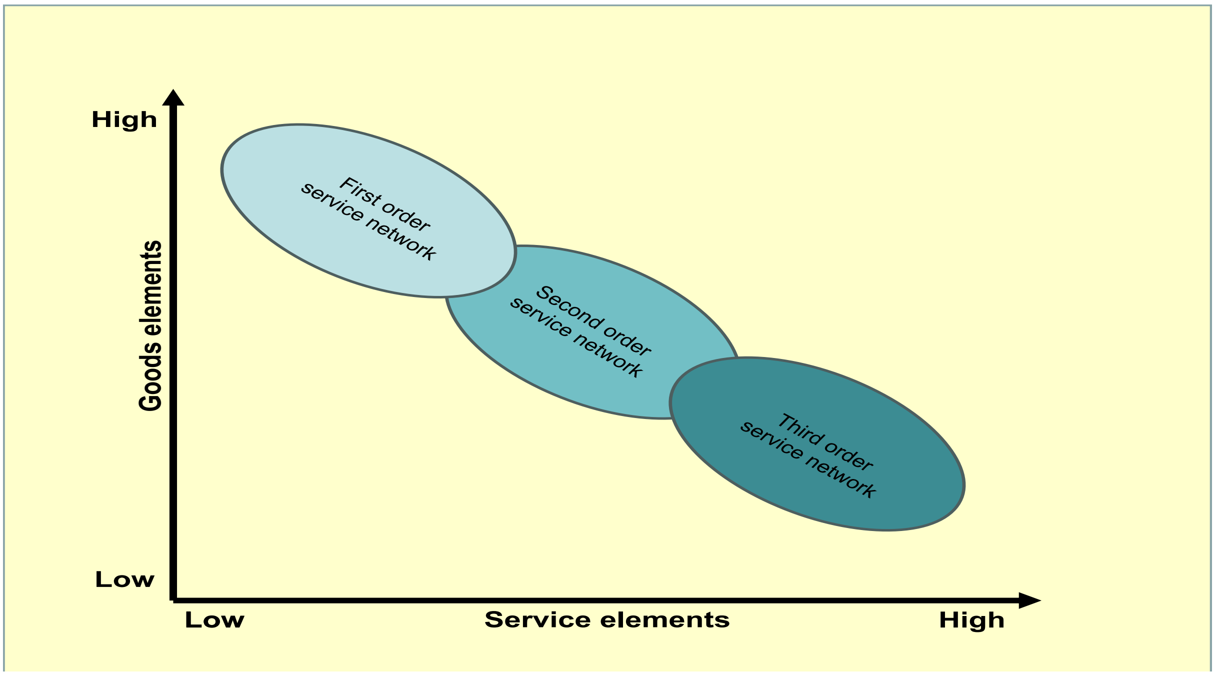


Figure 8.10. Three services network layers

Concerning the level of organizational integration between network partners, Leutz[430] has seen that there are networks that operate and cooperate in a very loose way, others in a very strict and intensive way. In daily practice as a consultant, you see a lot of networks that could be divided into three levels:

- ✓ *Linkage:* very loose integration. Partners know each other, but there is no close operational coordination within the customer journey. Not many common obligations. Customers are referred to other partners in the network. These can also be active in other networks.
- ✓ *Coordination:* semi-integration. One of the partners or a separate organization is in charge for the coordination. Clear rules of engagement for operational, financial, and juridical matters. The system integrator has clear expectations and requirements concerning the other independent partners. Partners also work in other networks.
- ✓ *Full integration:* tight integration. The partners work seamless and in close cooperation in one organizational structure as a multifunctional team. There are very strong dependencies in operational, financial, and juridical matters. It acts as one organization; however, the partners are juridically seen independent.

It depends on the situation what level is best. So, there is no best or worse level. In Figure 8.11. the characteristics of each of the levels are given.

	Linkage	Coordination	Full integration
Integration of network partners	Very loose, each partner has its own rules	Semi tight, clear rules are used within the network	Very tight, strict rules for cooperation. Pooled resources from partners
Organizational form	Independent, partners can work in other networks, customers are shared based on referrals	Independent, partners can work in other networks, one of the partners is in the lead and acts as system integrator for the customer	Dependent partners, strong operational interdependencies, working as multidisciplinary teams
Information sharing between partners	Limited	Sharing information about the job, only sharing what is necessary per partner to do his job	All information is pooled
Coordination mechanisms	Some common general agreements, not many common obligations	Coordination by one of the partners, strict agreements about cooperation	Very strict agreements
Financial arrangements between partners	None, or a referral fee per case	System integrator is financial coordinator. This coordinates billing and gets a margin for coordination	One pooled and shared budget
Kind of product	Services offered by partners are not integrated	Services offered by partners are semi-integrated, they depend on each other	Strongly integrated service to offer. Close cooperation is necessary to be successfully
Effect for customer	Customer does business with several partners, if necessary, customer has to do the coordination	Customer works with several partners, but one of them acts as system integrator. Customer has one partner that does the coordination	Customer has one organization to deal with. Customer does not experience working with several partners

Figure 8.11. Three levels of coordination

8.8. Summary

In this chapter I have given some insights in the second CVP-element: the product. This can be a good, a service, a combination of both or a total solution for customers. In many value exchange relationships, various product-drivers are core benefits. Here I give a short summary of this chapter.

(1) What are the differences between goods and services?
Goods are dominantly tangible, while services are dominantly intangible. Because of their different characteristics they have effects on for example the delivery, storing and quality control. Also buying services is on aspects different from buying goods.

(2) How do companies tackle the commodity trap?
Basically, there are two different reactions. There are companies that use cost-leadership as a strategy. They focus on cost-leadership by operating very efficiently, at a low-cost level and ask very low prices with a profit. Other companies use value-differentiation as a strategy. They offer more value to customers by adding services to their products (service infusion and servitization) or total solutions.

(3) What are service infusion, servitization and goods-services bundles?
Service infusion is adding services to goods, as a kind of ad-on, but the company remains product-driven. However, servitization goes further and integrates goods and services as a company strategy in which services become an important part of the business. Servitization requires a redefinition of the company's mission, routines, shared norms and values, reconfiguration of organizational resources, capabilities, and structures. Goods-services bundles (GSB) are for the customer logical combinations

of goods and services. They include one or more goods functionalities and one or more associated service functionalities.

(4) What are total solutions and what are the consequences for organizations?
Total solutions are outside-in concepts that create value and help solving a customer's problem/challenge by integrating and customizing the exchange partners and third parties' resources and capabilities through intense co-production. Success is measured by concrete outcomes and pricing is based on price per use/period.

Chapter 9. Differentiating in Customer Service and Customer Relationship Management

9.1. Introduction

In this chapter I discuss the HOW part of the benefits in a CVP. What is the customer's experience with how products are delivered and how the relationship is organized? In highly competing markets, suppliers not only differentiate from competitors by offering added value services or even total solutions, but they also differentiate by how they do things in terms of customer service and relationship management. Note that 'services' are intangible products as discussed in the previous chapter, and 'customer service' is how interactions with customers are done. Zeithaml[431] illustrates the importance of service with the following quote: "certainly having quality products at appropriate prices are important elements in the retention equation but both marketing variables can be imitated. Providing consistently good service is not as easy to duplicate and therefore is likely to be the cementing force in customer relationships". So, this chapter is about how companies consistently provide good service and relationship management to customers.

How the customer service and customer relationship management - and within it, episodes, and touchpoints - are organized is different per customer and customer segment. Based on the VOC-VFC segment these concepts can vary from very lean and digital for low-value customers to very elaborate, personal, and expensive to high-value customers. The supplier can, based on the value of the segment, differentiate in proactive and reactive activities to manage service and relationship costs and customer perceived value. The main questions answered in this chapter are:

1. How can a customer relationship be broken down in episodes?
2. How can a company differentiate in customer service?
3. What is a customer journey?
4. How can a company differentiate in customer relationship management?
5. How can organizations use co-creation in joint improvement projects?
6. How can customer intelligence act as an organizational resource?

In the next paragraphs I deal with the answers on these questions.

9.2. Customer Relationships and Episodes

In Figure 1.8. the stages of a business relationship have been presented, from before until after the relationship. But what happens during this relationship? A customer-supplier relationship can be described as a 'string of episodes'[432]. With one customer segment there are many and frequent episodes, with the other there are few. Furthermore, with long-term relationships there are many episodes, and with short-term relationships only a few. In Figure 9.1.[433] this principle is presented. Each customer (relationship R1-Rn) has a different set of episodes and interaction types (I1-Im) resulting in different relationship costs.

These episodes and interaction types can be broken down into two main groups:

- ✓ The <u>product-initiated episodes</u>. These are discrete transactions, processes, and touchpoints because of the supplier's products. Examples are a customer orienting on products, a customer acquiring products, a customer using products and the after sales of products. They have a short duration and a sharp ending. The total of these product-initiated episodes is called 'customer service'.
- ✓ The <u>relationship-initiated episodes</u>. These are processes, and touchpoints initiated by the objective of the supplier to establish and maintain a good relationship with the customer. Episodes can be related to keeping and growing the customer. You can think about regular contacts to check the health of the organization, events for customers, customer satisfaction surveys, etc. These are called 'customer relationship management'.

Companies differentiate both on customer services and customer relationship management between customer segments to manage relationship costs and to offer value in line with the value they get in return (VOC). How companies do that is explained in the next three paragraphs.

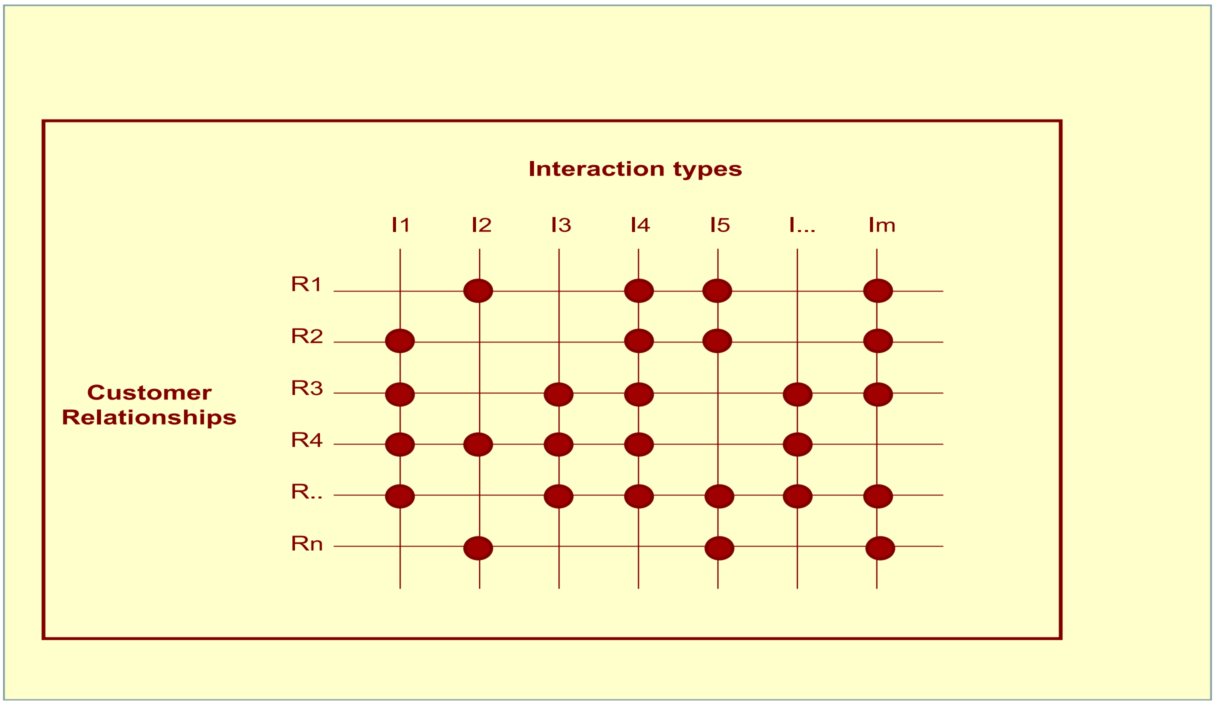


Figure 9.1. Different Interaction Types per Customer

9.3. Customer Service and Customer Journeys

Product-initiated episodes are related to customers orienting on products, acquiring products, using them and the after sales of products. Companies offer 'customer service' during these episodes. Customer service is in this case not an intangible product (see § 8.2.) but the way the company does things. In Figure 9.2. I have given six definitions of customer service.

"Those activities that occur at the interface between the customer and the corporation which enhance or facilitate the sale and use of the corporation's products or services. It includes all of the things that a manufacturer does for a customer in moving a product from the end of the production line to the customer" (LaLonde and Zinser, 1976).

"The customer service continuum relates to a process made up of three activity levels: pre-transaction, transaction and post-transaction elements" (Tucker, 1983).

"Customer service is a process for providing significant value-added benefits to the supply chain in a cost-effective way" (LaLonde et al., 1988, p. 5).

"Service is basically a supplement that accompanies the core offering (product), regardless of whether the core is tangible or intangible. It emphasizes the general quality of interactions between a seller and a customer (from the latter's perspective) rather than the quality of the specific core offering" (Parasuraman, 1998, p. 310).

"Customer service is a philosophy that permeates all practices of an organization to serve the needs of customers in a manner that is mutually beneficial to all stakeholders and involves the facilitation of customer satisfaction, loyalty and goodwill" (McGuinn, 2009, p. 58).

"Customer service is a process which takes place between the purchaser, the salesperson, and the intermediaries. This process leads to added value for the service produced or exchanged" (Naoui, 2014, p. 790).

Figure 9.2. Definitions of Customer Service

As you can see in these definitions, and as stated by McGuinn, there is no commonly accepted definition of customer service. During the years, the definition has transformed from service after the sale of a product[434], to service before, during and after the sale[435]. This is followed by a much broader definition reflecting all the contacts[436]. My definition is in line with this last development:

> *Customer service are all product related episodes and practices of a supplier, in addition to the product, sustainability, total cost of ownership/price, and risk, that serve the needs of customers and are in line with their value for the supplier.*

An important customer service concept is that of the customer journey. In Figure 9.3. definitions are given. My definition of a customer journey would be that of Purmonen et al. The most important characteristics of a B2B customer journey are[437]:

1. A customer journey is a sequence and myriad of episodes in the customer's chronological order. It's documented in a customer journey map.
2. Customer journeys are related to pre-sale or sales. Examples are the (potential) customer has a product inquiry, he wants a proposal, he orders a product and gets it delivered. But they can also be related top post/after sales and using the product.
3. Depending on the journey, members of the buying and/or usage centers (see § 1.6.) are involved. These can have aligned but also partly conflicting interests and goals.
4. Especially customer journeys in the usage phase can lead to new needs and desires leading to new customer journeys. This can be seen as a 'loyalty loop'.
5. Customer journeys in the (pre-) sale phases depend on what type of purchase it is (see § 1.4.).
6. Customer journeys consist of indirect touchpoints, direct touchpoints, and internal processes. I have added these internal process to the definition of Purmonen et al. See further.

<u>Touchpoint</u>
"All verbal and non verbal incidents that a business customer experiences, either consciously or unconsciously, related to a supplier firm" (Witell et al., 2020, p. 422).

<u>Customer journey</u>
"Customer journey in essence, means the sequence of events, whether designed or not, that customers go through to learn about, purchase and interact with company offerings – including commodities, goods, services or experiences" (Norton and Pine II, 2013, p. 12).

"The process a customer goes through, across all stages and touchpoints, that makes up the total customer experience" (Lemon and Verhoef, 2016, p. 71).

"A combination of buying and usage center members' intertwined, goal-oriented paths to purchasing and using offerings along multiple direct and indirect touchpoints, which are affected by the context of business relationships" (Purmonen et al., 2023, p. 75).

<u>Customer journey map</u>
"A customer journey map is a very simple idea: a diagram that illustrates the steps your customer(s) go through in engaging with your company, whether it be a product, an online experience, retail experience, or a service, or any combination" (Richardson, 2010, p. 1).

"It is a visual depiction of the sequence of events through which customers may interact with a service organization during an entire purchase process" (Rosenbaum et al., 2016, p. 1).

Figure 9.3. Definitions of Customer Journey and Customer Journey Map

Typical departments that are responsible for organizing these customer journeys are sales (selling), logistics (moving products), customer service (after sales) and finance (billing). By making sure that customer journeys, which often move through several teams, are not treated by organizational silo's but by multifunctional teams, these journeys become seamless for the customer. Each customer journey consists of several steps. These can be divided into three categories (see Figure 9.4.):

1. Steps that the customer makes himself without any contact with the supplier (indirect touchpoints).
2. Steps that are 'touchpoints'. There are contacts between the customer and the supplier, or third parties that are involved (direct touchpoints).
3. Steps that the supplier makes without any contacts with the customer. These are the internal processes behind the line of visibility for the customer.

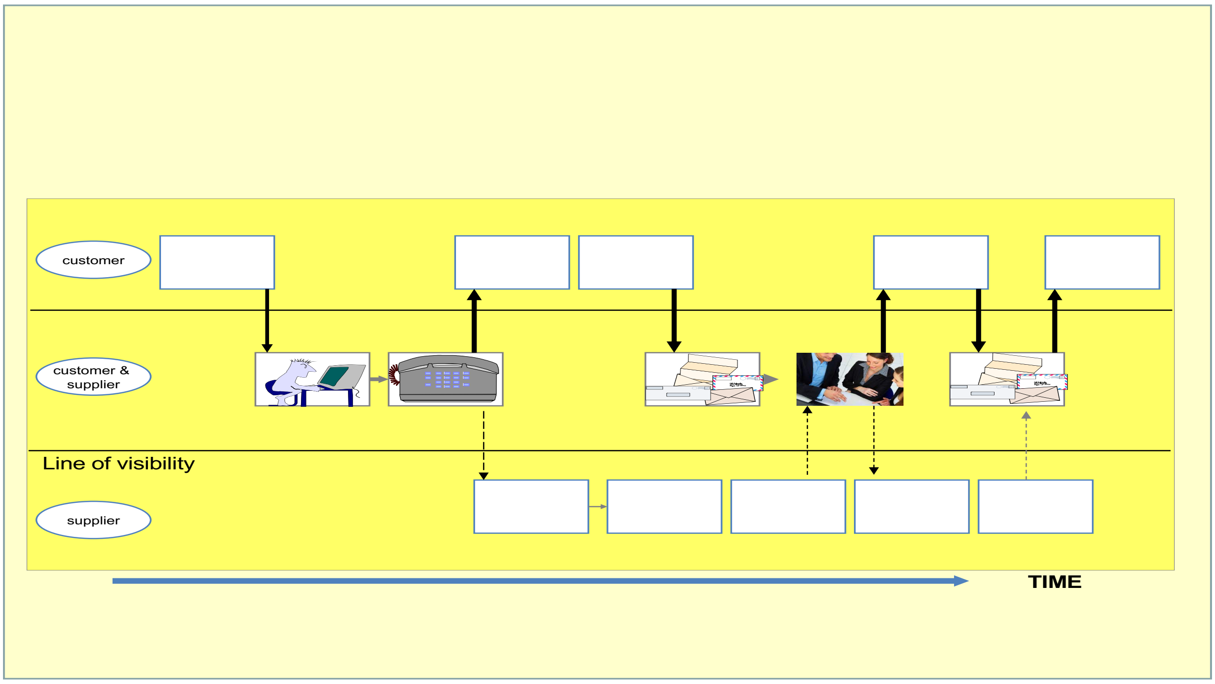


Figure 9.4. Three Levels in a Customer Journey

Companies define service standards for each of the customer journeys. Service standards indicate the quality of service a customer can expect. They can be related to sales (e.g., speed of delivering a proposal), logistics (e.g., speed of delivering a product), customer service (e.g., opening hours of call center) and finance (e.g., correctness of billing). In Figure 9.5.[438] I have given an example of three steps of a customer journey, important aspects, and the related service standards.

Step of customer journey	Aspect	Service standard
The customer calls the customer service	Phone number	The customer has the direct number of the sales representative
	Cost	The customer can use a free number
	Speed	The phone is picked up withing three rings
	Opening hours	On working days between 8 AM and 6 PM
The customer orders the products	Recognition	The sales rep recognizes the customer proactively
	Time	The customer has the feeling that there is plenty of time
	Info	The customer is informed about the availability and delivery time of the products
	Assurance	The sales rep repeats the order to verify it
	Recognition	De customer is thanked for his order
The customer receives the order confirmation	Quality	There are zero differences between the agreement with the customer and the order confirmation
	Speed	The customer receives the order confirmation within one hour

Figure 9.5. Examples of Service Standards

Depending on the CVP, suppliers differentiate with their service levels per customer segment. In Figure 9.6. I have given a fictitious example of a differentiation in customer service levels between various customer segments based on VOC and VFC. The segments are based on Figure 5.13. What you can see is that there is a differentiation in four levels:

1. Customer journeys that are more based on digital self-help for the low-value customer segments (see for example segment 1).
2. Customer journeys that offer higher service levels for high-value customers. See for example the decrease of delivery times from segment 1 to 4.
3. Customer journeys that are more reliable for the high-value customers. These customers are offered a service level agreement, which guarantees high levels of reliability. See for example 'quality order fulfilment'.
4. Customer journeys that are more flexible and offer tailormade solutions for high-value customers. See for example the different levels for complaint resolution.

	Segment 1 (transactional exchange, BCD)	**Segment 2 (value-adding exchange, CD)**	**Segment 3 (value-adding exchange, B)**	**Segment 4 (value-adding exchange A and collaborative exchange AB)**
How to place orders	Only digital, only personal contact in case of help desk	Digital and contact center (phone); no dedicated sales reps	Digital and contact center (phone); no dedicated sales reps	Digital and contact center (phone); dedicated sales reps
Delivery time	Standard 3 working days	Standard 2 working days	Standard 2 working days, when needed within 1 day	Standard 1 working day, when needed faster
Quality order fulfillment	At least 90% of the products ordered is in the initial delivery	At least 92% of the products ordered is in the initial delivery	At least 95% of the products ordered is in the initial delivery. A service level agreement for some customers	At least 98% of the products ordered is in the initial delivery. All customers have a service level agreement
Complaint resolution	Standard procedure, in line with the handbook	Standard procedure, in line with the handbook	Standard procedure, in line with the handbook	Tailor made solution based on customer expectations

Figure 9.6. Various Service Levels Depending on the Segment

Malthouse and Blattberg[439] indicate that the car rental company Hertz has higher customer service levels for preferred customers. They can use a dedicated phone line to be served very quickly when making reservations. They also indicate that some credit card companies use caller-ID to route incoming calls from high-value customers to the shorter phone queues.

9.4. Differentiating in Customer Relationship Management

Managing relationship-initiated episodes could be called customer relationship management (CRM). Grönroos[440] states: "the relationship marketing perspective is based on the notion that on top of the value of goods and/or services that are exchanged, the existence of a relationship between two parties creates additional value for the customer and also for the supplier or service provider. An on-going relationship may, for example, offer the customer security, a feeling of control and a sense of trust, minimized purchasing risks, and in the final analysis reduced costs of being a customer".

The term CRM emerged in the mid 1990s in the information technology industry. Terms like 'relationship marketing' and 'customer relationship management' are often used interchangeably in academic literature[441]. This textbook, however, focusses on the term 'CRM'. Literature provides a narrow (tactical) and a broad (strategical) definition of CRM (see Figure 9.7.[442]).

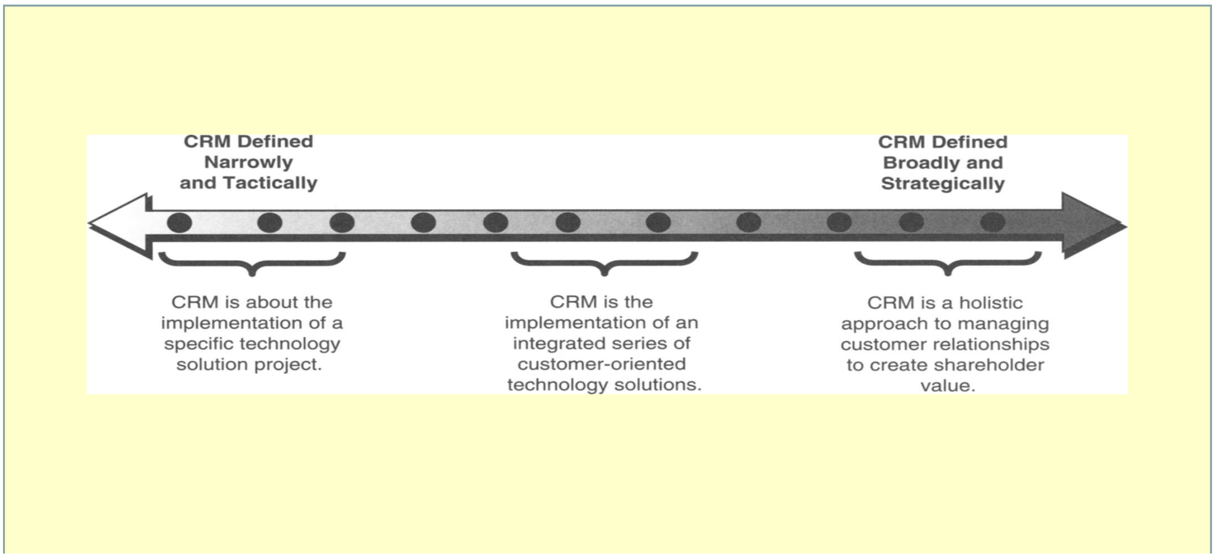


Figure 9.7. Different CRM Approaches

There are academic papers and applications in business that use CRM for the implementation of CRM-software. In this narrow definition “CRM is simply a technology solution that extends separate databases and sales force automation tools to bridge sales and marketing functions to improve targeting efforts”[443]. It can be “specifically designed for one-to-one customer communications, a sole responsibility of sales/service, call centers, or marketing departments”[444]. In this way it is a complex and sophisticated application that mines customer data that has been pulled from all customer touch points, creating a single and comprehensive view of a customer while uncovering profiles of key customers and predicting their purchasing patterns[445]. When implementing CRM as a software solution, companies start to understand that more is needed for an organizational change than only implementing software. Estimations are that two-third of the CRM implementations in the mid 90s failed because of a lack of commitment of the entire organization. “Viewing CRM as a technology-only solution is likely to fail”[446]. Thus, managing a successful CRM implementation asks for a balanced approach, which includes the involvement of processes and people of the entire organization. There is literature indicating that CRM is a holistic and strategic approach to manage customer relationships. In this approach CRM-software is only one of the many elements. In Figure 9.8. five definitions using this strategic approach are given.

“All marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (Morgan and Hunt, 1994, p. 22).

“CRM is a combination of people, processes and technology that seeks to understand a company’s customers. It is an integrated approach to managing relationships by focusing on customer retention and relationship development” (Chen and Popovich, 2003, p. 672).

“CRM is a management approach that seeks to create, develop, and enhance relationships with carefully targeted customers to maximize customer value, corporate profitability, and thus, shareholder value” (Payne and Frow, 2004, p. 527).

“In a business-to-business environment, CRM is the business process that provides the structure for how relationships with customers are developed and maintained” (Lambert, 2010, p. 4).

“CRM is a strategic macroprocess aiming to build and sustain a profit-maximizing portfolio of customer relationships” (Ata and Toker, 2012, p. 497).

Figure 9.8. Definitions of CRM (Strategic Approach)

As you can see in these definitions, CRM is defined as a comprehensive business strategy involving people, processes, and technology. My definition of CRM is based on the broad definition and is:

> *Managing the relationship with customers in line with the VOC-VFC segmentation and derived CVPs to improve customer satisfaction, loyalty, and shareholder value.*

CRM contributes to various outcomes like customer value, customer satisfaction, customer retention, corporate profitability, and shareholder value[447].

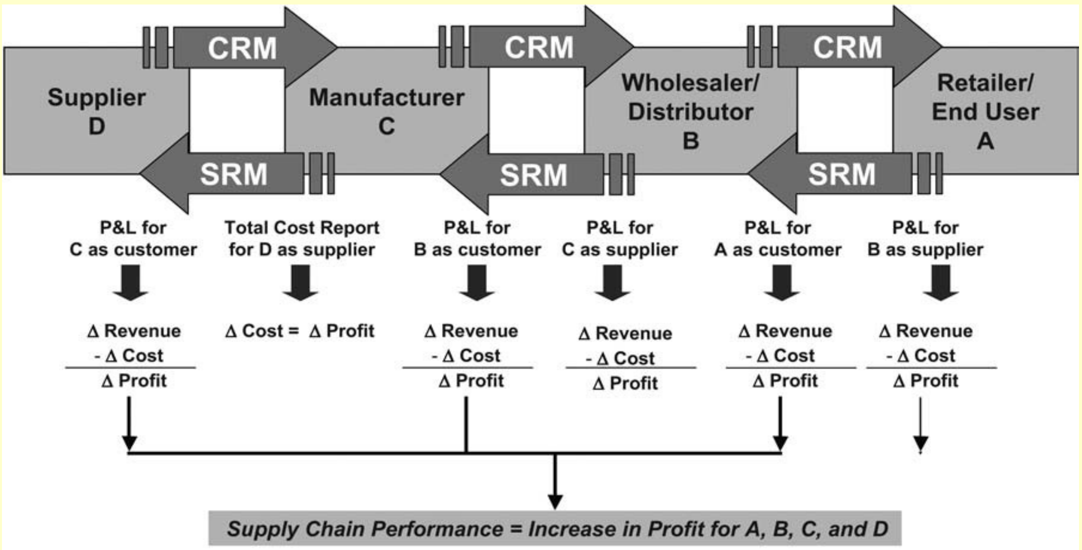


Figure 9.9. CRM in the Value Chain

In § 1.3. I already described that the customer is not only the next organization in the value chain but may also sometimes be other organizations or even an end user. In Figure 9.9.[448] the traditional view is presented where 'Supplier D' has its CRM organized for its direct customer 'Manufacturer C', etc. From the other hand, the customer has its supplier relationship management (SRM) to manage the supplier. If all the facets of CRM and SRM are appropriately managed, it would lead to the optimal supply chain performance with an increase in profit for the organizations A, B, C and D. But in practice, it is not so simple. As already mentioned, there can also be relationships between for example organization A and C or B and D. This leads to the necessity to also organize relationship management for these customers.

In the first part of this paragraph, I have discussed the definition of CRM. In the second part I describe how, within my definition of CRM, companies organize CRM and how they differentiate between customer segments. As a consumer, we often have no contact person within the companies we are buying from. We call an anonymous call center, or in a shop an anonymous employee helps us; that's it. However, in B2B industries this can be different. 'One-face-to-the-customer' is an often-used principle meaning that a customer has one contact team or -person to deal with. It/he/she is responsible for the relationship with the customer. These contact persons like account managers, sales managers, or client managers - also called 'boundary spanners'[449] - are not only responsible for an efficient way of cooperation, but they also have a role in social bonding with the customer's contact persons. According to the theory of embedded markets[450] economic transactions are affected by social bonds. Economic transactions and social bonds are two different benefits for the customer (see also social exchange theory in § 2.4.). Even after ending a business relationship from an economic point of view, an interorganizational relationship can be maintained because of those social bonds.

As we have seen before, depending on VOC and VFC different CVPs are developed. An aspect of these CVPs is how boundary spanners are organized. The higher the value of a customer, the more intense and costly it can be organized. Organizing boundary spanners per segment is a balancing act between paying sufficient attention to the customer and controlling the relationship costs. A paper manufacturer I worked for, had 450 business customers. They were all treated in the same way, based on the principle 'all customers are king'. For example, all customers were visited three times per year by an account manager. The effect was that the 'small' customers were complaining about too many visits while the 'large' customers were complaining about receiving too little attention and cooperation. After having conducted a VOC/VFC analysis and segmentation, both the type of boundary spanner and the contact frequency were differentiated leading to significant cost reallocations, higher customer satisfaction and more revenue.

There are different levels concerning how boundary spanners are organized. Some examples are:

- ✓ Account/customer team: a full team of employees is responsible for the relationship with a customer. The customer knows the members and deals directly with them. The head of the team is ultimately responsible for the relationship.
- ✓ Account/sales/client/customer success manager: one person is responsible for the relationship. He/she visits the customer (digitally) and has several contacts per year.
- ✓ Sales desk: one office employee or a team of office employees is responsible for the relationship. Customers are not visited, but contacts are organized in a more efficient way by telephone and/or digitally.
- ✓ Digital: basically, the customer has no boundary spanner. Contacts are only digital.

Depending on the customer segment an intensive and costly concept (like an account team) or a more efficient concept can be used (I used Figure 5.13. and added these boundary spanners; see Figure 9.10.).

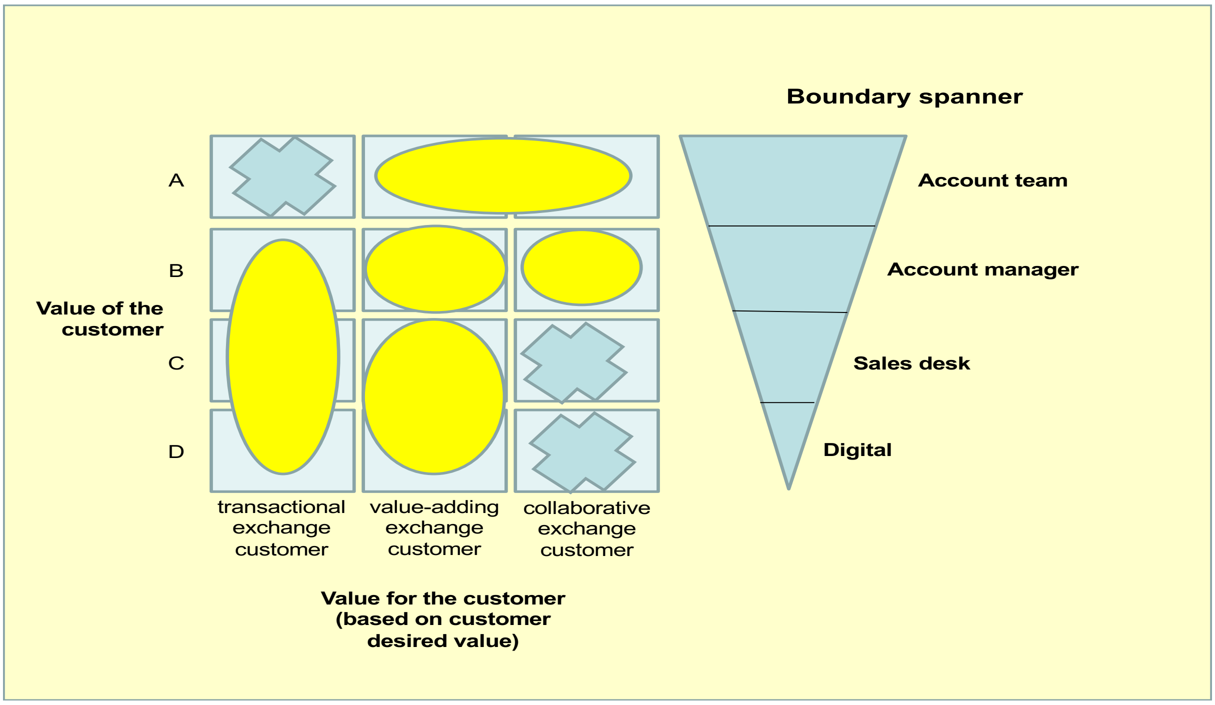


Figure 9.10. Different Boundary Spanners per Segment

In some companies one boundary spanner is responsible for both the sales and the CRM for a group of customers. In other organizations these two activities are strictly separated into two different boundary spanners. Finally, it is not only relevant 'who' oversees and is responsible for the relationship. Relevant is also the intensity and types of episodes. Visiting a customer is much more expensive than calling him, and digital self-service is again less costly than telephone assistance. By varying in the communication channels used and their frequency, relationship costs are managed. Using CRM in the context of CVM means that based on the customer segment and CVP these relationship-initiated episodes for one customer segment can be much more efficient and low cost than those for another segment. In Figure 9.11.[451] a set-up is presented used by an insurance company to differentiate in the relationship management, based solely on a VOC-segmentation. It shows that not only the types and frequency of contacts are varied with, but also other operational and contractual aspects. Of course, this is just an example. Such a matrix is different per company depending on the segmentation, customer needs and organizational possibilities.

	A-customers	**B-customers**	**C-customers**
Personal visits	At least, one per month by account manager (unless different agreement)	2-4 visits per year by sales representative	None
Telephone sales actions	None, sales are done during visits	2-4 times per year proactive telephone-call by office staff	Once per year proactive telephone-call by office staff
Mailings	None, documentation is handed over by account manager	Yes, product- and promotion mailings, also company magazine	Yes, product- and promotion mailings
Multi-layer relationships	Yes, contacts between us and customer are organized on strategic, tactical, and operational levels	Contacts on some levels	No, only contact on procurement level
Account plan	Yes, for all A-customers	Only for customers with large growth potential	No
Joint improvement projects	Yes, all types from project catalogue	Yes, but limited to cost-reduction projects	No
Relationship evaluation/customer satisfaction research	Yearly in-depth interviews with buying center	Yearly telephone interviews with 1-2 contact persons	Once per 1-2 years digital research
Service level agreement	Yes, renewal once per year. Reporting performance 4 times per year	Only if the customer asks for it	No
Events for customers	Yes, invitations for all events national/international (tailor made)	Yes, only national events	Only invitation for annual customer day
Relationship gifts	Yes, various gifts for members buying center	Only Christmas gift for procurement employee	No

Figure 9.11. Differentiation in CRM

9.5. The Role of Digitalization

Digitalization not only influences the products it can offer its customers (see previous chapter), but certainly also on the service and relationship management it offers. A recent study of McKinsey & Company[452] (see Figure 9.12.) shows that 22 to 36% of the B2B-customers make initial contacts with suppliers using digital self-help applications. In 44-49% of the cases, customers have remote digital contact with salespeople. Only in 19-31% of the cases there is live face-to-face contact. An astonishing 70-80% of the B2B-customers prefers remote personal contacts and digital self-help. These figures show the growing importance of digitalization in customer service and customer contacts.

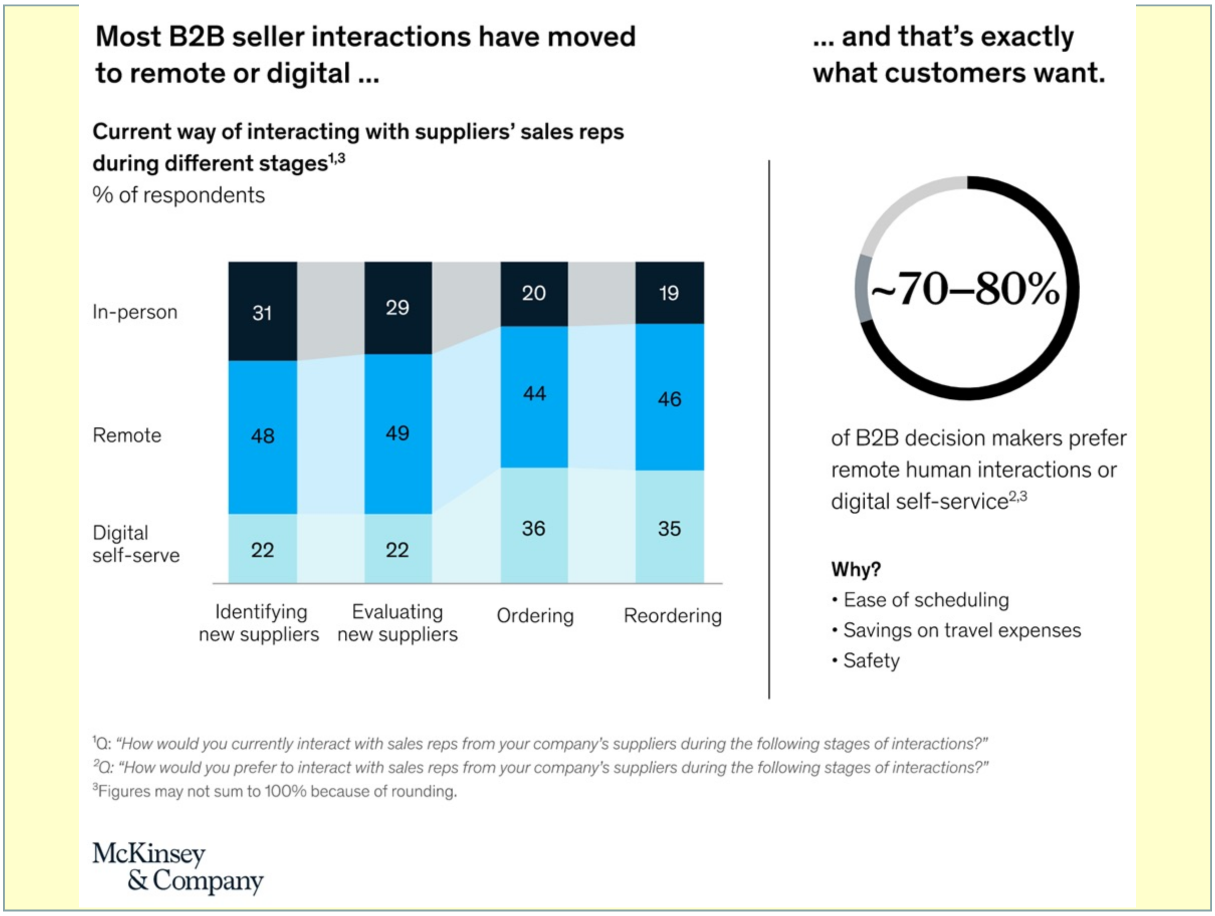


Figure 9.12. The importance of digitalization

These figures probably will be even more extreme in the future because of the impact of COVID, the rising costs of transportation, the growing number of traffic jams and the increasing adoption in B2B of digital techniques and possibilities. This digital development is called 'Industry 4.0'. However, I think some nuance must be made. The use of digital could be depending on the kind of relationship (transactional versus collaborative exchange) and the importance and perceive risk of the product involved. For important products with high costs involved I could imagine that people rely more on personal contacts. But this is only a hypothesis. Also, the digital adaption could significantly differ per country. Further, these McKinsey figures only reflect service contacts, not customer relationship management.

Digitalization automates purchase related customer journeys by machine-to-machine communication and excludes human interfaces. It increases transparency between customers and suppliers, it reduces cycle and lead times, etc.[453] In general, digitalization has an impact on customer journeys along three dimensions[454]:

- ✓ The digitalization of touchpoints: adding digital touchpoints and transforming or facilitating non-digital touchpoints.
- ✓ The change of roles in digital journeys: introducing new roles, activating customers, emphasizing collectivity.
- ✓ The digitalization of the overall process: extending, enhancing, and supporting the process.

Concerning customer service and relationship management there are various digital techniques and tools that are used in practice. Here are some of them.

- ✓ Customer portals enable the customer to help himself. Substantial parts of the customer journey are digitalized leading to customers using product catalogs, place orders, pay, use tracking and tracing systems to follow progress in production and delivery, and use knowledge systems in case of problems.
- ✓ Digital meeting tools are used to organize personal remote meetings. These enable suppliers and customers to see each other without high costs of traveling and a lot of time spent in transportation. This also helps with sustainability.

Also, digital contact scans help increasing the service level for customers through increased easiness, 24/7 availability, a higher speed, and an increased transparency for the customer.

As described in the differentiation per customer segment (see Figure 9.6.) you have already seen that 'digital' is mentioned. But also, in customer relationship management digital can help in differentiation and offer suitable CVPs. An approach I have seen many times in practice is:

- ✓ For the low-VOC customers the contacts related to service and relationship management are digital. There is a kind of forced steering of customers towards digital communication. This to keep the costs low.
- ✓ For the high-VOC customers the contacts are digital when the customer prefers this. 'The customer determines the channel' is the main principle for these customers. Of course, suppliers try to seduce these customers to use digital ways, but in an extreme friendly way by making digital more attractive than face-to-face.

But, be aware that suppliers can go too far in digitalizing customer contacts. There are companies that have gone so far that they barely have a personal contact with their customers anymore. The danger is that in time a relationship with an emotional connection reduces to one that is pure rational and transactional. If this is the case, this could have a significant negative impact on customers' commitment and loyalty. The challenge is to build a 'high tech, high touch relationship'[455] with customers. For example, a Dutch investment fund has changed its old telephone contacts with customers almost completely by digital contacts. After a while, research among customers showed that the main reason wasn't any more that customers loved the company (emotional connection) but because of the user-friendly digital systems (rational). But there were many competitors with user-friendly systems. When the company realized that they were losing the emotional connection with their customers they decided to organize personal contacts back. They started with proactive outbound telephone calls with customers at for them relevant moments. This had significant positive effects on customer satisfaction and the NPS.

9.6. Co-creation in Joint Improvement Projects

In one of the customer interviews for a Dutch metal frame producer an international customer indicated that it did not make sense that the supplier packaged the frames in boxes of 20 frames. They had to unpack on a weekly base 50 boxes with a total of 1000 frames making this process inefficient. His idea was to fill 2 containers with each 500 frames. A month later a small joint project team consisting of employees of the supplier and the customer was set up. Four weeks later they came with a solution that was implemented. Eventually it led to a cost reduction for the supplier of 30% of packaging and 80% of unpacking by the customer. In another project for a Danish machine producing firm, many customers indicated during interviews that they were missing a service: helping with cost reductions. They indicated that the supplier's expertise could be used to determine the possibilities to reduce maintenance, increase productivity of the machines, reduce down-time, and outsource activities to the supplier. All this to reduce costs and increase profits.

These are two examples of customers expecting the supplier to help with cost reductions. In the case of exchange relationships based on collaborative and value-adding exchange (see Figures 1.7. and

5.9.) there is a close cooperation between the partners. You could see this as a form of CRM. Creating Value-In-Use (see § 4.4.) and using total solutions effectively (see § 8.6.) requires co-creation. Cannon and Homburg[456] stated: “the essential purpose for a customer and supplier engaging in a collaborative relationship is to work together in ways that add value or reduce cost in the exchange between the companies”. Their research showed that “business customers intend to increase business with suppliers that lower the customers’ costs by for example increased communication frequency, different forms of supplier accommodation, improved product quality and geographic closeness to the customer’s facilities”.

In many B2B industries, customers have outsourced a part of their activities. “Activities that used to be performed in-house are now outsourced”[457]. This makes companies dependent of their suppliers in the case of cost reductions. Working together closely as suppliers and customers can lead to significant operational cost reductions, shorter time-to-market, and other added value for both exchange partners. Thus, cocreation can be very valuable for both the customer and the supplier.

9.7. Customer Intelligence

To facilitate both customer service and CRM, gathering and using detailed information on customer segments and individual customers is essential. Furthermore, it is important to really understand customers and use the information about them on a daily base. I call this ‘customer intelligence’, and it is one of the factors for CRM-success[458]. Hogan et al.[459] state: “the ability to acquire, manage, and model customer information is a key asset of the firm that can be a source of sustained advantage”. Using customer intelligence consists of the following elements that can be seen as a continuous process:

1. Determine the essential customer data and model causal relationships between data-elements.
2. Gather the data using multiple sources like in-house IT-systems, customer contact information, and public available data.
3. Put it in CRM-software.
4. Analyze and integrate data.
5. Use the data for several means on a tactical and operational level.
6. Periodically evaluate and, where necessary, upgrade all five previous elements.

Customer intelligence is dynamic, it changes rapidly[460]. So, it is important to continuously update it. What kind of customer intelligence is essential? Below I have given a non-exhaustive list of data per customer:

- ✓ Basic information about the company (contact-info, etc.).
- ✓ Structure of and members of the buying center.
- ✓ Essential personal information about members of the buying center.
- ✓ Information on value of the customer (revenue, profit, etc. see Chapter 3).
- ✓ Information on value for the customer (what the customer values, type of customer, see Chapter 4).
- ✓ Information on customer attitude and behavior (retention, share of wallet, etc. see Chapters 17 and 18).
- ✓ Information on specific pricing agreements.

As you can see, this knowledge per customer can be very extensive. But also here, there can be a differentiation. Depending on the value of a customer and the segment it is in, the wideness and depth of data per customer can be narrow or very broad.

Concerning using the customer data we can make a difference between tactical and operational applications. Concerning the tactical application, you could think about periodically reevaluating the allocation of customers to segments. Van Raaij et al.[461] describe a case study where this is done every 6-12 months. Furthermore, forecasting customer behavior could also be such an application. For the operational application on a daily basis, you could think about using the data in the daily customer service and CRM contacts of customers with employees. There are, however, restrictions. In Europe we have a very strict privacy-law since 2018, called GDPR (General Data Protection Regulation). This law enhances the privacy of customers but limits the possibilities to use customer data within a company. So, customer intelligence is restricted because of privacy reasons that could lead to limitations of customer service and CRM operations.

9.8. Summary

In this chapter I have given some insights in the third CVP-element: how a company organizes product-related and relationship-related episodes with customers. This is the major element to differentiate between VOC-VFC segments. Here I give a short summary of this chapter.

(1) How can a customer relationship be broken down in episodes?
Each customer-supplier relationship is different with different episodes, varying from many and during a long period to only a few during a short period. A distinction can be made between product-initiated episodes (customer service) and relationship-initiated episodes (customer relationship management).

(2) How can a company differentiate in customer service?
Customer service are all product related episodes and practices of a supplier, - which is given in addition to the product, sustainability, total cost of ownership/price, and risk - that serve the needs of customers and are in line with their value for the company. Based on both VOC and VFC a supplier can differentiate in the communication channels used with varying costs (personal, digital, etc.). Also, there can be a differentiation in the type of contact persons (boundary spanners) and the frequency of contacts.

(3) What is a customer journey?
Within customer service, customers have dyads of contacts related to a specific need: customer journeys. These are processes as perceived by the customer that start with a desire and end with the fulfillment of it. Examples of customer journeys are ‘the (potential) customer has a product inquiry’, ‘the customer wants a proposal’, or ‘the customer orders a product and gets it delivered’. Per customer segment, these journeys could be different.

(4) How can a company differentiate in customer relationship management?
CRM is managing the relationship with customers in line with the VOC-VFC segmentation and derived CVPs to improve customer satisfaction, loyalty, and shareholder value. It consists of reactive and proactive contacts between the suppliers’ and customers’ boundary spanners (contact persons). The differentiation per customer segment can be made in terms of type of boundary spanner, activities, and their frequency.

(5) How can organizations use co-creation in joint improvement projects?
Co-creation in joint improvements is an essential element of CRM in B2B relationships. Jointly working on partners’ efficiency and effectiveness is especially important in collaborative relationships with high interdependencies.

(6) How can customer intelligence act as an organizational resource?
Detailed information on the customer’s company, buying center and members of it is essential to offer the right CVP and manage customer service and customer relationship management on a strategic, tactical, and operational level. CRM in terms of really understanding customers and using this on a daily base is an organizational capability crucial for CVM.

Chapter 10. Value Enhancement through Sustainability

10.1. Introduction

Sustainability is one of the three benefits-related CVP-elements. It is also called corporate social responsibility (CSR) or Environmental, Social & Governance (ESG) and a subject that first became of interest of scholars and managers in the 1950s. In the first decades it was not yet a serious subject in the business environment. It was seen as a kind of charity. However, the last decades it has become an important strategic subject within customer-supplier relationships and has become an element of many CVPs[462]. Also, the academic interest has increased.

As consumers we see many companies that are involved in sustainability. Because of the derived demand of these companies, their suppliers and complete value chains must increase the sustainability of their organization and products. But also, the growing regulation of national and European public bodies forces companies to work on sustainability. Sustainability can be seen as "meeting the needs of the present without compromising the ability of future generations to meet their own needs"[463]. About 60% of the earth's ecosystems has been degraded in the past 50 years by mankind. Research by the Worldbank shows that the consumption of natural resources will rise to 170% of the earth's bio-capacity by 2040[464]. Companies see that they must work on this. But sustainability goes further than natural resources and the environment. Sustainability is about the interests of all stakeholders like e.g., customers, employees, and suppliers. Therefore, "managing sustainability is the strategic integration of social, environmental, and economical company objectives through the systematic coordination of processes inside and outside the company to improve the long-term results of the company and its value chain"[465]. This short chapter gives answers to the following three questions:

1. Sustainability, where to work on?
2. Why is sustainability a part of the CVP?
3. How to differentiate between various customer segments?

10.2. Six Dimensions of Sustainability

Companies don't work in isolation nowadays. However, where all the companies' objectives, especially in Anglo-Saxon cultures, where focused on the shareholders this has changed dramatically in the last decades. Sustainability (and CSR) relates to Freeman's stakeholder theory[466]. It is a theory that is aligned with the movement to counteract the belief that shareholders are the only companies' stakeholders and are the only beneficiaries. It counteracts the belief that "an organization should be run in such a way as to maximize the wealth of shareholders"[467] by solely focusing on increasing the profits for shareholders. Since Freeman's seminal book in 1984, stakeholder theory has gained more and more attention in academia. Stakeholder theory suggests that there are various groups having a stake in the operation of the company. The premise of stakeholder theory is that "an organization has to take into account the needs of its various stakeholders and balance their divergent interests"[468]. An organization "needs to have consideration, respect and fair treatment for all stakeholders, and that an organization has obligations and duties, and responsibilities, to all stakeholders"[469]. A stakeholder can be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives"[470]. These groups can be divided into primary and secondary stakeholders[471].

- ✓ <u>Primary stakeholders</u> are those who have a direct and contractually determined relationship with the company like customers, employees, managers, and shareholders.
- ✓ <u>Secondary stakeholders</u> are actors at the organizations' boundaries without a contractual relationship like the direct environment, civil society, and pressure groups.

Stakeholder management is the managerial practice of using the premises of stakeholder theory. "The bottom line for stakeholder management has to be the set of transactions that managers in organizations have with stakeholders. How do the organization and its managers interact with stakeholders? What resources are allocated to interact with which groups?"[472]. In this way, stakeholder management is the managerial practice to be responsive to the interests and concerns of all appropriate stakeholder groups in a balanced way[473]. Being responsive and balancing stakeholder interests can be in terms of spending attention, time, resources, and decision making in a balanced way. This is important because all groups can affect the plans, activities and eventually the business results of a company. But also because companies have moral and ethical obligations towards all groups. So, it has become more and more a balancing act for companies' management. Where management in the past a kind of one-dimensional activity was to increase profits and shareholder value, it has become a multi-dimensional activity.

More rights for stakeholder groups, an increased transparency, stronger public opinions, more governmental regulation and many more factors influenced this development. However, sustainability has not yet received a lot of attention in B2B-literature. Some papers use a broad definition with different dimensions[474], others only focus on one of them[475]. Combining literature shows that there are six dimensions of sustainability to work on.

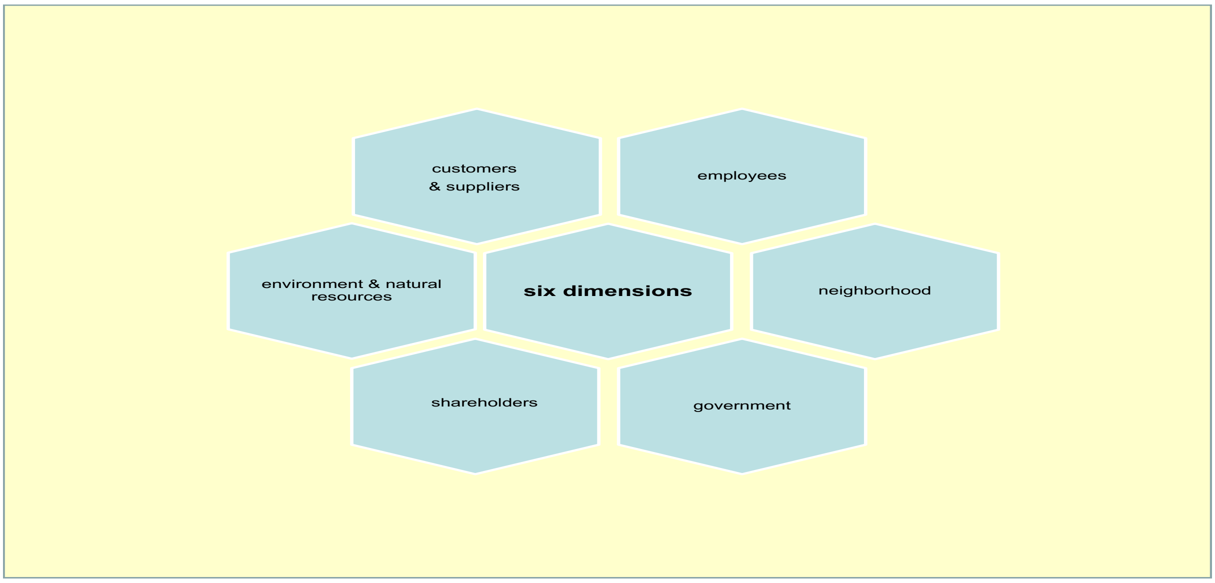


Figure 10.1. Six Dimensions to Work On

(1) Employees
Employees is one of the primary stakeholders. Where in the past employees were seen not more than a production factor that could easily be replaced, times have changed. Motivated, engaged, and healthy employees are seen as an important asset of the organization. Subjects that are on the management agenda are for example: a good balance in work and private life, employability in general, health, security, equal possibilities and rewards for men and women, and employability of employees with limitations.

(2) Partners in the value chain (customers and suppliers)
Also, customers and suppliers of a company can be seen as the primary stakeholders. A company has obligations towards them. Think about integrity, on-time payment to suppliers, involving them in developments and support the continuity of operations of both customers and suppliers.

(3) The environment and natural resources
The awareness that companies have an obligation in a healthy planet has increased substantially. Companies are forced or have the conviction that their ecological footprint should be reduced. Think about the reduction of natural resources, reduction of fossil-based energy and using sustainable energy, reuse of products in a circular economy[476] and avoiding pollution of the environment[477]. This is the dominant dimension used in academic literature[478].

(4) The neighborhood

Companies, especially those with industrial plants, have an impact on the neighborhood of their premises. In this sense, the neighborhood is one of the stakeholders. Think about reducing the nuisance of transport of raw materials and products, the reduced availability of houses for locals and the nuisance of smell. This means that companies should have a dialogue with the environment and help them with solving its problems and challenges.

(5) The government
The local, national, and sometimes European governmental organizations can be seen as stakeholders. The company has obligations like meeting regulations and paying taxes. But also, companies have the obligation as a good corporate citizen to co-create with government in new developments.

(6) Shareholders
Finally, shareholders are an important stakeholder group. This group is responsible for the continuity and growth of the company. By serving the interests of shareholders, in the form of profits, dividends and the increased value of shares, this group is served.

As you have seen in the first chapter, B2B companies operate in value chains. Therefore, initiatives are not only focused on the own organization and products. These can also be focused on what the company demands or even requires from its suppliers and on helping customers with improving their sustainability.

10.3. Four Responsibility Levels

As you have seen in the previous paragraph, companies have obligations to a variety of stakeholders. Management is more and more balancing act to keep all these stakeholders satisfied. An interesting concept concerning this subject is that of the CSR-Pyramid (see Figure 10.2.[479]). This pyramid shows four levels of corporate responsibility and working on sustainability.

- ✓ The basis is the corporate economic responsibility. A company must make sustainable profits to guarantee continuity. This is important for employees (they have jobs), customers and suppliers (continuity in supply and demand) and shareholders. Both in practice and science this responsibility is often not seen as sustainability, but in fact it’s the fundament.
- ✓ The second level is that of legal responsibility. Companies must meet the law and other regulations. These can be related to e.g., finance, labor, and the environment. Company management has an obligation to meet laws and regulations and stimulate fair operations.
- ✓ But companies’ responsibilities go further. There are many issues that are not (yet) regulated in laws and regulations but are required by society. In this sense, companies have an ethical responsibility and must comply with ethical societal norms. Just like laws and regulations, these are often different per country. Ethical societal norms are often less concrete and more difficult to manage because of different interests of different stakeholders. What is preferred by one group can be not acceptable for the other.
- ✓ Finally, companies have philanthropic responsibilities. It is the role as a good corporate citizen that for free offers resources, money, and other means to society to solve major problems. Think about sponsoring and donations to NGO’s and good causes. If a company does not do this, it’s not seen as unethical, but fulfilling this responsibility helps in improving trust and image.

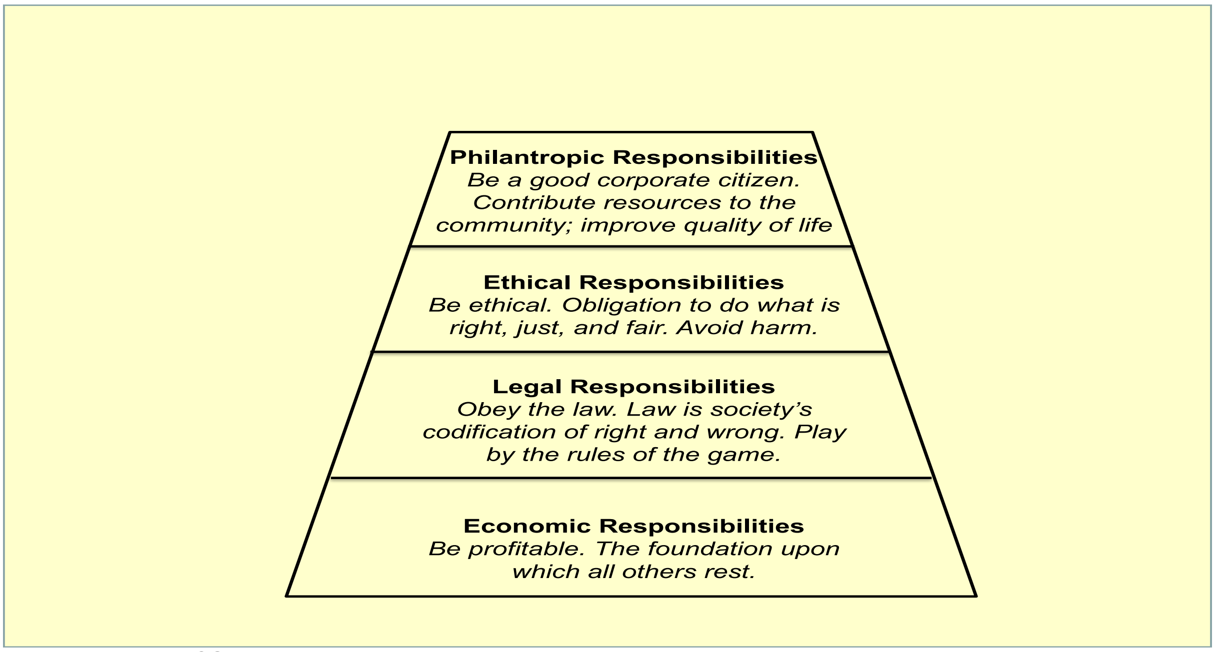


Figure 10.2. The CSR-Pyramid

The CSR-Pyramid can help with plotting current and future sustainability initiatives. A while ago I helped a management team to do this exercise. We plotted initiatives they already did/had, and those that could be potentially done in the future in a matrix like that in Figure 10.3. Of course, not all boxes must be filled.

	Economic	**Legal**	**Ethical**	**Philanthropic**
Employees				
Value chain (customers, suppliers)				
Environment, natural resources				
Neighborhood				
Government				
Shareholders				

Figure 10.3. Format for Making a Sustainability Inventory

10.4. Why is Sustainability a Part of the CVP?

Companies I worked for in the last years that worked on sustainability had different motives for it that could be related to 'must do' and 'want to do'. Basically, what you see is that most work on it because the government and/or customers require them to do so (must), some of them work on it because they have the intrinsic motivation to do so.

Government uses laws and regulations to force companies to work on the six dimensions of sustainability. From a legal responsibility perspective companies must comply. Not doing so, not only leads to problems with governmental organizations and fines, but also to negative news and negative effects on company's image. This could lead to a negative impact on (potential) customers' image, trust, and behavior. In this way it has an indirect effect on customers. But there is also a direct reason.

Customers ask for it. A while ago I talked with a project leader of a paint manufacturer. He had done a job last years in implementing a corporate policy on sustainability. Customer required the manufacturer to comply with various international standards and guidelines to protect the environment. Now that this objective had been achieved, the project was over and general management was responsible for the topic. In various B2B markets customers as or even require their suppliers to comply with international standards and guidelines. The sustainable clothing brand that requires the clothing manufacturers to use fair and healthy working conditions for the employers and only use sustainable raw materials. Or the car manufacturer that requires its suppliers of leather car seats to replace the leather for more sustainable materials in the future. These requirements are knock-out criteria in tenders and the selection of suppliers. Nowadays, it is standard a part of the contractual requirements of potential customers.

But working on sustainability is not always a kind of defensive commercial action. Research[480] shows that working on sustainability by B2B companies has positive effects on customers' trust, and image, customer loyalty and partnership. A third group of companies is that where board members and shareholders really believe in the power of sustainability. In these companies it's an important part of the company's mission, vision, and strategy. The company is intrinsically motivated to increase the sustainability of the organization and its products and see it as a positive business case. For example, sustainability is an important strategy of a paper manufacturer. This company uses recycled paper to make new paper. In several projects it tries to find possibilities how it can decrease its environmental footprint. Based on the philosophy of 'cradle-to-cradle' projects are initiated where companies with large amounts of used paper directly transport it to the manufacturer. Cradle-to-cradle is an approach within the circular economy based on reusing products and avoiding any waste. Both the management and the owner really believe in the marketing power and positive business case of sustainability. This is also the case for the board and shareholders of a tech-startup in the business of knitting fabrics. The company is established based on the conviction that textiles also can be made without massive pollution and use of natural resources. It only uses recycled materials to knit fabrics. Startups with disruptive innovations related to sustainability seem to have a good breeding ground. There are investment companies, both venture capital and private equity, active that only invest in startups with innovative CVPs that are based on sustainability. This is different from a couple of decades ago.

Finally, there can be a big difference between what companies do concerning sustainability and the perceptions of their customers[481]. Sometimes the perceptions are more positive than reality because of 'greenwashing'. The company tries to look better, be greener, than it really is. The role of marketing is to listen to the needs of stakeholders like customers, stimulate working on sustainability and communicate about results with those stakeholders. Companies use different means fort this. Beside co-creation with customers, this is the communication of certificates and sustainability reports.

Certificates are a way a supplier can show its sustainability[482]. There are several standards and guidelines organizations can choose to comply with leading to a certificate. Examples are ISO 14001 (international standard for the development and assurance of an environmental management system), ISO 50001 (standard for reducing the use of energy) or the guideline ISO 26000 (guideline for corporate social responsibility). By being compliant to these standards the company can use and communicate a certificate, in the case of a guideline by communicating a self-declaration. All this makes visible how a company works on sustainability. This gives (potential) customers the assurance they ask, or sometimes even require. Another way to communicate sustainability is to, along with the annual financial statement, communicate an annual sustainability report. Have a look at sustainability-reports.com to see some great examples. But, probably the most powerful way to show customer the companies' sustainability is to co-create with customers as partners in projects to for example reduce the joint ecological footprint.

In the previous two chapters the differentiation between customer segments was discussed. How about sustainability? I could imagine that when a low-VOC (potential) customer has strong requirements these could be refused. That could be different when many customers, or when a high-VOC customer, require actions to be taken. Also, a company will spend more effort in joint co-creation in sustainability improvement with high-VOC compared with low-VOC customers.

10.5. Summary

In the introduction three important questions for this chapter are given. Here, in this last paragraph these are answered briefly. Basically, these answers are the core of this chapter.

(1) Sustainability, where to work on?

Sustainability is related to the interests of the various stakeholders a company has. Actions can be related to six dimensions: employees, customers/suppliers, environment and natural resources, neighborhood, government, and shareholders. These actions can be based on the company's economic, legal, ethical, and philanthropic responsibilities.

(2) Why is sustainability a part of the CVP?

Not meeting the governmental requirements can lead to severe problems with the image. Customers are asking, or even require it. Not fulfilling these means losing customers and business. Finally, for a part of the companies, sustainability is there 'raison d'être'. They use it as their main philosophy and business case. It is the reason why they have customers.

(3) How to differentiate between various customer segments?

If customers ask for it, how far the supplier goes in its offering depends on the VOC of that (potential) customer.

Chapter 11. Total Cost of Ownership and Customer Value-Based Pricing

11.1. Introduction

Total cost of ownership (TCO) is an important element of each CVP. The benefits can be very attractive for a customer, but whether the customer buys it depends on the sacrifices he must make, and TCO in terms of monetary costs for the customer is an important sacrifice. TCO is the sum of all monetary sacrifices a customer must make in an exchange relationship. Price is often seen as the sole monetary cost. In B2B relationships however, TCO can also be the costs of acquiring and using the products. In this case, only looking at the price is not a good representation of TCO. Just imagine, the price of Machine A is 600.000 Euro with 2.000 Euro for maintenance cost per year. The price for Machine B is 570.000 Euro with 9.000 Euro maintenance cost per year. The technical lifespan is 6 years. What machine would you choose as a customer?

This chapter starts with a paragraph on TCO. Within TCO, the acquisition price is an important sub-element. Therefore, the following paragraphs deal with pricing. Pricing is a difficult practice: "defining an appropriate pricing strategy is one of the most critical, difficult and complex decisions that managers have to make"[483]. Therefore, it is strange that pricing gets relatively little interest among marketing academics[484]. In this chapter I also discuss several important issues about pricing. The main questions answered in this chapter are:

1. What is total cost of ownership?
2. What is pricing and how do firms set prices?
3. What are the different pricing strategies?
4. How is a customer value-based price determined?
5. What is a Customer Value Model?

A pricing strategy that addresses the customers' TCO is customer value-based pricing, also named 'value pricing', 'customer-based pricing' or 'value-informed pricing'. Therefore, I describe this pricing strategy in detail. I explain what it is, how it is done and why so few companies use it. Basically, it is setting a price based on VFC. It is therefore not the easiest pricing strategy. Maybe Hinterhuber[485] gives an answer on why firms have difficulty implementing a customer value-based pricing strategy: "If the company itself does not know the value of its goods or services to customers, how does it know what to charge customers for value?". Especially in B2B situations of servitization or developing total solutions, pricing is a very complex issue that has a major impact on the successful implementation of servitization and total solutions. Many companies struggle with implementing profitable services or total solutions[486]. Pricing is one of these hurdles. In § 11.5. I discuss this topic. Finally, I would like to stress the importance of § 11.9., which discusses TCO Models. Developing/constructing such a model based on customer insights gives a solid base for value-based price setting.

11.2. Total Cost of Ownership (TCO)

TCO is the sum of all monetary costs a customer must make in an exchange relationship. Three definitions of TCO are presented in Figure 11.1.

> *"The total cost of ownership quantifies all costs associated with the purchasing process throughout the entire value chain of the firm. The cost of the acquisition and subsequent use of an item or service that is to be purchased is determined. The approach goes beyond price to consider all costs over the items' entire life such as those related to service, quality, delivery, administration, communication, failure, maintenance, ..."*
> (Degraeve et al., 1998, p. 4).
>
> *"TCO is a purchasing tool and philosophy aimed at understanding the relevant cost of buying a particular good or service from a supplier. The concept takes into account all costs that the purchase and the subsequent use*

of components entail in the entire value chain of the company, and thus expands the notion of purchasing cost by combining the life cycle cost effects with the acquisition price" (Hurkens et al., 2006, p. 28).

"Total cost of ownership is the sum of purchase price plus all expenses incurred during the productive lifetime of a good or service minus its salvage or resale price" (Anderson et al., 2009, p. 103).

Figure 11.1. Three TCO-Definitions

These costs involved, differ per type of relationship (transactional versus collaborative) and the used value concept. In Chapter 4 I have described two value concepts. The content of TCO is different per concept:

- ✓ Value-in-Exchange: TCO is the acquisition price.
- ✓ Value-in-Use: TCO is the sum of the costs and extra profits for acquiring and using the product.

Customer's purchasing decisions not only affect the customers' procurement department and its purchasing budget, but the efficiency and costs of all departments in terms of indirect costs in areas like inventory management, quality assurance, administration, and payment [487]. For example, when procurement buys large quantities because of a price reduction, the cost of storage goes up. When procurement buys inferior products, the cost of quality assurance and waste go up. It is therefore important for both exchange partners to use the customers' TCO and not only the purchase price.
Scholars have described various lists of TCO elements. Some examples are:

- ✓ Purchase price, acquisition costs, transportation, installation, order handling, repairs and maintenance, risk of failure or poor performance[488].
- ✓ Capital investments, managerial time, transaction costs, direct product costs, and operating costs[489].
- ✓ Research among 140 supply managers: operational costs, quality related costs, logistics, technological advantage, supplier reliability and capability, maintenance, Inventory cost, transaction cost, life cycle, initial price, customer related, opportunity cost, miscellaneous. They make a difference between 'core cost drivers' relevant for all products and 'modular cost drivers' only relevant for certain products[490].
- ✓ Cannon/Homburg and Menon et al.[491] give a description of the TCO elements including additional costs with the product. These are: purchase price, acquisition costs and operation costs.

As you can see, there is no standard list TCO elements. It can be short; it can also be very extensive. Figure 11.2. gives an overview of the definitions of these TCO elements[492].

"Purchase price: the actual price charged by the supplier for the product at the time of transactional exchange".

"Acquisition costs: costs resulting from acquiring and storing the products involved in the transaction. Expenditures and efforts related to ordering, delivering, storing products, as well as monitoring supplier performance, coordinating and communicating with the supplier".

"Operations costs: costs incurred by the customer in the day-to-day operations of its business. These costs reflect expenditures for research and development, manufacturing, internal coordination, and cost associated with downtime".

Salvage/resale price: the money received when selling the product (e.g., at the end of its lifetime)

Figure 11.2. Definitions of TCO elements

Therefore, to keep it simple, I used the elements given by Menon et al.[493] and added:

- ✓ The salvage/resale price (in line with the last definition in Figure 11.2.).
- ✓ The extra profit a customer can make by using a certain supplier.
- ✓ The placeholders: benefits and/or sacrifices that are important, but that cannot be translated into Euros.

Figure 11.3. shows the elements of a TCO Model. You could see the sacrifices as the 'pain points', and the benefits as the 'pleasure points' for the customer[494].

Benefits for the customer	Sacrifices for the customer
➢ Acquisition process costs ➢ Operations costs ➢ Extra profit ➢ Salvage/resale price	➢ Price product (good/service) ➢ Discounts
➢ Placeholders: elements that cannot be translated into Euros	

Figure 11.3. The Elements of a TCO Model

This leads to the following definition:

> *TCO is the total of monetary cost and extra profits including purchasing price, salvage/resale price, and acquisition and operations costs related to the full productive lifetime of a good or service.*

Suppliers can use different strategies to decrease the TCO for their customers:
✓ Reduce the customer's additional acquisition process costs and/or operations costs.
✓ Increase the customer's extra profits.
✓ Increase the salvage/resale price for goods at the end of the technical lifespan.
✓ Reduce the price customers must pay for the product (e.g., by offering discounts).

As you can see, it's not always the price of products that can make the difference. Therefore, customer's cost reductions through co-creation in joint improvement projects are essential for suppliers and healthy exchange relationships (see also § 9.6.).

11.3. Pricing

The purchasing price is an important TCO element. For example, 56% of the average manufacturing firm's budget is spent on materials[495]. Therefore, the remainder of this chapter describes pricing, pricing strategies and the customer value-based pricing strategy in detail. A basic definition of price is: "the number of monetary units a customer has to pay to receive one unit of a good or service"[496]. Pricing is "the key mechanism to share the value created between the customer and the supplier"[497]. The B2B pricing process consists of six activities:

1. Determining a price strategy: determining the way of pricing depending on the company's strategy. The main strategies are cost-based, competition-based and customer value-based pricing.
2. Price analysis: the collection of price information from internal and external sources. Which sources are used depends on the price strategy. For example, for value-based pricing, extensive customer intelligence is necessary whereas for cost-based pricing this is not the case.
3. Price framing and setting: determining how to frame the prices and the actual determination of the prices of goods, services, and solutions.
4. Price implementation: making sure that the sales force understands the price setting and can sell it effectively.
5. Price auditing: periodically reviewing the prices and factors that can influence it. Results can lead to actions on the other four activities.
6. Price adjustments. Based on price auditing it can be necessary to adjust prices for customers. Both customers and salespeople like this, but it is a must to stay profitable.

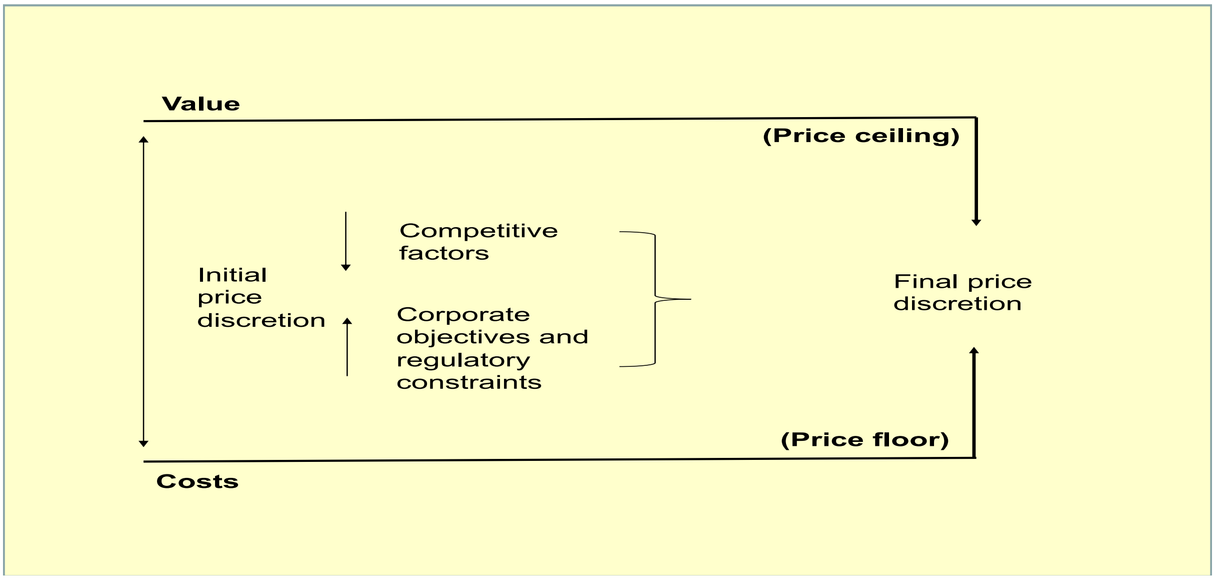


Figure 11.4. Conceptual Orientation to Pricing

As indicated before, pricing is an organizational capability and a complex process that is influenced by many factors. A pricing strategy is "the means by which a pricing objective is to be achieved"[498]. A simplified representation of this 'balancing act' is given in Figure 11.4.[499]. At the basis there are the costs of making a good, service, or solution. You could define this as the price floor. The final price is somewhere between the minimum price (price floor) and maximum price (price ceiling). Factors like competition, regulatory constraints, and company objectives influence a company's pricing strategy. Competitive factors could have an influence. If there are no or only a few competitors, it significantly influences the pricing. Furthermore, the price these competitors are asking also has an impact on the focal firm's price. Other environmental factors that have an impact on the price are the regulatory constraints, for example from national governments, and the corporate objectives, such as the company's culture and strategy.

Whereas the more product-driven organizations use a cost-based strategy, those that are more externally oriented use a competition-based or customer value-based strategy. See the next paragraph for a description of these pricing strategies.

Pricing is a company's capability and fits within the foundations of the resource-based view theory[500]. See § 15.2 for an explanation of this theory. "The development of an effective pricing process (i.e., setting, changing, and negotiating prices) is time-consuming, costly and complex with significant organizational and informational barriers restricting the process"[501]. A company develops price setting capabilities on the six activities (see start of this paragraph) that are complex routines, skills, systems, and coordination mechanisms[502]. Depending on the capabilities of an organization, pricing can contribute to a company's competitive advantage and superior profitability (or not).

11.4. Three Pricing Strategies

There are three generally accepted pricing strategies[503]. They are referred to as the 3Cs of pricing: cost-based, competition-based and customer value-based[504]. They are based upon whether companies primarily consider costs, competitive price levels or data on the customer's perceived value in their price setting decisions[505]. In this paragraph I discuss these three different strategies. In Figure 11.5. an overview per strategy is given based on Hinterhuber and Noble/Gruca[506].

Cost-based pricing	
Definition	Cost based-pricing approaches determine prices primarily with data from cost accounting
Description	We establish the price of the product at a point that gives us a specified percentage profit margin over our costs.

Examples/related strategies	Cost-plus pricing, Mark-up pricing, Target-return pricing, Contribution pricing, Rate-of-Return pricing, Contingency pricing
Main strength	Data readily available; relatively easy
Main weaknesses	Does not take competition into account
Overall evaluation	Overall weakest approach
Competition-based pricing	
Definition	Competition-based pricing approaches use anticipated or observed price levels of competitors as primary source for setting prices
Description	Leader pricing: we initiate a price change and expect the other firms to follow. Parity Pricing: we match the price set by the overall market or the price leader. Low-price supplier: we always strive to have the low price in the market.
Examples/related strategies	Leader pricing: Umbrella pricing, Cooperative pricing, Signaling Parity pricing: Neutral pricing, Follower pricing Low-price supplier: Parallel pricing, Adaptive pricing, Opportunistic pricing
Main strength	Data readily available
Main weaknesses	Does not take customers (and customer willingness to pay) into account
Overall evaluation	Sub-optimal approach for setting prices; appropriate for commodities (if, and only if, goods/services in question cannot be differentiated)
Customer value-based pricing	
Definition	Customer value-based pricing approaches use the value a good or service delivers to a predefined segment of customers as the main factor for setting prices
Description	We ask a price that reflects the difference in value for the customer compared with the next best alternative
Examples/related strategies	Perceived value pricing, Value pricing, Customer pricing, Value-informed pricing, Value-in-use pricing
Main strength	Does take customer perspective into account
Main weaknesses	Data are difficult to obtain and to Interpret. This pricing approach may lead to relatively high prices. Need to take long-term profitability into account. Customer value is not a given, but needs to be communicated
Overall evaluation	Overall best approach, direct link to customer needs

Figure 11.5. Overview of Three Pricing Strategies

Cost-based pricing: when using cost-based pricing, often named ‘cost-plus pricing’, the fixed and variable costs of a product are quantified. Known costs + X% = market price. Costs include for example the development, production, distribution/delivery, and marketing[507]. These costs indicate the bottom-line price a company needs to break-even. Based on these known costs a certain percentage is added to the price to generate a targeted profit. This method asks for a thorough understanding of the fixed costs, the expected volume of sales, and the indirect costs.

Competition-based pricing: when using competition-based pricing the price is set in relation to the competition’s prices. The price can be set similar to competitors (Parity pricing), slightly lower (Low-price supplier) or higher (Leader pricing). This can be done in regular price setting situations and/or situations of tenders where potential customers ask several potential suppliers to make a proposal. In general, the company with the largest market share is the price leader, all other companies follow. This strategy asks for a thorough understanding of actual market prices and the adjustments made (e.g., discounts).

Customer value-based pricing: when using customer value-based pricing, the price is set in relation to the VFC and is based on the Value-In-Use concept (see § 4.4.). It is necessary to understand the customer’s perception of the value of a good, service, or solution in relation to the next best alternative. This difference in value could lead to extra productivity/profits or cost reductions for the customer and is translated into money[508]. Based on these calculations a price is set. This strategy asks for a thorough understanding of how customers use the product and the differences with alternatives. Typical situations where this pricing strategy could be effective are[509]:

- ✓ New or enhanced products and services where these offer significant improvements for customers.
- ✓ Products incorporating novel technologies that have an advantage for customers.
- ✓ Products that are completely new in the world with no good alternatives.
- ✓ Existing products and services being introduced into new geographical markets.
- ✓ Markets where competitors are already using this pricing strategy.

- ✓ Customized and tailor-made product solutions with a unique added value for customers.
- ✓ Products offered in the form of goods-services bundles and total solutions.

As you can see, these are all market situations where the product has a differential value for customers. You could imagine that customer value-based pricing would not work in low price, uniform, and commoditized markets.

Research of Ingenbleek et al.[510] showed that there is no best or bad strategy. What strategy is most effective depends on factors like whether the competition in the market is high and whether the product has a high relative advantage (see above). However, they showed that customer value-based pricing tends to outperform the other two strategies in many situations. In general, marketing literature[511] states that understanding customer perceptions of Value-In-Use is key for effective pricing and it outperforms the other two strategies because it is outside-in and the maximum achievable price is determined. This has a positive effect on profit margins. Despite this superiority, cost-based pricing and competition-based pricing are used most frequently[512]. Liozu[513] indicates that only 17-20% of business companies use customer value-based pricing. In § 11.7. I discuss this more in detail. Finally, one remark concerning business practice. My observations are that companies often use a blended approach. The three pricing strategies are not mutually exclusive[514]. Managers often use a blend of different methods related to the three strategies to eventually set a price.

11.5. Influencing Customers through Price Framing

In Chapter 8, I described organizations' answers to commoditization: service infusion, servitization and total solutions. For individual goods and services pricing is relatively easy. But how should companies frame their prices of complex offerings like goods-services bundles (GSB) and total solutions? That's a little bit more complicated. In § 8.5. I already mentioned the 'flexible service offerings model'[515]. But pricing goods/services and more complex offerings also requires a larger focus on framing the pricing system.

> *Price framing is influencing customer behavior on purpose by structuring and presenting prices in a certain way.*

Noble and Gruca, and Smith[516] give some insights in how to approach this. The approach can be divided into price framing for individual products, goods-services bundles, and total solutions (see Figure 11.6.[517]).

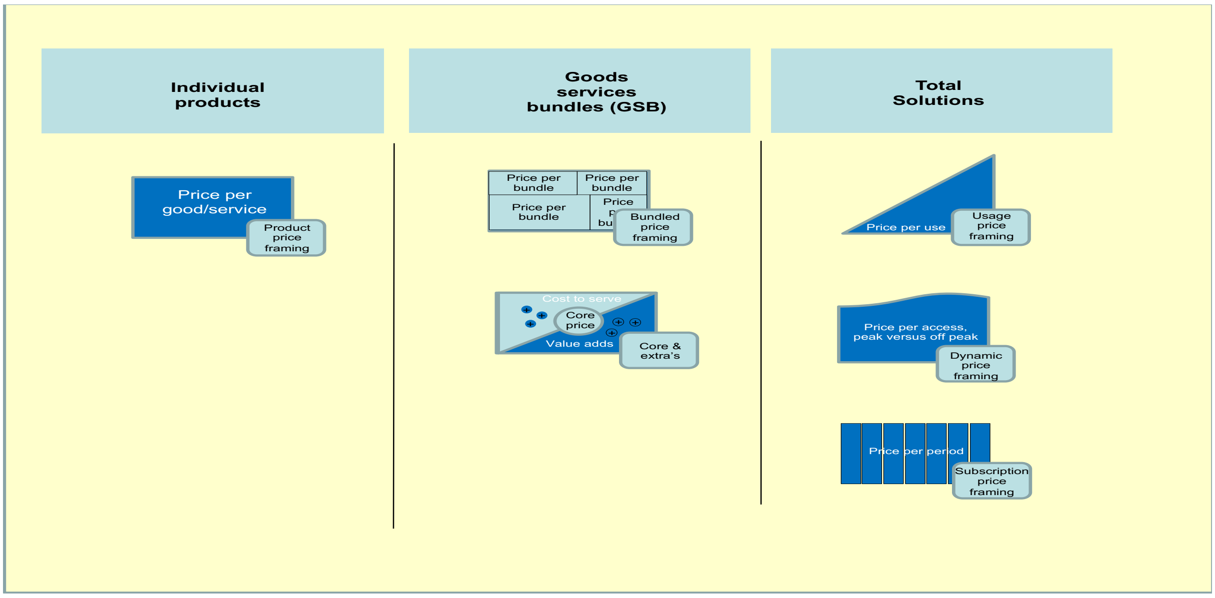


Figure 11.6. Various Price Framing Methods

Individual products (goods/services)

The first one is 'individual product framing' for an individual good or service. This is the traditional way of pricing individual goods and services. Noble and Gruca[518] indicate that there are different framing strategies for new products. When a company's objective is to maximize the short-term profits of new products, a company uses price skimming (also called premium pricing).

- ✓ Price skimming: we set the initial price high and then systematically reduce it over time. Customers expect prices to eventually fall.

Conversely, when a company's main strategy is to build market share, it could choose to use penetration pricing or experience curve pricing (also called learning curve pricing).

- ✓ Penetration pricing: we initially set the price low to accelerate product adoption.
- ✓ Experience curve pricing: we set the price low to build volume and reduce costs through accumulated experience.

Goods-services bundles (GSB)

For GSB's used in service infusion and servitization two types of price framing can be used: bundled price framing and core and extra's:

- ✓ Bundled price framing: this means that the customer pays one price for the specific GSB. This can be one total price for a bundle consisting of tangible goods and intangible services.
- ✓ Core and extra's: the customer pays a core price for the core of the GSB and pays extra's for additional elements. Noble and Gruca[519] describe a variant on this: Complementary product pricing. Complementary Product Pricing: We price the core product low when complementary items such as accessories, supplies, spare parts, services, etc. can be priced with a higher premium.

Total solution

Customer solution benefit framing can be used for total solutions. A characteristic of a total solution is that the customer pays one price for the total solution (see § 8.6.). Smith[520] discusses three types of pricing that could be used:

- ✓ Usage price framing: the customer pays every time he uses the solution. Pricing systems could be based on per use, per kilometer, etc.
- ✓ Dynamic price framing: in fact, this is a price per access/use with different prices depending on the moment (peak versus off peak).
- ✓ Subscription price framing: the customer pays a fixed price per period for the full solution.

Framing prices like this is necessary to have a logical way of pricing a GSB or total solution. Additionally, these pricing structures can "differentiate from competitors so that customers perceive that the price they pay aligns with the unique value they get"[521].

11.6. The Essentials of Customer Value-Based Pricing

"Customer value-based pricing is the method of setting a price by which a company calculates and tries to earn the differential worth of its product for a particular customer segment when compared to its competitor"[522]. It is anchored in the VFC-Value-In-Use concept. It means that the value is used, not at the moment of exchange but for the full technical lifespan of a product or duration of a contract. In Figure 11.7.[523] I have described how it is determined. The reference value (RV) is the value and price as perceived by the customer of the next best alternative. This can be the offering of a competitor, but also organizing it by the company in-house. This is the price the company pays for the alternative. The differential value (DV) is the difference the supplier offers in value. Because of differential features of the supplier's product, the customer can be more productive, sell more and/or reduce costs[524]. Eventually this leads to the economic value (EV) that consists of the reference value plus the differential value (EV = RV + DV). This is the total value the customer receives and the related maximum price it would pay for it.

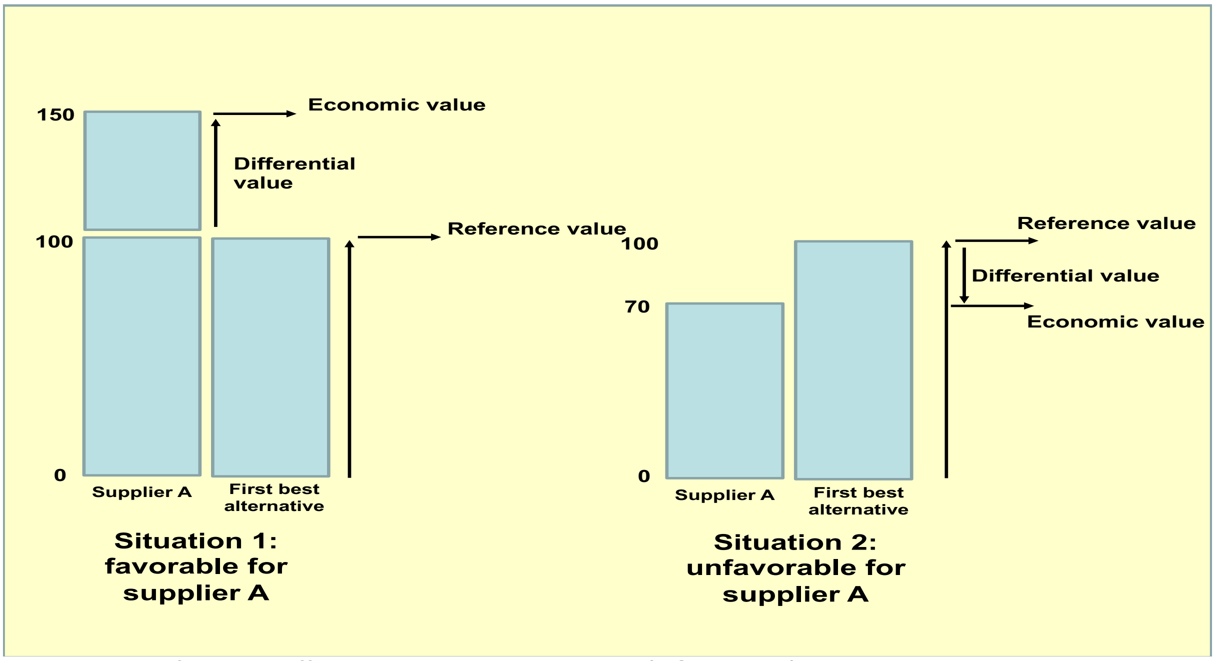


Figure 11.7. Reference, Differential and Economic Value (2 Situations)

In the positive case (left side of Figure 11.7.) the benefits of supplier A are 50 higher than that of the first best alternative. Since the customers receives +50 units extra value, a higher price related to the economic value could be asked. This is the value-in-Use price or the indifference price: "the monetary amount at which the customer has no preference between the supplier's offering and the next best alternative supplier's offering"[525]. Of course, in practice the actual price will be lower than that upper bound. This is the favorable situation where the value of the company is higher than that of the competitor. But there can also be an 'unfavorable situation' (right side of Figure 11.7.) where the differential value is negative (-30 units). In this case the competitor offers a better value. Then, the economic value of your offering is lower than the reference value and it does not make sense to start competing.

For customer value-based pricing, five practices are important. These are a segment/customer approach, understanding customers' operations, comparing with the next best alternative, translating value into money and customer perceptions.

Practice 1: segment/customer approach

As you have seen in the previous chapters, the average customer does not exist. The value of product features can be different per customer segment. Therefore, it is essential to calculate the Value-in-Use price not for the average customer, but per VFC-customer segment. In situations with very large accounts, this even could be done per customer[526].

Practice 2: understanding customers' operations

To understand the exact extra benefits and differences in customers' sacrifices it is important to "understand the customers' business models, business drivers, processes, and ultimately, what customers value"[527]. How does the good, service, or total solution work compare with the alternative? What cost reductions can be made? What extra productivity can be realized? To understand this, market research among (existing) customers is essential. This competence of value assessment can be seen as an important resource (see the description of resource-based view theory in § 15.2.).

Practice 3: comparing with the next best alternative

Compare the value offered with the next best alternative. That can be the customer's potential or current supplier[528], but it can also be a comparison with organizing the activities in-house.

Practice 4: translating value into money
When calculating the differential value only use concrete extra benefits. Companies can put a monetary value (i.e., a Euro amount) on cost reductions and extra revenues[529]. Features like being market leader or having a good reputation are important, but difficult to translate into money, and should therefore not be integrated within monetary calculations.

Practice 5: customer experiences
Eventually, it is all about the value as perceived by the customer, not as calculated by the supplier. Therefore, taking psychological factors into account by framing prices is essential. “Framing occurs when people make different choices based on how decision information is presented or portrayed”[530]. For example, suppliers could ask a fixed price with everything included, or suppliers could offer options where only the core product is priced. For all other options customers must pay extras. These examples of framing lead to different customer choices. The examples given in Figure 11.6. could be seen as methods to frame the price more attractively.

Customer value-based pricing is a customer centric pricing strategy[531] that is being performed outside-in (it starts with the customer) and is based on the Value-in-Use concept. In this sense it is in conformance with the service dominant logic theory that builds strongly on the resource-based view theory[532] as described in § 15.2. In service dominant logic, value creation has a central role; see § 2.3. for a more detailed description. Value assessment and determining referral value, differential value, economic value, and the Value-in-Use price is a price setting process where the supplier and potential customer are co-creating. “Not only the how much, but also the how, whether, when, by whom and where elements of the reward” are jointly determined[533].

11.7. Why Most Companies do not Use Customer Value-Based Pricing
You have seen that customer value-based pricing is superior to the other two strategies in many situations[534], but despite this it is only used in 17-20% of the organizations[535]. Why is this percentage so low? In this paragraph, I give some externally and internally induced barriers. However, relatively much remains unknown about what drives/prevents companies from using customer value-based pricing[536].

The <u>external barriers</u> are trends in a market. Suppliers in commoditized markets are forced to use cost- or competition-based pricing[537]. Customers with purchasing power force suppliers to use these pricing strategies to decrease prices resulting in lower margins for the suppliers. Only the leading supplier organizations can withstand this pressure and choose for customer value-based pricing.

The <u>internal barriers</u> within a company mentioned in literature[538] are:
- ✓ Insufficient top management support. Research shows that more than 40% of executives lacks an understanding of customer value-based pricing; especially those in companies not using it. Top management confuses it with other pricing tactics like total cost of ownership. It is people within the company that influence the pricing choices. Besides misconceptions, also avoidance of risk could be a factor. Customer value-based pricing could be seen as subjective, different between customers and difficult to implement, leading to high levels of uncertainty.
- ✓ The difficulty of a reliable VFC-assessment and willingness to pay. It is difficult to collect, interpret and understand customers’ perceived value.
- ✓ Difficulties in segmenting customers.
- ✓ Difficulties in managing the sales force so it can effectively sell Value-in-Use and the connected customer value-based pricing. Customer value-based pricing is not a simple rule of thumb (like cost-based pricing), so it is more complex.

In general, customer value-based pricing asks for a customer-driven mindset and culture within the organization.

11.8. Market Research for Customer Value-Based Pricing

A couple of years ago I had an interview with the commercial manager of an import/export metal trading company. They had done a customer satisfaction survey among a sample of their customers. One of the main conclusions was that customers were dissatisfied with the delivery times. They wanted shorter and more tailormade delivery times. After some months the management decided to improve this service aspect. They invested large amounts in setting up a professional logistics department and acquiring and installing sophisticated logistical ERP-software. Furthermore, the organization of the warehousing and transport were upgraded. The total investment was 8-10 million Euros. To cover these investments the company increased its prices. But then the next problem appeared: customers were not willing to pay higher prices and threatened to switch to the competition. The morale: the trading company had not asked customers if they were willing to pay extra for the improved service.

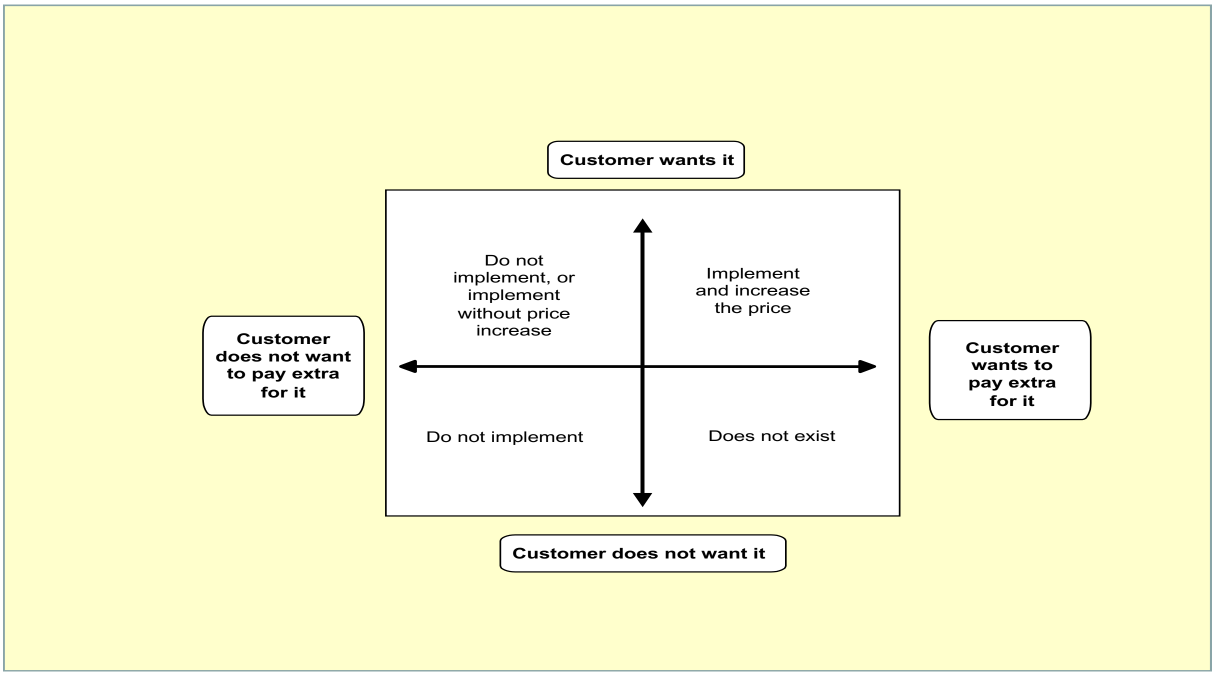


Figure 11.8. Customers' Willingness to Pay

Figure 11.8. shows a matrix with customer wants and willingness to pay on the axes. As you see, only when the customer wants a good/service (feature) and he is willing to pay for it, it is justifiable to implement it.

In microeconomic terms, customer value is the difference between the customer's willingness to pay and the actual price paid, that is, customer surplus or the excess value retained by the customer[539]. But this means that the company needs to research customers' perceived value. Hinterhuber[540] describes four different ways to do this:

1. Interviews with experts within the own company. By using brainstorm sessions with for example key account managers and other experts within the company, important information can be obtained.
2. Focus groups or individual interviews with customers. Focus groups are meetings with 5-15 customers in which the importance and willingness to pay are discussed. However, especially in B2B settings, it is usually easier to organize individual interviews with customers rather than create focus groups.
3. Conjoint (or trade-off) analysis. In a survey for a conjoint analysis, a set of potential product offerings is researched. Each offering has a set of value drivers with different levels. In the survey these levels are varied systematically. Respondents indicate their preference. Using statistical software, the customer perceived value of each of the levels is analyzed.
4. Assessment of Value-in-Use. By conducting case studies using observations and interviews within customers that use the good, service or solution its value for the customer can be analyzed and

calculated. Extra benefits, cost reductions and other advantages can be calculated. In the next paragraph I describe the way to use this information in a Customer Value Model.

11.9. Price Setting by Developing Customer Value Models

Sonoco's Industrial Containers Division, which produces plastic drums, routinely conducts Cost-in-Use studies. The objective is to document the incremental cost savings for customers and to show the gains of using Sonoco goods and services[541]. Suppliers and potential suppliers can even go a step further and not only limit themselves to the drivers of costs, but also conduct a Value-in-Use study. In such a study, all relevant value drivers are compared with another offering. The offering may be evaluated against competitors, but also against producing in-house. To that end, a field 'Value-in-Use assessment' can be used[542] analysing the various value elements. Value assessment can be defined as: "the work process of obtaining an estimate of the worth in monetary terms of some present or proposed market offering or element of it"[543].

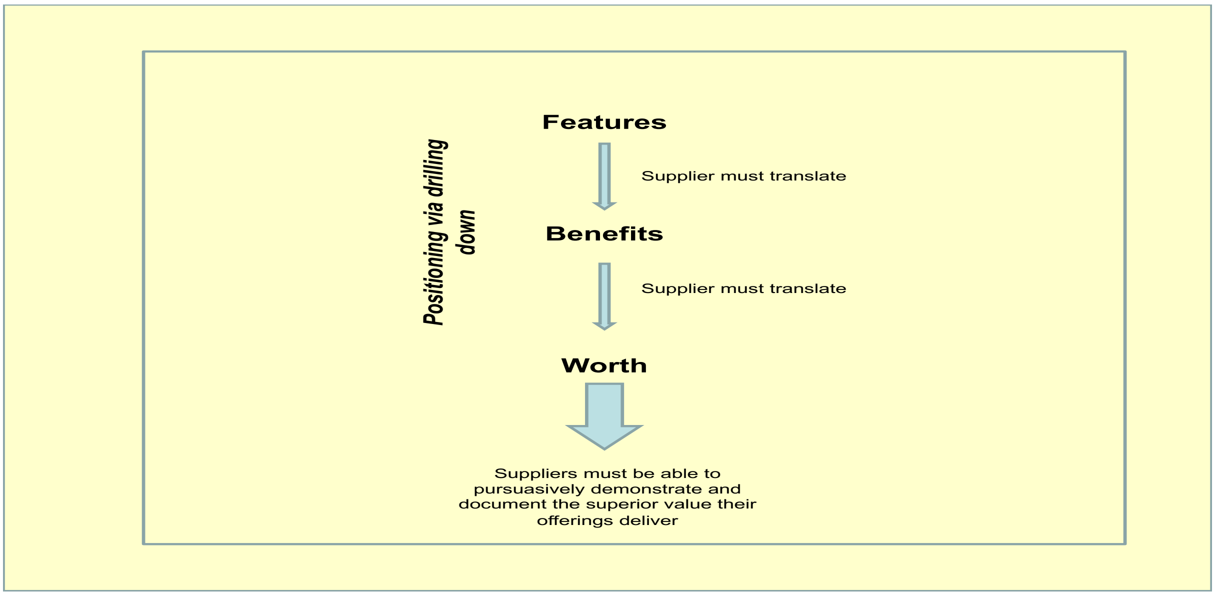


Figure 11.9. Positioning through Drilling Down

Figure 11.9.[544] shows the way to position the organization through drilling down. By conducting in-depth research within a customer segment, or even an individual customer, the customers' benefits and sacrifices of the supplier's product features become clear. These are the benefits and sacrifices compared with the next best alternative. These benefits/sacrifices are then translated in terms of worth for the customer (Euro). Eventually it is important to persuasively demonstrate and document the superior value of the offering.

For conduction this value analysis a Customer Value Model can be used. This is "a data-driven estimate of what a present or prospective market offering is worth in monetary terms to targeted customers relative to the next-best-alternative offering for those customers"[545]. It consists of three elements that are compared with the next best alternative:

✓ TCO: the total cost of ownership
✓ The extra profit
✓ Placeholders

In this sense customer value (CV) = TCO + extra profit + placeholders

Such a model can be developed in field studies using seven steps.

Step 1. List value elements

Select all the relevant value elements for the customer. These can be benefits like extra profit and cost savings, but these benefits may also be non-financial. Then, it is also important to select the price elements in terms of one-time or structural costs, depreciation, etc.

Step 2. Configure solution and identify competitors
In this second step, determine your strategy. Determine what alternatives you are going to compare in your customer value model. If there are only two alternatives, the model is relatively simple. Alternatively, what is your strategy when there are more than two alternatives involved? What are you going to compare and in what order?

Step 3. Evaluate yourself against competition
When you compare the benefits and sacrifices of two alternatives (yours and that of the competition), what are the points of parity, contention, and difference? These are explained in Figure 4.4.

Step 4. Write word equations
Write in words and formulas how you calculate the generated value of the alternatives. These word equations are vital for others to understand how you made the calculations. These word equations are the bridge between the case description and your value model spreadsheet (step 6).

Step 5. List placeholders
List 2-4 placeholders. Placeholders are important benefits/sacrifices that cannot be calculated in terms of Euros because the information is missing. These could have an impact on the final selection of the best option. Indicate the valence of each placeholder with a +, - or a question mark. When a placeholder is more positive for the customer than the alternative, mark it with a (+), if it is more negative with a (-) and if you do not know with a (?). A placeholder is normally described in 2-5 words.

Value element	Proposition A (focal)	Proposition B	Difference
A. COSTS			
Acquisition process costs	500	500	0
Operational costs			
transport	600	2.000	(+) 1400
storage	1.500	1.400	(-) 100
handling	350	175	(-) 175
Salvage/resale price product	2.000	1.500	(+) 500
Total costs (TCO)			(+) 1.625
B. EXTRA PROFIT	5.000		(+) 5.000
C. TOTAL BENEFITS (A+B)			(+) 6.625
D. PLACEHOLDERS	More environmental friendly (+)		
	Switching to new supplier (-)		
	Global presence (+)		
E. ACQUISITION PRICE			
Price product (good/service)	15.000 (45.000/3)	10.000 (30.000/3)	(-) 5.000
Discounts	300	0	(+) 300
Total acquisition price			(-) 4.700
E. TOTAL SACRIFICES (E)			(-) 4.700
		F. DIFFERENTIAL VALUE (C+E)	(+) 1.950

Figure 11.10. Structure of a Customer Value Model Spreadsheet (example)

This customer value model spreadsheet is based on the Value-in-Use concept of VFC. Note: see the working paper on customer value models for a detailed description of how to construct such a Value-in-Use based customer value model.

Step 6. Create a Customer Value Model Spreadsheet

In such a spreadsheet you list all key figures in a standardized way (results of step 4) and placeholders (step 5). Eventually this spreadsheet shows the differential value and Net Present Value of your CVP compared with alternatives. The result is the answer on your basic question in terms of:

- ✓ Value-in-Use: the differential value of your offering compared to the alternative for an average year during the lifespan of the product/contract.
- ✓ Net Present Value: the differential cashflow during all the years the product's/contract's lifespan.

If these are positive, your product offers a bigger value than the next-best-alternative. For an example of the structure of a customer value model spreadsheet, see Figure 11.10.

Step 7. Determine the customer value-based price
Based on the outcomes of step 6, you can determine the optimal price. This can be a price that leads to a Value-in-Use and NPV of 0, but it is better to make sure these stay positive.

Finally, these seven steps are a standard approach for developing a customer value model. The approach is always the same, the content and results of course depend on the specific case.

11.10. Summary
In this chapter I have given some insights in the value element 'total cost of ownership' of a CVP. This is for customers often one of the major CVP-elements. However, marketing scholars often neglect this element in their research. Here I give a short summary of this chapter.

(1) What is total cost of ownership?
TCO is the total of monetary cost including purchasing price, salvage/resale price, acquisition costs and operations costs related to the full productive lifetime of a good or service. This is a description based on the commonly used Value-in-Use concept of VFC.

(2) What is pricing and how do suppliers set prices?
Pricing is an organizational capability that consists of six activities: determining a price strategy, price analysis, price setting, price implementation, price auditing and price adjustments. This capability is essential for making the right choices and the company's profitability.

(3) What are the different pricing strategies?
There are three pricing strategies: cost-based pricing, competition-based pricing, and customer value-based pricing. Cost-based pricing is the most common strategy, for which the price is determined by adding a percentage to the cost of the product. In the case of competition-based pricing, the price is set in relation to the competition's prices. Customer value-based pricing is the most difficult strategy and used relatively infrequently. It is based on price setting in relation to the value for the customer (VFC) and reflects the Value-In-Use concept. Within these three main strategies, various price framing methods can be used for pricing goods, services, goods-services bundles, and total solutions.

(4) How is a customer value-based price determined?
It is determined by assessing the Value-in-Use for customers in terms of benefits and sacrifices. This must be related to the next best alternative like a competitor's offers or organizing it in-house. Based on the outcomes a realistic and competitive price is set.

(5) What is a Customer Value Model?
A Customer Value Model is a data-driven quantification of what a present or prospective market offering is worth in monetary terms to targeted customers relative to the next-best-alternative offering for those customers. By using a step-by-step approach, value for the customer (TCO + extra profit + placeholders) is quantified into Euros to develop a CVM spreadsheet. This gives an overview of the benefits, sacrifices and placeholders (value elements that cannot be transformed into Euros). The differential Value-in-Use and net present value are calculated, these are the base for setting a price.

Chapter 12. Improving Trustworthiness Through Risk Reduction

12.1. Introduction

The last of the six CVP-elements is the risk that potential customers (ex-post) or current customers (ex-ante) experience. Once, as a director of a consulting company I had to decide on buying new software. We had two proposals. One from a well-known and large company: the price was twice that of the other proposal and the quality of the software was lower than the alternative. The alternative was from a small company. The software was both better and cheaper, but the small company could not guarantee that they would exist as a company (and service our software) in 2-3 years. Although the benefits and the price were better, we eventually chose for the worse alternative because of the perceived risk factor. This is a simple example illustrating the impact of perceived risk in a CVP. Whereas in many B2C-exchange relationships risk has no impact, it has a substantial impact in almost all B2B exchange relationships.

While suppliers want to increase the dependency of customers in value exchange relationships, customers want to avoid/decrease this. Furthermore, suppliers want to offer value to their customers and work actively on mitigating and reducing the customers' perceived risk of doing business with them. This line of reasoning is shared by Liozu et al.[546], who state that "sellers thus create value for their customers by reducing the uncertainty and risks of a good/service performance". Here, the perceived risk for intangible services is even higher than that for tangible goods[547]. To understand the impact of risk (and the reduction thereof) on business relationships, the following questions are answered in this chapter:

1. What is dependence in business exchange relationships?
2. What is perceived risk, trustworthiness, and vulnerability?
3. How to reduce perceived risk and improve trustworthiness?

The following paragraphs are in line with these questions. As you will notice, this is a relative short chapter; not because this subject is unimportant but because marketing literature has spent almost no attention to this subject. So, there is not much published about this subject. The sparce literature I used for this chapter has primarily been published in accounting and supply chain journals.

12.2. Customer Perceived Dependence

In the Chapters 1 and 2 you have seen that the average B2B exchange relationship does not exist. There are relationships where the customer has many suppliers for a resource, so when one supplier stops delivering, the impact on the customer is very limited (due to the availability of alternatives). In another case, where a supplier is the sole supplier for an essential resource and also delivers equipment to process that resource, the impact on the customer is tremendous when that supplier decides to stop delivering. Consequently, the customer might have to stop its operations. That was for example the case in 2021 when the Dutch car manufacturer VDL had to stop producing Minis. This happened due to a shortage in the microchip delivery.

Dependence is an important issue in business relationships. There is 'objective' dependence, and the dependence as perceived by the customer. Customer perceived dependence could be defined as:

> *The degree to which a customer experiences to be dependent on a certain supplier to realize its business objectives.*

Furthermore, it also includes what the customer's expected impact is on its operations, finances, or reputation when a certain supplier stops/reduces to deliver or does other harmful actions. You could think here of:

- ✓ A supplier goes bankrupt.
- ✓ A supplier decides to stop delivering or reduce delivering.

- ✓ A supplier decides to deliver to the customer's competitors.
- ✓ A supplier decides to deliver directly to the customer's customers.
- ✓ A supplier does illegal or non-morale actions.

The degree of dependence depends on the character of the exchange relationship. Some of the factors influencing it are (see also Chapter 1):
- ✓ Is it an equity-based or non-equity-based relationship?
- ✓ Are the products of the supplier input for the own production process (input to process) or are they products where the business customer is the end-user (installed base).
- ✓ What is the type of relationship: transactional exchange, value adding exchange, collaborative exchange?
- ✓ What is the value of the relationship in terms of money?

Also, the type of product can have an influence on the perceived dependence. In Figure 12.1. I have given an overview of this. In business practice, a goods-services bundle (GSB) could lead to a higher dependence (and perceived risk) than an individual good or service. Changing a supplier that offers a good or service is relatively easier than changing a GSB-supplier. Again, a customer that uses a total solution could perceive a higher dependence than one using a GSB-supplier, because many functions have been outsourced and, in many cases, a total solution provider is the sole supplier (no dual supplier ship). The degree of outsourcing is high, and the customer does not have the capabilities nor the people anymore to do the job in-house. The consequence is that the supplier must manage customers' perceived risk in a total solution to a larger extent than in the case of a goods-services bundle.

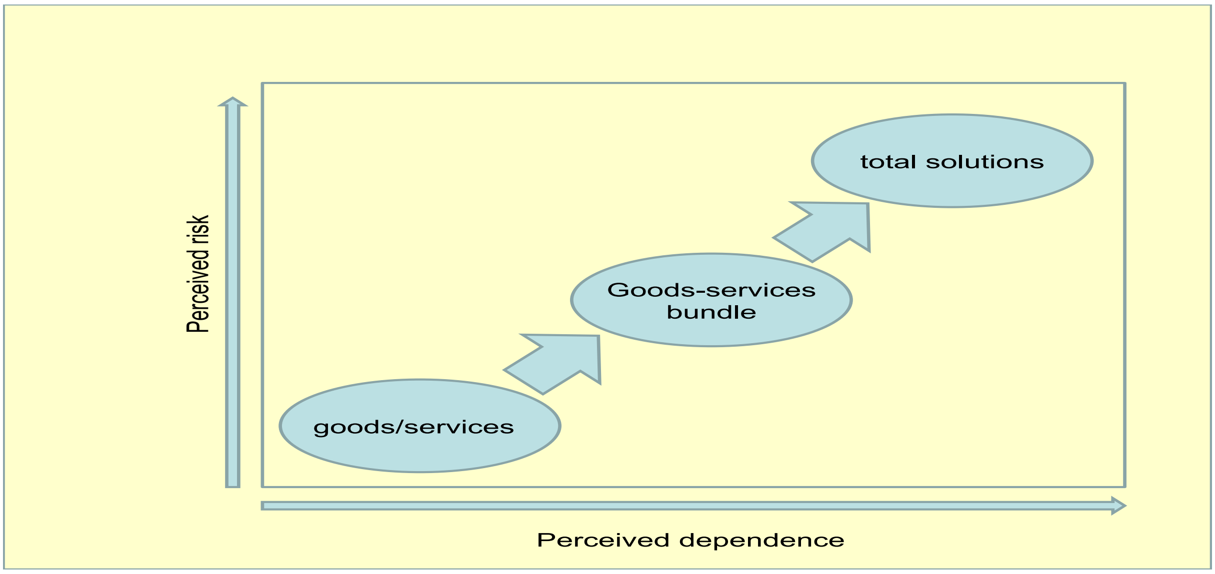


Figure 12.1. Effects of Type of Product on Dependence and Risk

Depending on the perceived risk, a customer sets up systems and procedures to monitor and reduce risks. A relevant theory related to reducing perceived risk is transaction cost theory[548]. Exchange partners try to use the most efficient governance mechanisms to safeguard transactions from potentially opportunistic partners. Where possible, transaction costs for contracts (e.g., drafting, negotiating, safeguarding) and the fulfillment of it (e.g., planning, adapting, and monitoring task completion) are reduced when possible. According to Stock[549] the most efficient governance form is a function of both the extent of specific assets and the amount of uncertainty. For new partners, because of uncertainty, the transaction specific assets can be very high. These 'transaction specific assets' are "investments that are dedicated to a particular exchange partner and cannot be costless redeployed for use with other exchange partners"[550]. When these costs are too high, there is the possibility that the organization decides to organize them in-house. Of course, the transaction specific assets related to long lasting exchange relationships have lower levels of uncertainty and probably also lower transaction costs.

12.3. Perceived Risk, Trustworthiness and Vulnerability

Risk is the chance that business outcomes will differ from the expected outcomes and is strongly related with dependence. It is the possibility of something bad happening that leads to uncertainty. Perceived risk is the customers' perceived chance that business outcomes will differ from the expected outcomes and is thus also strongly related with dependence. This can be different from the actual or objective risk. Perceived risk can also be defined as: "customer uncertainty in evaluating a good or service in relation to the available alternatives"[551]. In this definition a connection is made with alternative offerings. The opposite from perceived risk is perceived credibility and trustworthiness. Perceived credibility can be defined as the customers' perceived certainty and confidence of the way an organisation could keep its promises and perform as promised. Palmatier et al.[552] define trustworthiness as "confidence in an exchange partner's reliability and integrity". A concept that is related to perceived risk is that of perceived vulnerability. This is the gap between perceived trust and perceived dependence in business exchange relationships. Svensson[553] defines perceived vulnerability as "the simultaneous consideration of a disturbance and the negative consequences of this disturbance". The higher the dependence and perceived risk, the higher the level of perceived vulnerability. I could imagine that all these terms make you confused, but I hope with Figure 12.2. you regain the overview.

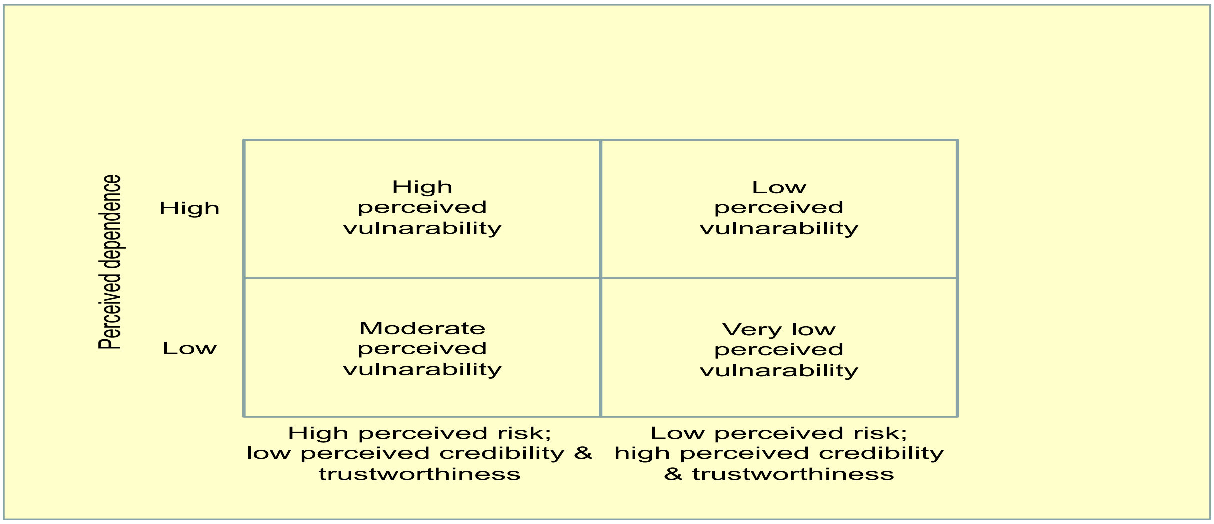


Figure 12.2. Relationships between Concepts

Companies can perceive a multitude of risks. Risks can be classified in various ways like internal/external and ex ante/ex post. Internal risks are directly related to the exchange partner. Sing and Gaur[554] define this as "those arising due to information asymmetry related challenges in finding a suitable partner and due to the cooperation and coordination challenges with the B2B partner". So, risks can be related to the phase before a contract (ex-ante) or during the contract (ex post) between exchange partners. When starting an exchange relationship there is information asymmetry between the two, concerning for example capabilities and motives to start the exchange, leading to uncertainty. Examples of internal risks are[555]:

- ✓ Adverse selection: mistakes in the transaction leading to either the customer overpaying or the supplier not receiving the right price.
- ✓ Moral hazard: during a relationship, partners "find it difficult to monitor and control the actions of the employees of the opposite party"[556].
- ✓ Managerial opportunism: risks of non-cooperative behavior or even sabotage and acting in their own interest by employees of the other party.
- ✓ Logistical problems: the risk that the other party cannot perform as agreed. Examples include a lack of flexibility, or a supplier cannot deliver the requested quality and/or quantity[557].
- ✓ Ethical problems: the risk that the other party is involved in non-ethical affairs.
- ✓ Value chain problems: the risk that changes are made in the value chain (e.g., vertical integration) that have a negative impact on the company.

- ✓ Existential problems: does the company still exist in a couple of years.

External risks are related to the environment. “External risks arise due to differences in various aspects of institutions between the home and host markets”[558]. External risks are limited when the exchange parties operate in the same country. In an international context however, these risks can be large[559] because of legal, economic, political, environmental, and cultural differences[560]. Eventually, when a risk turns into reality and becomes a ‘destructive act’, it can lead to exit and negative word-of-mouth[561]. See Chapter 18 on customer loyalty for an extensive description.

One of the theories that tries to explain the appearance of perceived risk is the signaling theory[562]. Signaling theory emerged from the study of information economics under conditions in which customers and suppliers possess asymmetric information when facing a market interaction[563]. Because of different information sources both the supplier and customer have different information on a product or value exchange. Signaling theory describes this information asymmetry, how it is developed and how it can be deliberately reduced between suppliers and their customers by using extrinsic (explicit) and/or intrinsic (implicit) information cues. This reduction has a reducing impact on perceived risk.

12.4. Risk Reduction Strategies and Tactics

To mitigate and reduce (perceived) risk and increase trustworthiness, organizations use indirect and direct strategies and tactics. Indirect strategies are not organized but the consequence of other actions and states. Think about being market leader as a company, having a solid customer base, being in the market for many years or having personal connections on a strategic level. Whereas direct strategies are institutionalized practices to identify and reduce risks. Five different tactics can be defined: customer selection, enterprise risk management, formal agreements, risk sharing and customer referral marketing.

- ✓ The first practice is that of customer selection. It is a kind of preventive measure to avoid that the company gets a relationship with the wrong customers. In some cases, a supplier is not suited for a customer. It is obvious that there will be problems in the future. Therefore, it can be better to avoid these situations and don’t start a relationship.
- ✓ A second practice is that of Enterprise Risk Management. This is “a strategic management approach to integrating risk management efforts across an organization through a comprehensive process for identifying and addressing risks”[564]. It’s a strategic management approach to identify, analyze, and reduce risks. Normally this is focused on internal risks, but can also be used for identifying, analyzing, and reducing the risks as perceived by customers. Often these will be measures related to all customers.
- ✓ The third practice is that of formal agreements with customers. These make sure that both the supplier and the customer have the same expectations and the customer has a certain assurance leading to decreased perceived risk. Examples are:
    - o Product guarantees: agreements concerning product specifications and what to do when these are not met. They also describe what the financial consequences are.
    - o Service level agreements: agreements about the service level of the supplier. Think about aspects like speed of reaction, delivery times, etc. Again here, it is made clear what the financial consequences are.
    - o Service guarantees: these are “a set of explicitly communicated promises to (potential) customers to deliver specified service levels or even customer satisfaction, generally including the promise to compensate the customer if one or several promises are violated”[565]. If these are not met, there is a compensation for the customer. Research shows that these service guarantees act as extrinsic cues of quality[566] and reduce customers’ perceived risk[567].
    - o Price level agreements: agreements on the price level and how to act in case of price changes.
    - o Certificates: formal proof that the company works in conformance with an international standard. Think about standards concerning sustainability (see Chapter 10).

- Partnership agreements: agreements on the cooperation as partners[568].
    - Performance agreements: agreements on a certain performance level of the supplier's products. In this case it's not interesting what a supplier does, but what the outcomes are. Especially in the case of total solutions, performance agreements are used.
- ✓ Risk sharing: both the supplier and the customer share the risks in an equitable way[569].
- ✓ Customer referral marketing (also called customer advocacy marketing, customer evidence marketing, customer testimonial marketing) is used to use existing customer relationships to decrease (potential) customers' perceived risk and gain/keep customers. This by showcasing the supplier's capabilities through the testimonials of customers. Tactics are having certain flagship customers (well-known companies with an outstanding reputation) on the customer list, having customers actively involved in acquisition or developing testimonials. For example, for a leasing company I developed several two-page testimonials based on interviews with delighted customers[570].

What direct and indirect strategies are appropriate to decrease perceived risk and increase perceived trustworthiness depends on the type of product (see Figure 8.1.) and CVP. For example, since services are intangible and cannot be stored, service level agreements and service guarantees could have a larger impact in services than in goods related exchanges. In Figure 6.6. four different CVPs in B2B settings are given based on customer demands: 'fully flexible', 'agile', 'lean' and 'continuous replenishment'[571]. You could imagine that perceived dependence is in 'lean' and 'continuous replenishment' relatively high leading to higher levels of perceived risk[572]. The amount and type of risk-reducing actions in these situations depend on aspects like the degree of outsourcing, the inventory levels, the number of suppliers.

12.5. Summary

In this chapter I have given some insights in the last of the six CVP-elements: risk. Although neglected in marketing literature, in business practice this is an essential element in selecting and retaining relationships. Here I give a short summary of this chapter.

(1) What is dependence in business exchange relationships?

Customer perceived dependence is the degree a customer perceives to be dependent of a certain supplier to realize its business objectives. There are several factors influencing this dependence. Examples are the type of products and the intensity of the relationship (transactional versus collaborative). The size of dependence influences the customers' perceived risk.

(2) What is perceived risk, trustworthiness, and vulnerability?

Perceived risk is the customers' perceived chance that business outcomes will differ from the expected outcomes and is strongly related with dependence. The opposite of risk is trustworthiness. This is the confidence in an exchange partner's reliability and integrity. The higher the perceived risk, the lower the perceived trustworthiness. Vulnerability is the gap between perceived dependence and risk.

(3) How to reduce perceived risk and improve trustworthiness?

To be trustworthy as a supplier it is important to get an overview of all risks and manage these. Companies use enterprise risk management as a business practice to become and remain trustworthy. In addition to this, in many business relationships, formal agreements are used to manage risks. Examples are contracts, service level agreements, price level agreements and solution agreements. Also, risk sharing, and customer referral marketing are used.

SECTION IV

BRANDING, COMMUNICATING AND SELLING VALUE

Chapter 13. Branding and Communicating Value

13.1. Introduction

In chapter 6 (§ 6.2) is described how companies determine the customer segments they want to work with (targeting) and how the CVP should look like per chosen segment (positioning). It is determined what the supplier wants to offer concerning the six elements of the 2-Bundles CVP Framework (see Figure 6.4.), and what certainly not. In Chapter 7 you have found the basics about a brand, as one of the elements of a CVP. This chapter describes the branding of the full CVP in a B2B-context. Due to important differences with B2C-settings (see also Figure 1.10.), branding can be different. There are B2B-companies with only 10-15 customers, others have large amounts of customers. There are companies with one type of customer, others have different customer segments (e.g., distributors, retailers) with sometimes conflicting interests. This makes branding not so straightforward as it is in B2C-settings. To make it even more complex, beside the pure B2B and B2C companies, there are many companies like banks and manufacturers targeting both B2B and B2C customers. The five main questions answered in this chapter are:

1. What is branding in a B2B-context?
2. Is it better to brand the company or products?
3. Is it important to also do branding towards end-users?
4. What are effective branding communication methods?
5. Is it important to use digital media in B2B?

13.2. What is B2B-Branding?

Branding [brand building] is basically, communicating the brand. It is an activity the company performs to make sure that potential customers and customers know the brand. Where Leek and Christodoulides limit branding to potential customers, I would expand this to current and even lost customers and other stakeholders.

"Branding is enhancing the value of a product beyond its functional purpose" (Farquhar, 1989, p. 25)
"Branding is essentially used to convey a set of values to potential buyers" (Leek and Christodoulides, 2011, p. 831)

Figure 13.1. Definitions of Branding

This brings me to the following definition of a branding:

> *Communicating the value proposition to potential customers, customers, lost customers and other stakeholders using the most effective media.*

As you have already seen, for B2B-settings branding is important. As Kotler and Pfoertsch[573] state it: "Brands and brand equity need to be recognized as the strategic assets they really are, the basis of competitive advantage and long-term profitability". It is not suited for short term sales boosting but helps in creating long-term non-tangible assets. It leads to advantages for[574]:

- ✓ The customer: increased information efficiency, higher confidence, acts as a guarantee of quality, reduction of perceived risk/uncertainty, increased satisfaction, greater comfort and 'feel good' factor, identification with a strong brand. It helps with closing the information gap between suppliers and customers (see Signaling Theory in § 12.3.).
- ✓ The supplier: differentiation, a product with an identity, consistent image, conferring uniqueness; higher perceived quality, Increased goodwill, possibility to ask a price premium, brand extensions, new opportunities, increased customer satisfaction, more loyal customers, higher demand, more referrals, barriers to entry for other companies and finally more revenue and profits.

You could imagine that in buying-situations with high risk for the customer, large uncertainties, large dependence on the supplier (see also Figure 12.2.) branding is more important than in other situations. In this context. The results of a cross-industry study of Homberg et al.[575] among more than 300 B2B companies are very interesting. It shows that customers' brand awareness significantly drives market performance. This relationship is moderated by the characteristics of the market (product homogeneity and technological turbulence) and the buying situation (heterogeneity within the buying center and time pressure in the buying process). The moderating relationships are:

- ✓ In markets with a high product homogeneity, brand awareness affects market performance more than in markets with a low product homogeneity.
- ✓ In markets with a high technological turbulence, brand awareness affects market performance more than in markets with a low technological turbulence.
- ✓ In buying situations with a high buying center heterogeneity, brand awareness affects market performance more than in buying situations with a low buying center heterogeneity.
- ✓ In buying situations with a high time pressure, brand awareness affects market performance more than in situations with a low time pressure.

13.3. Branding Value

Companies create functional, social, and emotional value for their B2B-customers. Functional value is dominant in many situations. This value is embedded in CVPs as you have seen in Chapter 6. The 2-Bundles CVP Framework, as presented in Figure 6.4., represents elements of both benefits and sacrifices for the customer.

Anderson et al.[576] state: "The CVP for a market offering serves as the cornerstone for brand building in business markets". It gives potential, current, and lost customers signals about what they can expect and act as a vehicle to narrow the information gap between the supplier and customer (see Signaling Theory in § 12.3.). However, many B2B-companies do not communicate their CVP explicitly. "While many firms espouse a CVP, far fewer firms explicitly articulate a CVP and communicate it externally or even internally"[577]. Communicating a CVP can be done implicitly without really communicating it to customers. In this case the customer gets indirect information about the CVP through quality levels, prices, and other indirect clues.

In other cases, a supplier chooses to make its CVP explicit. In this case it is a "strategic tool facilitating communication of an organization's ability to share resources and offer a superior value package to targeted customers"[578]. Such a proposition helps the customer answering the following question: "Why should I select your good or service rather than your competitor's, and what additional value will I enjoy as a result?"[579]. The five characteristics of an effective explicit CVP are[580]:

1. It's a communication tool to share information about the supplier's market offering.
2. It shows the suppliers ambition to offer a superior CVP.
3. It focusses on value elements and drivers that customers really value.
4. It addresses the buying center's member desired value that can be both collective and individual, functional, emotional, and social (see § 4.4.).
5. It helps achieving the company's collective and/or buying center's individuals goals.

One form of making a CVP explicit is a CVP-statement. Such a statement can be defined as:

> *An explicit statement describing the tangible and intangible results a customer gets based on the six elements of the 2-Bundles CVP Framework.*

Such a statement can focus on different value elements. In Figure 4.4. the points of parity (value equals alternative), difference (value is different from alternative) and contention (no consensus) are already defined. Based on these points, three different types of CVP-statements can be distinguished (see figure 13.2.[581]): 'all benefits', 'favorable points of difference' and 'resonating focus'.

CVP	All benefits	Favorable points of difference	Resonating focus
Consists of:	All benefits customers receive from a market offering	All favorable points of difference a market offering has relative to the next best alternative	The one or two points of difference (and, perhaps, a point of parity) whose improvement will deliver the greatest value to the customer for the foreseeable future
Answers the customer question:	'Why should our firm purchase your offering?'	'Why should our firm purchase your offering instead of your competitor's?'	'What is most worthwhile for our firm to keep in mind about your offering?'
Requires:	Knowledge of own market offering	Knowledge of own market offering and next best alternative	Knowledge of how own market offering delivers superior value to customers, compared with next best alternative
Has the potential pitfall:	Benefit assertion	Value presumption	Requires customer value research

Figure 13.2. Three Types of Explicit CVPs

In their paper, Anderson et al.[582] recommend using the last approach (resonating focus) since it focusses on the customers' critical elements of value[583]. However, a supplier could use different strategies for different customer segments and communicate a CVP explicitly to certain segments and not to others[584]. Also, the type of CVP-statement could be different per segment.

Connected to this is the use of service guarantees (see also § 12.4.). Such a guarantee is a "written promise of performance combined with an offer of compensation in the event that service promises are not achieved"[585]. It can offer guarantees on the critical elements of value (resonating focus) enforcing the marketing power of these elements. A supplier could for example guarantee certain delivery times. McColl et al.[586] researched the effects of such a guarantee in a B2B-setting. Their main outcomes were:

- ✓ Such a service guarantee enhances the customers' perceived value. It signals quality (see Signaling Theory in § 12.3.). But the formulation of the guarantee is important. For a part of the customers, it signals quality, however for a part it leads to doubts ('oh, so it is possible that they make mistakes').
- ✓ The penalty/compensation should be developed with customers and even could be varying per customer. It should be linked to the customers' consequences in case of failure.
- ✓ Customers wanted to pay a price premium up to 50% for a guaranteed service. Even if this means that the delivery time is longer.

13.4. Corporate Branding and Product Branding

In general, companies use product branding, corporate branding, or a mix of it. With <u>product branding using an attribute brand</u> (see § 7.3.), branding initiatives focus on communicating the value of a certain product-attribute, product, product-line or product portfolio to the target audience. The focus is on the value of products for the customer. With <u>corporate branding using e.g., an experience brand</u> (see § 7.3.), branding initiatives focus on communicating the value of the whole supplier company to customers. Not products, but the company and all its advantages, trustworthiness, strengths are in the focus. In this case a company works on its corporate personality: "An organization is an entity, with a personality which it has acquired as the result of past behavior and of the messages which it has given to those it serves, and also to members of its staff"[587].

Where in B2C-markets product branding is dominant, in B2B-markets this is corporate branding. A relatively large share of branding is not focused on the product but on the company. This has various reasons:

- ✓ In B2C-markets there is a tendency to minimize the size of the brand portfolio while maximizing coverage. For example, Unilever has reduced the number of different product brands dramatically. This makes it easy to focus with branding on a limited number of brands. In B2B there is an increase of the size of the portfolio through acquisitions, leading to more and more different product lines. This makes it sheer impossible to use effective product branding[588].

- ✓ For the many service companies in B2B that offer intangible products, it is more difficult to do product branding than companies offering tangible products[589].
- ✓ The type of customers (see Figure 5.9.): you could imagine that for collaborative exchange customers corporate branding is more important, while for transactional exchange customers product branding is more important.

However, the type of company and nature of customer-supplier relationship are important factors influencing the choice for product, corporate branding, or a mix of them[590]. For B2B companies with one or a limited number of product lines it's easier to work with product branding than companies offering multiple product lines, goods-services bundles and especially total solutions.

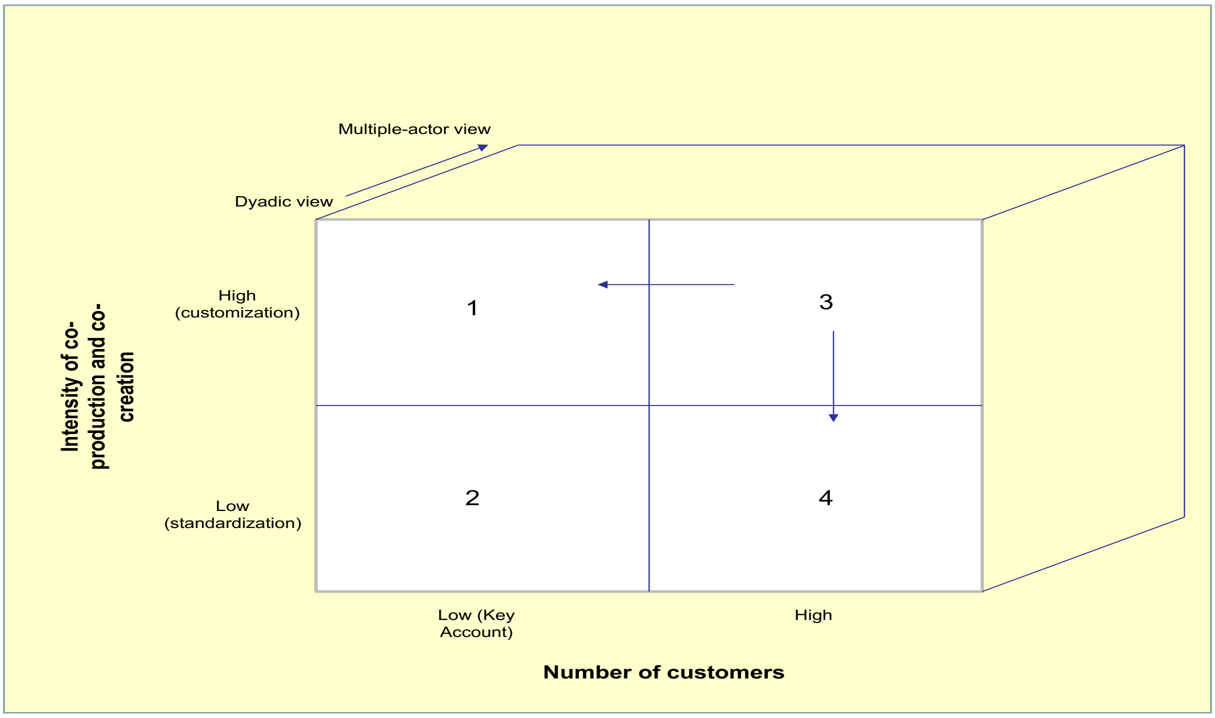


Figure 13.3. Determining the Optimal Branding

Cassia and Magno have developed an interesting model that can be used to determine the best branding strategy depending on three relational factors. They state[591]: "B2B branding strategies should be designed and implemented taking into consideration the relational nature of industrial markets. Each buyer-seller relationship is unique and requires a unique, customized B2B branding strategy". The factors are:

1. Intensity of co-production and co-creation, amount of customization. There are relationships where there is a low customization. Products are standard, changes to meet customers' requirements are not made. On the other hand, there are situations with high levels of customization, co-creation, and co-production. Think about services, goods-services bundles, and especially total solutions.
2. Number of customers in the portfolio. With a low number of customers, the role of key accounts is relatively important. In other situations, companies have a large number of customers with less focus on a small number of customers.
3. Dyadic view versus a multiple-actor view. In a dyadic view the relationship consists of a simple customer journey where only the customer and the supplier are involved. In a multiple-actor situation also third parties are involved.

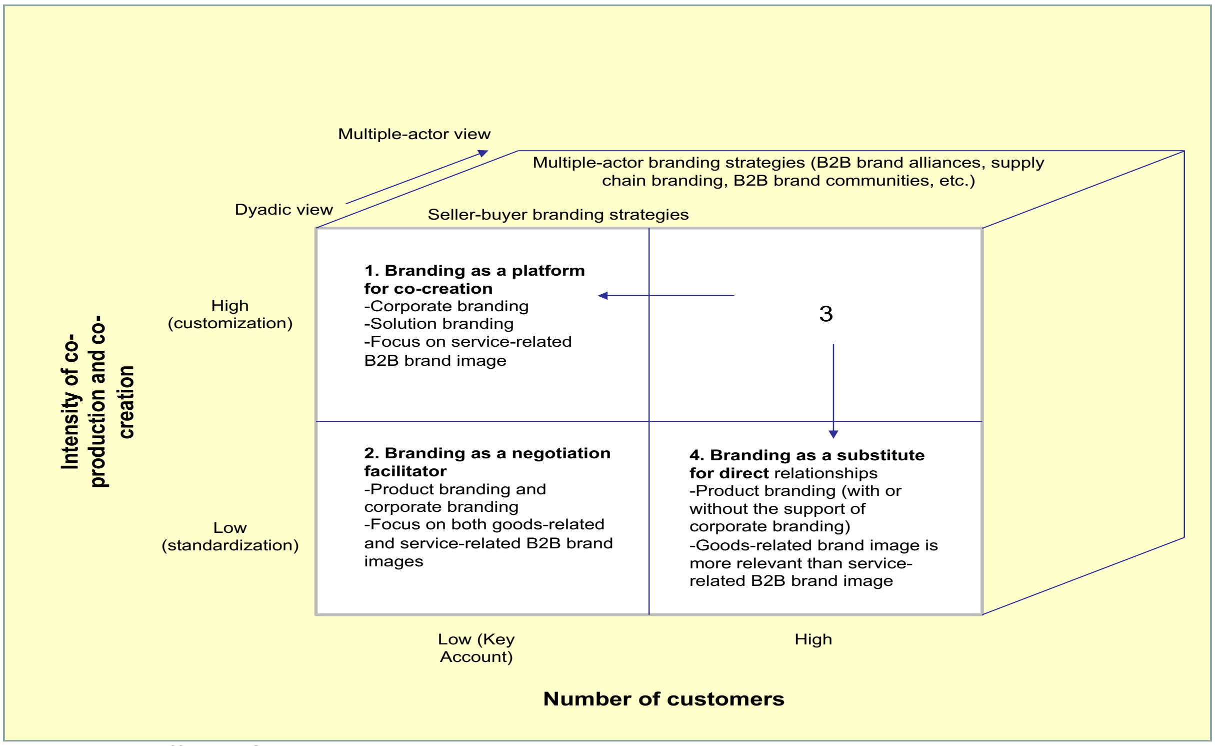


Figure 13.4. Different Strategies

For each of the cells a branding strategy is given.

- ✓ Cell 1: corporate branding is the strategy for situations with a low number of customers and a high level of customization. It makes no sense to brand the products because these are for each customer different. The focus should be on the superior competences of the organization to co-create solutions. Tactics are to focus on service related B2B brand images, use customer referrals and customer case histories in branding to reduce customers' perceived risk.
- ✓ Cell 2: a combination of corporate branding and product branding is best in situations with a limited number of customers and a low level of customization. To an extend the products are standardized, so you can use product branding. Use a product branding strategy for each product line that is related to tangible product performance. Corporate branding focusses on service-related associations. In cell 2 the importance of branding is less than in cell 1 because the customers' perceived risk is lower.
- ✓ Cell 3: in this cell there is a high number of customers combined with a high customization. To reduce complexity companies, use a mixed approach. They use strategy 1 for the customers with the highest VOC (top of the pyramid), with the remaining customers they establish a weak or no personal relationship (cell 4)
- ✓ Cell 4: In the situation where a company has many customers and there is a low customization (standardization) the focus is on product branding. Companies emphasize the tangible performance of their goods. These situations are most like B2C markets.

13.5. Specific Types of Branding

Depending on the specific market situation specific types of branding can be used. There are examples related to the different players in the value chain. Homburg et al.[592] propose three different approaches:

1. Direct customer downstream support: this is based on the push marketing principle. A B2B supplier supports its direct customers (like retailers) to improve their power and increase customer intelligence downstream in the value chain. So, in this case the customer does not contact its customers' customers.
2. Cooperative indirect customer marketing: this consists of joint activities of the supplier and direct customer. The supplier 'steps out of the background' and acts together with the direct customer

towards indirect customers. So here, the supplier contacts together with its customers their customers.

3. Independent indirect customer marketing: the supplier uses a pull approach and directly contacts the indirect customers. In this way he passes the direct customer. So here, the supplier bypasses its customers and directly contacts its customers' customers. For suppliers, to gain a competitive advantage, it can be important to bypass their direct customers and conduct research among their customers' customers and brand their products[593]. Even when not directly delivering products to end users, it is important to do market research and create market preferences by branding indirect customer segments.

Specific types of B2B branding related to this are 'B2B co-branding' and 'ingredient co-branding or component co-branding'[594]. 'B2B co-branding' is a form of cooperative indirect customer marketing. Together with its direct customers the supplier organize branding toward the customers' customers. A type of branding within B2B co-branding is 'ingredient co-branding'. This is often in an OEM situation where the customer uses the suppliers' ingredients to make the product. A well-known example is that of the Intel Inside campaign. Intel produces microchips for computers. Their direct customers are manufacturers of computers. But in the campaign, they brand their chips to end users to strengthen both the brands of Intel and those of their customers.

Another type of specific branding is 'total solutions branding'. In this case not a product or service is offered, but a full package of goods and services that acts as a total solution for the customer. The performance of the full supplier's organization, including third parties, is relevant for the customer. See § 8.6. for a description. For customers it does not make sense to have several suppliers offering total solutions, so there is a single supplier situation. Also, because a lot of activities and responsibilities are outsourced to the supplier there is a large dependence on the supplier. Cell 1 (see Figure 13.4.) describes these kinds of situations. In this case the company uses pure corporate branding showing the superior organizational capabilities to offer such a total solution. Aspects of the five characteristics of a total solution are used in this branding. In this case, product branding makes no sense.

13.6. Communicating the Brand

Let's start with picking up some structure again using a basic marketing communications model[595] (see Figure 13.5.). In the previous paragraphs I have elaborated on what to communicate (the brand message). In this and the next paragraph the focus is on how to communicate, what media to use for communicating the brand. Figure 13.5. shows the sender (left box) deciding on what message to send and how to send it, using what means to the target audience.

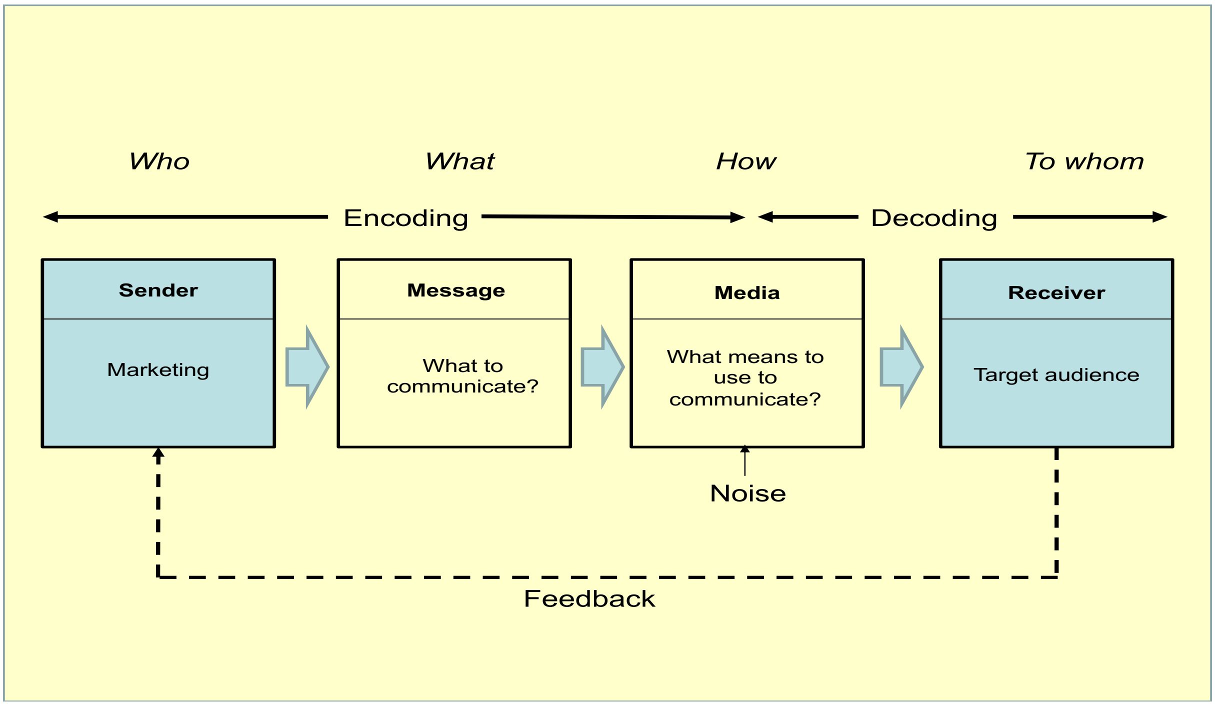


Figure 13.5. A simple Marketing Communication Model

When thinking about means to communicate it's important to understand that everything a customer experiences influences how he experiences the brand. What clothes does the employee wear? How long does it get to get an order confirmation? How often does the customer see his account manager? Etc. So branding is a holistic concept. But let's focus here on the frequently used communication instruments. Blyte and Zimmerman[596] have described the most important differences between B2B and consumer communications (see Figure 13.6.). This has consequences for communicating the brand in B2B settings.

B2C markets	B2B markets
Availability of mass media	Mass media of little use
Greater use of emotional appeals	More rational approach used
Greater tendency on the part of consumers to avoid the message	Greater preparedness to seek out information
Selective retention means that communications are quickly forgotten	Communications are frequently stored for future reference – brochures, advertisements and leaflets may be filed away
Copy is almost always short and punchy usually just ten or a dozen words	Copy is frequently long even a thousand words or more
Communication is aimed at individuals who are in most cases solely responsible for purchasing decisions	Communication is aimed at members of buying centers who in most cases need to agree on purchasing decisions
Characterized by mass media reaching broad market segments	Characterized by industry specific media widely read by members of the buying center

Figure 13.6. Differences Between B2C and B2B Communications

Depending on whether companies use product branding, corporate branding, or a mix of it they use a different communication mix. B2B companies use in general fewer mass media like social media, TV-spots, billboarding and, advertisements in consumer journals. They much more use their own company communication channels like websites, customer portals and brand worlds. Also, industry specific media like advertising and free public relations in industry journals, and trade shows are used. Maybe that's the reason that B2B brand communications is a hidden world for us as consumers.

There are different communication instruments that can be used in different stages of the customers' acquisition journey of orientation, comparing alternatives, the transaction, and the use of the product. In

Figure 13.7.[597] you see a set-up of online and offline instruments for the four phases. Potential customers will not use all of these. Depending on the company, industry, culture, and personal backgrounds of the members of a buying center some channels will be used, others not.

	Phase 1: orientation	Phase 2: comparing alternatives	Phase 3: the transaction	Phase 4: using the product
Advertising in industry magazines	x			
Digital search engines	x	x		
Linked-In and other networks	x			
E-mail mailings	x			
Website	x			
Fairs and trade shows	x	x	x	
Public relations	x			
Brand worlds	x			x
Brand ambassadors	x			
Personal selling		x	x	x
Customer contact center			x	x
Customer portals				x
Newsletters	x			x
Webshop			x	x

Figure 13.7. Various Communication Channels

Maybe the first phase can be divided into two sub-phases with customers not-in-market and customers in-market. The chemical company DSM[598] makes a distinction between not-in-market and in-market communication.

- ✓ Not-in-market communication: communication targeting potential customers that are not specifically looking for products. The aim is to grow awareness, make people getting ideas and creating demand by using marketing campaigns. Key focus is on 'change management' first. Make people see the problem or ways to be more effective/efficient.
- ✓ In-market communication: communication targeting potential customers that are actually searching for products/solutions. The aim is to make sure that these customers find you and can find the information they are looking for. Key focus here is to create customer relevant content that is SEO/SEA (see next paragraph) optimized, retargeting and context campaigns and to be active/part of any industry platforms that may exist.

I am not going to discuss all these various communication channels here. The digital channels are discussed in the next paragraph, personal selling is dealt with in the next chapter. But I want to spend here some words on:

- ✓ Advertising
- ✓ Brand worlds
- ✓ Brand ambassadors

<u>Advertising</u>: effective brand communication is a matter of 'frapper toujour'. The familiarity principle[599] addresses this. This principle states that something that is known gives more confidence than something unknown. Advertising and other promotional campaigns help suppliers, brands, and their products to be known by potential customers. These lead to an increased familiarity with the brand, again leading to a more positive attitude towards the brand. This positive attitude helps the sales force to be more successful. An advertisement of the academic publisher Mc-Graw-Hill illustrates this strikingly (see Figure 13.8.).

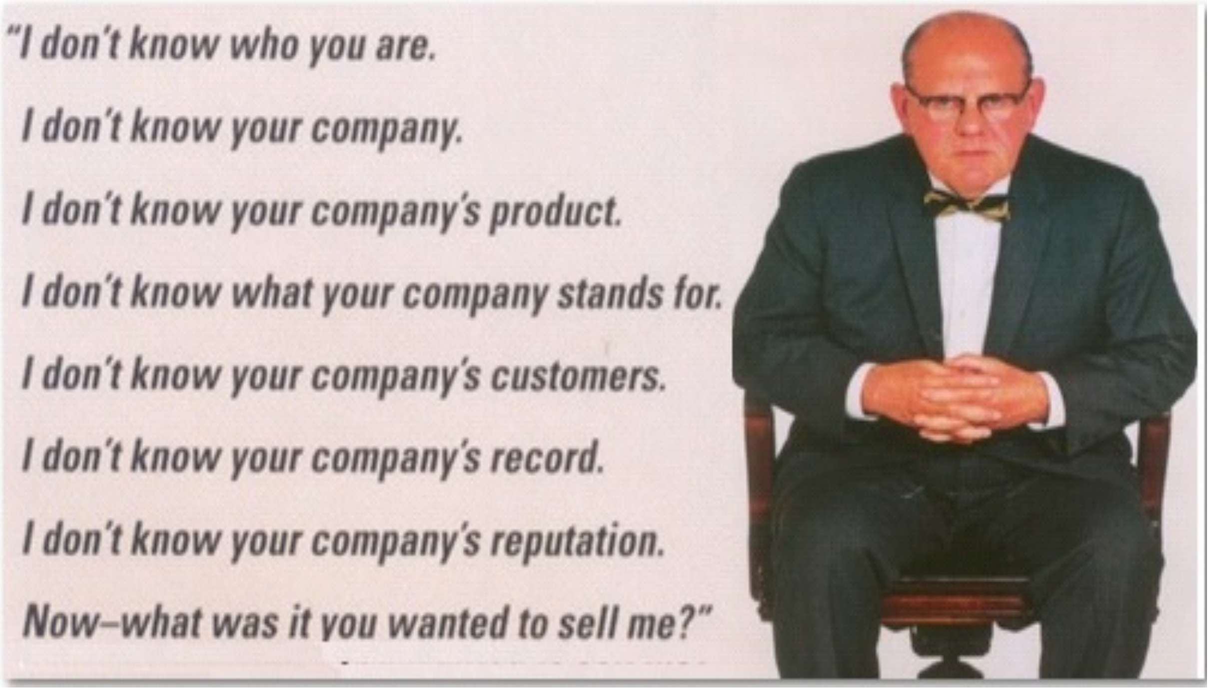


Figure 13.8. The Familiarity Principle

Brand worlds: In B2C markets, many companies have brand worlds. Think about the Heineken Experience in Amsterdam, but also companies like Coca Cola, Volkswagen and Apple have experience centers where consumers have a mostly hedonic experience, and the brand is strengthened. This concept is also used in B2B markets. Companies like Caterpillar (heavy machines), Honeywell and DHL have experience centers. Where the experiential set-up of such centers is similar to B2C settings, how customers use them is different in B2B. B2B customers use them to understand complex products, they expect more functional (and less hedonic) benefits, and the visit should be more a part of their business activities[600] and not so much a social event like in B2C.

Brand ambassadors: once I had a meeting with about a hundred B2B insurance brokers. I asked them what their main source of new customers was. Guess what was the answer? Right, existing customers acting as brand ambassadors. In many B2B sectors existing customers have a large impact on brand image and customer acquisition. "Customers are very often the best salespeople for the products which have given them satisfactory performance"[601]. In § 3.4. I already spent some words on this subject. Brand ambassadors can be customers that share their opinion solicited or unsolicited using social media (e.g., Linked-In), live meetings and sessions or case-studies to share their opinion. But these ambassadors can also be paid well-known persons. This influencer marketing can be seen as: 'the process of selecting and rewarding influencers to promote the company's offerings to their followers on social media'[602].

13.7. E-Commerce

Where old marketing textbooks hardly mention digital means for communicating the brand, this is nowadays an important channel. Digital search engines (e.g., Google Adds), social networks (e.g., Linked-In) and companies' websites are important media in the search, orientation, and selection by potential customers. In previous paragraphs I already made the link between digitalization and products (§ 8.4.) and customer service (§ 9.5.), so let's focus here on E-commerce. E-commerce: 'business communications and transmissions over networks and through computers, specifically the buying and selling of goods and services, and the transfer of funds through digital communications'[603]. As you already have seen in Figure 9.12., also in B2B markets there are customers that buy digitally. And it is getting more and more.

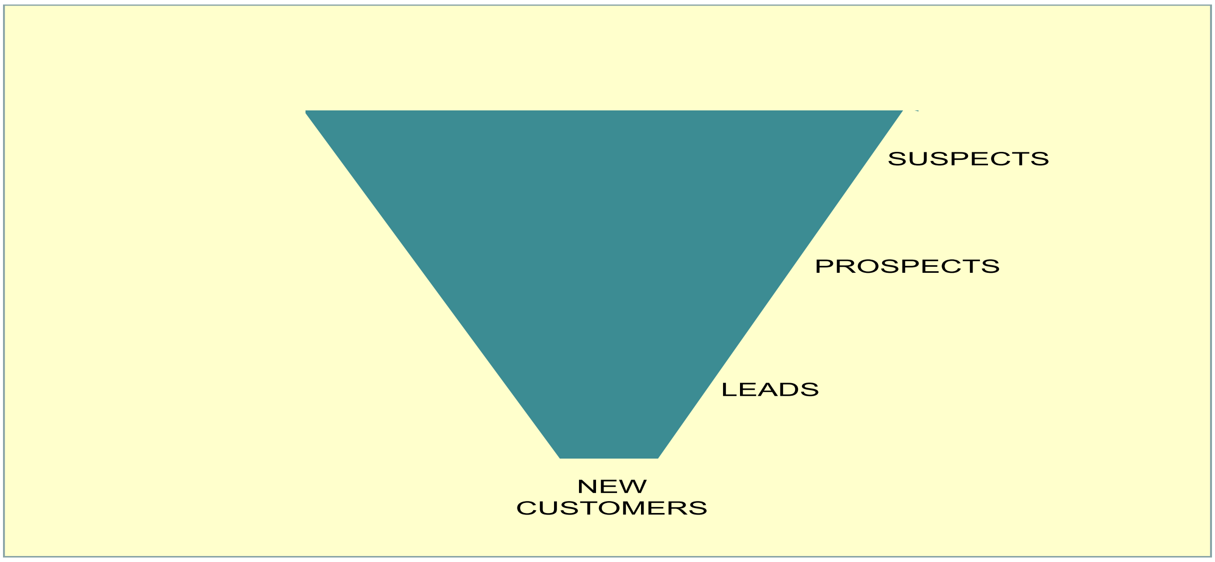


Figure 13.9. Customer Acquisition Framework

D'Haen and Van den Poel[604] have developed the Customer Acquisition Framework (see Figure 13.9.). It is a kind of funnel from a suspect to a customer.

- ✓ Suspects are all potential new customers available. A share of them are prospects.
- ✓ Prospects are not-yet-customers that have similar profiles as existing customers. A share of them are the leads.
- ✓ Leads are not-yet-customers that have shown to be interested. This because they had contacts, asked for a proposal, or in other ways. Some of the leads become new customers.
- ✓ New customers are companies that have a contract and/or bought from the company.

Digital media are used by suppliers to be found by suspects/prospects, and to convert them into leads and ultimately into new customers. Three important digital means are:

- ✓ The companies' websites showing details about the company, the brand, and its products. Websites reduce high costs of printing brochures, and the content is easier to adjust. But nowadays, they go further and are an important mean for E-commerce.
- ✓ The content of these websites can be connected to digital search engines like Google Adds. By being visible on the Search Engine Results Pages (SERPs) suspects and prospects could become leads. Important is the location on these SERPs. Therefore, Search Engine Optimization (SEO) is used. Getting the best place on such a SERP. The regular and unpaid places are on the bottom of SERPs based on organic search results. But the top places, the most effective ones, are paid/sponsored places. For this, companies use search engine advertising (SEA), they pay to get in the top 3 of a SERP based on given keywords.
- ✓ Digital social networks are an important source for leads and new customers. Both companies and their employees use these networks (like Linked-In) to get in touch with prospects and to convert them to leads and new customers.

13.8. Summary

In this chapter I have given some insights in how B2B companies brand and communicate their value. You can be good, but as long potential customers don't know that you exist, and that you offer a superior value, you won't be successful. Therefore, also in B2B markets, it's essential to communicate using off- and online media. Here I give a short summary of this chapter.

(1) What is branding in a B2B-context?

Branding is communicating the brand to potential customers, customers and lost customers using the most effective media. A brand is an explicitly communicated cluster of functional, emotional, and social benefits and sacrifices as included in a CVP. A CVP-statement can help making the added value for the customer explicit.

(2) Is it better to brand the company or products?
There is corporate branding (branding the company) and branding products. The answer depends on the number of customers and the intensity of co-production and co-creation between the supplier and customers to customize products. In case with a low number of key accounts and a high level of customization corporate branding is the best. In case of a high number of customers and low levels of customization, product branding makes sense.

(3) Is it important to also do branding towards end-users?
This depends on the market situation, but in general, the answer is yes. This can be together with the direct customer (e.g., retail), or by bypassing the direct customer.

(4) What are effective branding communication methods?
Basically, everything a customer experiences contributes to branding. So, also employees, procedures, buildings, etc. But the typical B2B communication methods are both online and offline. A whole spectrum from advertising in magazines, presence in digital search engines to brand ambassadors and brand worlds can be used.

(5) Is it important to use digital media in B2B?
Yes, online communication on e.g., websites, social networks and search engines becomes more and more important. This for transferring suspects and prospects into leads, but also leads into new customers. How it is used, and the importance depends on the type of B2B business.

Chapter 14. Key Account Management

14.1. Introduction

Key Account Management (KAM) is basically an approach to manage the most important customers. It's an approach that is regularly used in B2B markets, but seldom used in B2C markets. In § 6.7. I described the practice of customer prioritization. Certain customers get a preferred status leading to differences in how the supplier treats these customers. In this way, KAM is offered to customers with a preferred status. In § 9.4. I described the way companies differentiate in Customer Relationship Management (CRM). In Figure 9.10. you see that the boundary spanners (contact persons) for the most valuable customer segments are account managers or even account teams. These are two different KAM-concepts. KAM is a big and important issue in many B2B markets. Therefore, in this chapter I describe some more KAM-details. Ojasalo[605] indicates that successful KAM consists of four elements:

- ✓ Identifying the key accounts.
- ✓ Thoroughly analyzing the key accounts (basic characteristics, relationship history, level and development of commitment to the relationship, goal congruence of the parties, switching costs, potential).
- ✓ Selecting suitable strategies for the key accounts.
- ✓ Developing operational level capabilities to build, grow, and maintain profitable and long-lasting relationships with these key accounts.

These are subjects that are discussed in this chapter. The five main questions that are answered in this chapter are:

1. What are key accounts?
2. What is KAM?
3. Why is it important?
4. What different types of KAM exist?
5. How to organize KAM?

14.2. Identifying Key Accounts

Some years ago, I did a project for a machine manufacturer. It had segmented its customers in three groups. Tier 1 was the top 5, tier 2 consisted of the 30 next biggest customers. Tier 3 were all other customers, a total of 235. The top 35 customers were good for 80% of the manufacturer's revenue. For this company, the tiers 1 and 2 were the key accounts. Let's focus on these. In Figure 14.1. you see how this company had organized its KAM.

	Tier 1: top 5	**Tier 2: 30 next biggest**
% of revenue	50%	30%
Type of customer	Only global customers	Some global, mostly local customers
KAM concept	Key Account Manager with fixed account team	Key Account Manager with fluid account team for specific situations
Capacity Key Account Manager per customer	Appr. 2 days per week (0,4 FTE)	Appr. 2 days per month (0,1 FTE)
Key Account Plan	Yes, extensive plan, developed in cooperation with account team and customer	Yes, but limited content
Buying center approach	Focus on buying centers of customer's headquarters and national organizations	Mainly focus on customer's headquarter buying center
Involvement of supplier's senior management	Yes, extensive contacts with customer's senior management	Limited, a yearly regular visit

Figure 14.1. KAM Structure: An Example

This manufacturer chose to only use revenue as a criterium for selecting its key accounts. And indeed, in many companies you'll find the pareto principle: 20% of the customers make 80% of the revenue. But isn't that too limited? It has different KAM-concepts; in the next paragraphs these are explained more in detail.

B2B companies have often a limited number of customers. And, as explained in the Chapters 3-5, there is a large differentiation among these customers. In Figure 14.3. you see two definitions of key accounts. It are complex customers with a strategic importance. For the most important customers KAM is used as a specific way of relationship marketing[606], others see KAM as a type of sales. In § 9.4. I described the boundary spanners based on a combined VOC-VFC segmentation. The customers with a VOC, and especially the extrinsic, and strategic value customers get KAM in the form of a Key Account Manager (KAM'er) or an Account team (see Figure 9.10.). Where in this example 'strategic' is translated into both VOC and VFC, in practice you see various other interpretations. For example, Ryals and Rogers[607] differentiate between 3 types of customer attractiveness for identifying key accounts:

- ✓ Reward to the supplier (e.g., customer profitability/CLV)
- ✓ Opportunity for differentiation (customer willingness to partner)
- ✓ Risk reduction (volume and revenue in process manufacturing)

But in general, you could say that key accounts/strategic customers are those:

- ✓ with the largest current revenue;
- ✓ that generate the largest profits;
- ✓ that have the largest growth potential in terms of revenue and/or profits;
- ✓ that are prestigious and have a superior reputation in the market;
- ✓ that are willing to collaborate and co-create intensely.

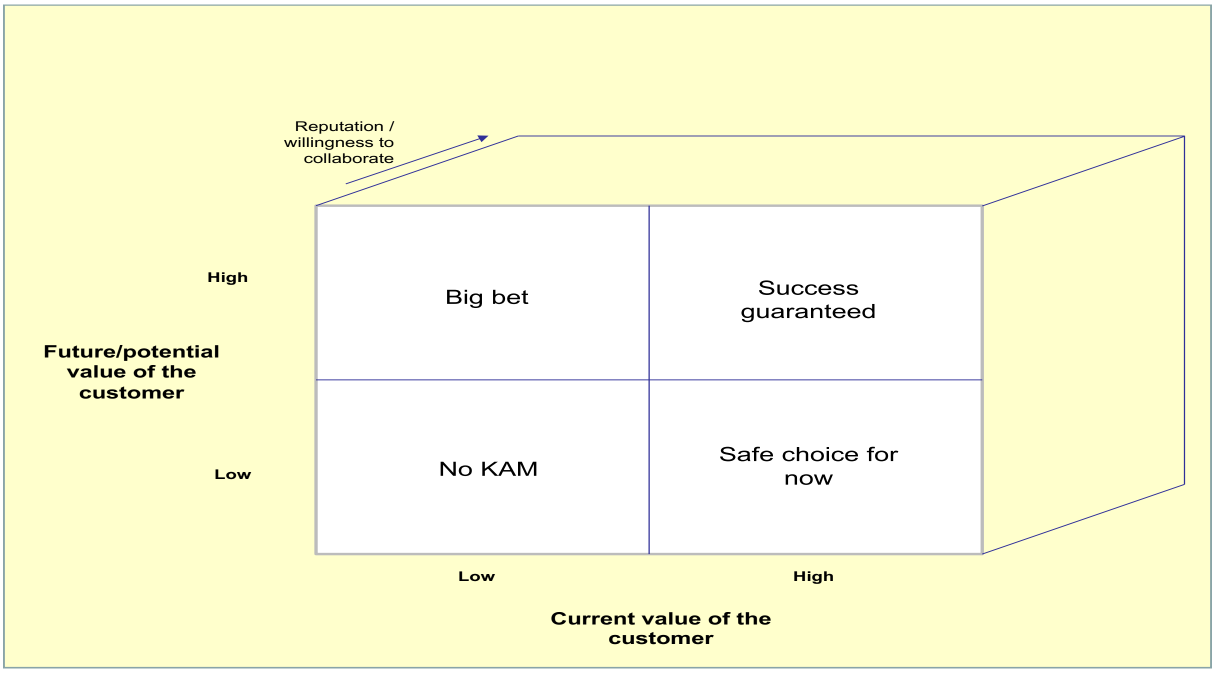


Figure 14.2. KAM Based on Current and Future Value

Companies use one, or a combination of these criteria to determine their key accounts. A final example is that of combining current value with potential value. In Figure 14.2. you see a way to look at customers based on both criteria.

- ✓ <u>No KAM</u>. These are customers with a too low current and potential value to get KAM. They are served by cheaper customer relationship concepts.
- ✓ <u>Big bet</u>. The current value is low, but the potential value is high. The supplier invests in KAM to harvest the full potential in the future. But if this is going to work is a question mark.

- ✓ Safe choice for now. These are customers with a high current value, but the growth potential is low. For now, it's a safe choice. But for the future?
- ✓ Success guaranteed. Maybe this guarantee is a bit exaggerated, but customers with a high current value, with even a high growth potential are the ideal customers earning intensive KAM.

14.3. The Essence of Key Account Management

In Figure 14.3. you see four different definitions of key account management.

Key accounts:

"*Customers in a B2B market identified by the selling companies as of strategic importance"* (McDonald et al., 1997, p. 737).

"Complex accounts with special requirements, characterized by a centralized, coordinated purchasing organization with multi-location purchasing influences, a complex buying process, large purchases, and a need for special services" (Storbacka, 2012, p. 259).

Key account management:

"A supplier's relationship marketing program focusing on a single customer" (Wrengler et al., 2006, p. 104).

"*A relational capability, involving task-dedicated actors, who allocate resources of the firm and its strategically most important customers, through management practices that aim inter- and intra organizational alignment, to improve account performance (and ultimately shareholder value creation)"* (Storbacka, 2012, p. 259).

"Initiating, developing and sustaining relationships with strategically important customers with the objective of enhanced value creation and profitability" (Wilson & Woodburn, 2014, p. 353).

"The management of a specific subset of inter-organizational relationships, namely relationships with those customers of the firm who have the highest level of strategic importance for the firm's long-term performance" (Peters et al., 2020, p. 330).

Figure 14.3. Definitions of Key Accounts and KAM

KAM, also called strategic account management, is a way of relationship marketing that had its roots in late 1970's[608]. Based on the definitions and my personal experiences, these are the most important characteristics of KAM:

- ✓ It's about managing relationships with key accounts.
- ✓ It's a tailormade approach leading to tailor made CVPs that can be different per customer.
- ✓ It's a type of boundary spanner, it is inter-organizational interface management[609]. In this sense social exchange theory is an extremely relevant scientific theory related to KAM (see § 2.4.).
- ✓ It's about aligning the members of the buying center, aligning the members of the selling center (both intra-organizational alignment) and aligning the selling with the buying center (inter-organizational alignment).
- ✓ It's about co-creation of value; creating value for both partners by alignment as described in the previous characteristic[610].
- ✓ It's about dedication. One person, or even a full team, is dedicated to a specific key account.
- ✓ It's about one face to the customer; the customer has a single point of primary contact.
- ✓ It's about responsibility. The KAM'er is responsible for the performance of a customer (i.e., revenue, profit, growth, loyalty, satisfaction).

Why do companies implement/have KAM? The main reasons are that customers expect it, competition forces the supplier to do so and/or the supplier sees the value of it.

Customers expect it. Strategic customers know that they are important to the supplier and want to be treated as key accounts. I have seen many situations where new customers demanded for a KAM as one of the criteria to select a supplier. They want to be unburdened, have one person to contact, that is for a long time responsible for the relationship. In markets where there is a concentration of customers because of take-overs and mergers small customers become large customers. Also, this development leads to more customers demanding KAM.

Forces by competition. The more competition the more KAM is necessary to differentiate[611]. Also, in certain B2B markets offering a KAM has become a kind of competitive weapon. More customers down the customer pyramid, that normally would not get a KAM'er, are offered one as extra service to retain customers and win new customers. In those markets other suppliers are forced to follow.

Suppliers see the value of it. From this perspective, there are two main reasons to start with KAM. The first one is an operational reason. In certain complex customer-supplier relationships coordination and alignment are extremely important. The more complex the relationship, the more coordination and alignment between members of the buying (customer) and selling centers (supplier) are needed, the bigger the need for KAM[612]. Think about globally operating customers with several national divisions as customers; the coordination and alignment from the supplier's side by using a KAM'er is essential. The second is a results reason. Suppliers using KAM see that it can improve account performance to enhance value for the customer (VFC) and supplier (VOC). Specifically, it could[613]:

- ✓ Increase current revenue and profit contribution.
- ✓ Increase the customer focus, service level and the quality of relationship management.
- ✓ Grow the customer on the value ladder (from buying products to buying total solutions; see Figure 8.4.).
- ✓ Develop the customer from a transactional to a collaborative exchange customer (see Figures 1.7. and 5.9.).
- ✓ Grow the customer on the loyalty ladder (see Figure 18.3.).

For the supplier, investing in KAM is a kind of business case (see § 16.2.). The supplier invests in capacity and time of employees. In return of it, the supplier hopes to reduce other costs like rework. But most essential is more revenue and profit and a long-lasting relationship. The KAM business case (investments versus revenue) should be positive[614].

14.4. Different Types of Key Account Management

The example from practice as presented in Figure 14.1 shows that there are different KAM-concepts, sometimes even within the same company. In the example you see that KAM for the top-5 customers is organized by account teams while KAM for the next 30 is conducted by a KAM'er that in certain situations uses a temporarily (fluid) team. You could say that the intensity, capacity, and dedicated KAM-time per key account depends on its strategic importance.

KAM has many faces. When you would visit ten different B2B companies you could see ten different types of KAM. Even within one company different types could be used, depending on the customer segment. Some of the most important differences are:

- ✓ One person versus a team
- ✓ Local versus global
- ✓ Internal versus external
- ✓ Hunting versus farming

One person versus a team: you could say that there is a kind of continuum[615] from a sole and individual KAM'er until a full and dedicated account team. The example in Figure 14.1. shows different KAM-concepts. On the continuum you could identify four different concepts.

- ✓ The individual KAM'er acting as the only and single point of contact for the customer. In this single-contact model (see Figure 14.4.), the KAM'er is the gatekeeper.

- ✓ The fluid account team. The KAM forms a temporary account team, only for certain episodes. Think about making a proposal, the installation of sold products, etc. When the episode is over, the team is dismantled.
- ✓ The virtual account team. There is a fixed account team for a customer, headed by the account manager. As a team it communicates with the customer, it develops and works according to the account plan (see § 14.5.). It uses the multiple-contact model. Members of the team have contacts with the members of the buying unit. The only difference with the next concept is that the members belong to different departments, and it is not physically located in one room.
- ✓ The fixed account team. This is a fixed account team dedicated for one customer. Employees belong to a fixed team; they work physically from one room and in accordance with the multi-contact model.

As indicated before, the choice for using a certain concept depends on the complexity of the customer-supplier relationship and the strategic importance of the customer.

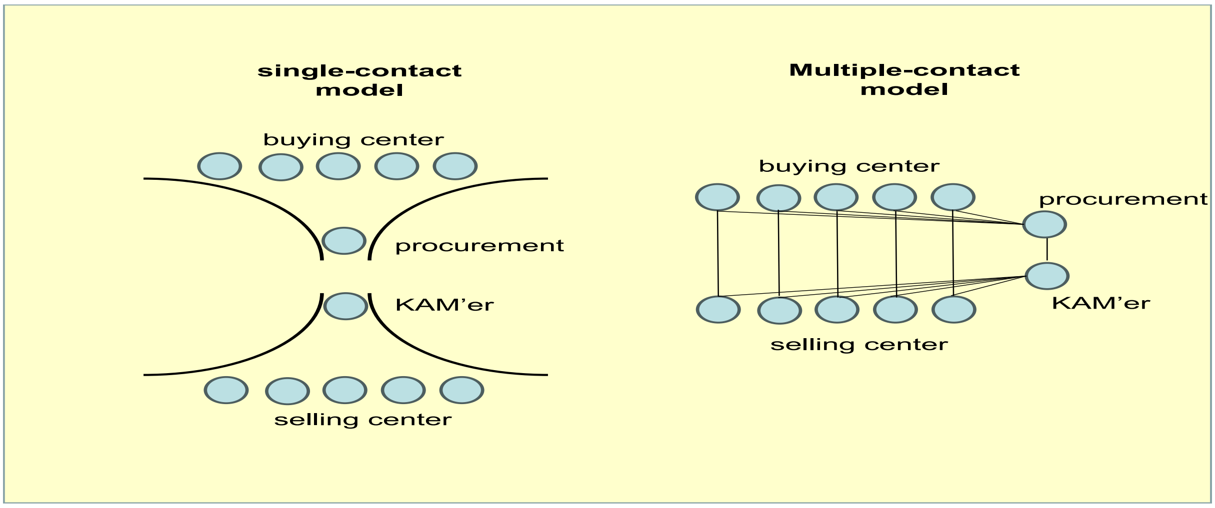


Figure 14.4. Two Different Models

Local versus global: a machine manufacturer has different kinds of key accounts. Some of them only operate in the Netherlands. These are served by a local KAM'er. But three of them are internationally operating companies with divisions on all continents. To guarantee one face to these customers and coordinate all transaction globally, global account managers (GAM'ers) are responsible. They have their regular contacts with customer's headquarters, but also with its national organizations. You could imagine that this is a much more complex situation than a local situation.

Internal versus external: companies use own employees as KAM'ers (internal; direct sales and distribution), but sometimes also external parties (external; indirect sales and distribution). For those external parties, think about agents and distributors with the role of KAM'er. Agents are third parties that act on behalf of the supplier. They sell, service and sometimes act as a KAM'er towards local key accounts. For this, they get a margin of sales from the supplier. They are a kind of intermediates; they don't buy products from the supplier. However, distributors do. They buy products, store them, and resell them to their consigned region (a country or a part of a country). Also, these distributors can act as KAM'ers.

Hunting versus farming: in many cases KAM'ers are responsible for both the offensive marketing (sales; getting new customers; or selling to existing customers) and defensive marketing (keeping satisfied and loyal customers); see § 2.3. However, I have seen situations where de KAM'ers were mainly hunters, only interested in sales, chasing after new key accounts or new projects with existing customers. In other situations, it was mainly farmers, relationship managers mainly responsible to keep their key accounts happy. They were focused on keeping their customers (retention).

During a round of interviews with key accounts of a Swedish machine manufacturer some of the customers expressed their dissatisfaction. They indicated that they had KAM'ers as boundary spanners. But these were only interested in them (the customer) when they actually could sell something. As hunters, they were only looking for commercial opportunities. However, customers wanted regular contacts with them, also in periods where there were no new projects and business opportunities.

The role of a KAM'er depends on the stadium of the customer-supplier relationship with a (potential) key account. The Relational Development Model[616] describes "stages of KAM that match transitions on the continuum from transactional relationships to collaborative relationships". Potential key accounts (so not all customers) as suspects (see Figure 13.9.) start in the Pre-KAM phase and grow towards a collaborative relationship with synergistic KAM (see Figure 14.5.).

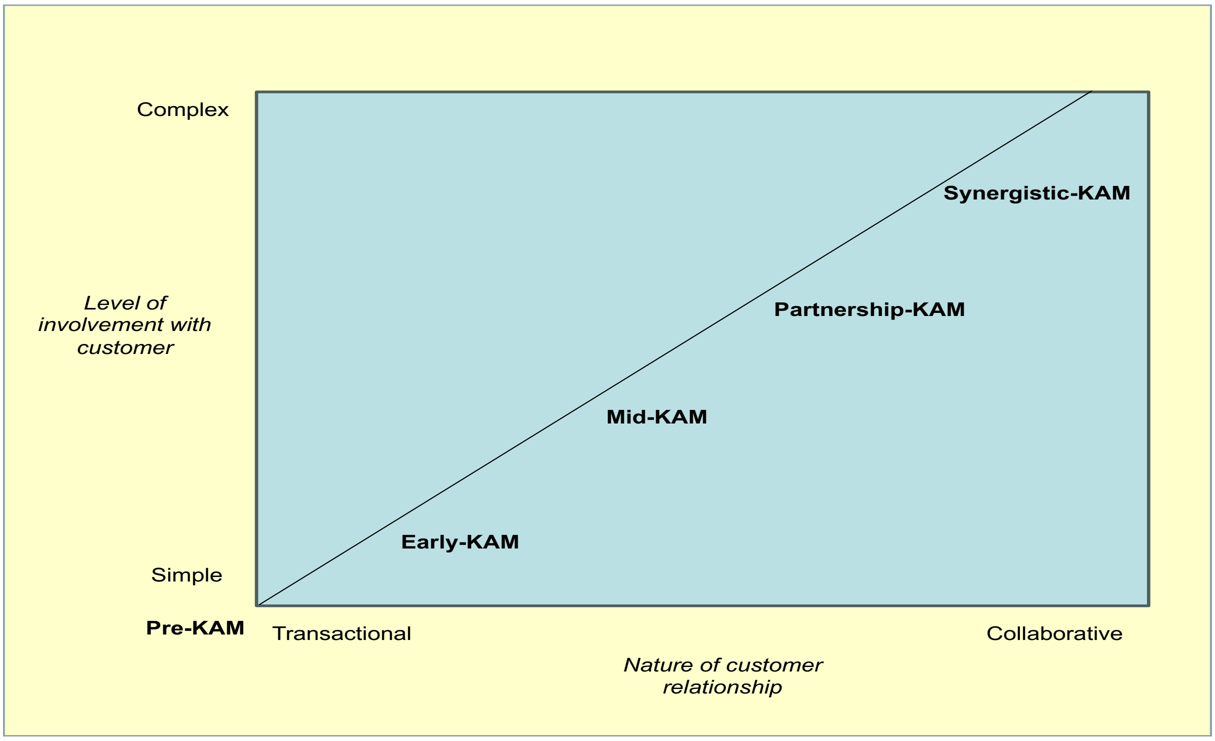


Figure 14.5. Relational Development Model

The characteristics of KAM in the different phases are:

- ✓ Pre-KAM: no transactions, but a potential customer with key account potential has been identified.
- ✓ Early-KAM: transactions have been established, but the supplier is one of many. The supplier tries to identify opportunities for account penetration. The KAM'er tries to understand the customer better and the market he operates in. The customer wants to see a proof the supplier offers the best value for money.
- ✓ Mid-KAM: the supplier has established credibility with the customer. The customer expresses a preference for the supplier, the supplier has achieved the majority in the share of wallet. Contacts between members of the buying and selling centers increase.
- ✓ Partnership-KAM: there is a single sourcing relationship. The focus changes from product excellence to social integration on all organizational levels. These customers are clearly prioritized (see § 6.7.).
- ✓ Synergistic-KAM: single sourcing together with cross-boundary process delivery. The supplier is seen as a strategic external resource. There are intensive practices of co-creation, these are the ultimate collaborative exchange customers.

14.5. Key Account Plans

An essential activity within KAM is key account planning. In the example presented in Figure 14.1. you see that different methods are used. Key account planning[617]: "having identified the few accounts that justify dedicated resources, planning for them is an obvious pre-requisite to the effective deployment of those resources". Developing key account plans means making a plan per key account looking back and forward in order to be aligned for this customer. It can be a time-consuming process leading to a plan with for example the content as presented in Figure 14.6[618].

	Section	*Subsection/detailed content*
1	Relationship overview/Executive summary	✓ Current performance analysis ✓ Current initiatives with the key account ✓ Financial targets ✓ Planning assumptions
2	Key account overview	✓ Key account's business environment (sector analysis, competitive situation, major challenges, key account's SWOT-analysis)
3	Objectives and strategy	✓ Identify and prioritize the key opportunities with the key account ✓ Its position on the customer portfolio matrix ✓ Top-level strategy
4	Customer alignment	✓ Customer's critical success factors and supplier relative performance ✓ Strategies to manage the relationship
5	Relationship management	✓ Customer's buying center ✓ Contact mapping (who talks to whom; warmth of the relationship)
6	Implementation plan	✓ Detailed tactics ✓ Budget & Resources ✓ Risks and contingencies

Figure 14.6. Content of a Key Account Plan

Depending on the KAM-concept (see previous paragraph), such an account plan is developed by the KAM'er, the full account team with/or without the active involvement of the customer. Such a plan has the following goals:

- ✓ Planning the right resources and activities per customer.
- ✓ Having clear objectives per customer.
- ✓ Help aligning the account team and/or supplier's organization.
- ✓ Help aligning the customer with the supplier's organization.

14.6. Value-Based Selling

Hengstebeck et al.[619] state that "A KAM'er is responsible for the creation of customer value and the presentation and communication of this value to its customer's buying center". Value-based selling is a sales technique focusing on value. It is "a sales approach that focusses on implementing a company's value orientation at sales force level"[620]. Figure 14.7. gives two definitions.

> "*Efforts to understand the customer's business and the related value creation opportunities, proactive crafting of value propositions that are substantive from customer's point of view, and communicating the value potential to the customer"* (Terho et al., 2012, p. 178).
>
> "*A sales approach that builds on identification, quantification, communication, and verification of customer value*" (Töytäri et al., 2015, p. 101).

14.7. Definitions of Value-Based Selling

Value-based selling is especially relevant for sales situations in which the customer is unaware of or underestimates the suppliers offering, especially when it is completely new or complex. You could imagine that value-based selling is relevant when selling goods-services bundles or total solutions, and not so relevant when selling plain commoditized products to transactional customers. Terho et al.[621] propose three dimensions of value-based selling, I added a fourth (nr. 1):

1. Customer value of and for the customer
2. Understanding the customer's business model
3. Crafting the CVP
4. Communicating customer value

Let's elaborate some more on these four dimensions.

Customer value of and for the customer. The 'creation of customer value' can be seen from both sides of the customer value medal. Of course, it is about offering VFC, but a KAM'er is also responsible for the VOC, increasing the value of a customer for the supplier.

Understanding the customer's business model. The regular way of selling is that of inside-out, product- and supply driven sales. It relates to a goods dominant approach based on Value-in-Exchange. KAM'ers try to sell the products their company produces. KAM'ers are not very interested in what the needs and demands of customers are, as long as they can sell the product. However,[622] "the ultimate role of salespeople is to translate the suppliers' general market- or segment-level CVP into customers' specific business contexts and to demonstrate the superior Value-in-Use potential to the (potential) customer". This is what value-based selling is. The customer's needs and demands are central, it is a way of outside-in selling. The focus is on real listening to what the customer wants and then try to find a CVP that fits to these requirements. Value-based selling is "a sales approach that builds on identification, quantification, communication, and verification of customer value"[623]. It is an outside-in sales approach based on Value-in-Use and service dominant logic perspective (see § 2.3.). Value-based selling requires focusing less on the product characteristics and more on understanding what customers really value[624].

Crafting the CVP. As you have seen in Chapter 4, there are large differences between customers in what they desire, expect, and value. You could imagine that a transactional exchange customer has completely different desires and expectations than a collaborative exchange customer. This means that the KAM'er first must listen and understand the customer and next craft and adapt its CVP to the customer within the boundaries of the supplier's positioning (what do we offer, what not?). Often, for the most valuable customers, this is a process of joint co-creation of a tailormade CVP. This can be plain products. Or, more complex by systems selling. This involves "offering and delivering a comprehensive 'package' or 'bundle' of good and service-related value drivers to selected customers"[625]. Even, more complex is selling total solutions with significant risks for the supplier. In this case the KAM'er is more a consultant and not so much a traditional salesperson. You could imagine that understanding the customer and creating a tailormade CVP asks for a large time-investment.

As you have seen in § 1.6. the members of a buying center have different roles and based on these different desires and expectations. These can be related to collective Value-in-Use (based on company goals), but also related to individual and personal Value-in-Use. Research by Bischoff et al.[626] shows that per role (persona) this mix can be different. Figure 14.7.[627] shows the collective and individual Value-in-Use drivers they found in their research. So, a KAM'er not only has to adapt an craft the CVP to the customer's company, but also understand the drivers of the individual members of the buying center he works with and adjust his proposition accordingly. They call this 'CVP adaptive communication'[628]: "the operational altering in salespeople's transmission of information on their organization's ability to share resources and offer a superior value package to targeted buying center members across and during customer interactions in response to the perceived nature of the selling situation".

Expected collective Value-in-Use drivers	
Transactional reliability Innovativeness Process improvement Low cost Competitive advantage Relational reliability Access to revenue Price-performance ratio	Customer acquisition Avoiding downtime Customer satisfaction Reduced risk Dependence avoidance Easing of team burden Reduction of fixed costs Employee satisfaction
Expected individual Value-in-Use drivers	
Task simplicity Pressure reduction Personal reputation Social relationship	Aesthetics Uncertainty reduction Perceived control Personalization

Figure 14.7. Examples of Expected Collective and Individual Value-in-Use Drivers of Buying Center Members

So, it means "working with the customer towards crafting a market offering/CVP in such a way that translates the benefits into monetary terms based on an in-depth understanding of the customer's business model[629]".

Communicating customer value. A large machine-manufacturer builds its products in the Netherlands. The acquisition price of these machines for customers is significantly higher than those of the competitors of the Far East. Some of customer's procurement employees have indicated that they think about switching to alternative cheaper suppliers. One of the machine-manufacturer's KAM'ers has developed a TCO-model that shows that based on a period of 5 years their TCO is 25% lower than that of the Far East competitors, despite the higher acquisition price. This has eventually resulted in the customer's commitment to stay. An important role of KAM'ers is to use facts in selling value. The focus should not be on the acquisition price (Value-in-Exchange), but on the TCO and Value-in-Use (see § 11.2. on TCO). By showing the differential TCO (own company compared with next best alternative) it is possible to avoid a focus on acquisition price.

But not only these TCO-calculations[630] can be used to present and communicate value. Also, other means can be used like Return-on-Investment (ROI) calculations, lifecycle calculations, value calculations, formal agreements (e.g., guarantees) and customer referral marketing (e.g., customer cases). For a description of these last two, see § 12.4. on risk-reducing strategies and tactics.

14.7. Organizing Key Account Management

KAM'ers are normally a part of the sales department. This as a separate team or integrated within the regular sales team. Normally KAM'ers have more qualities, more responsibilities, and more authorizations than regular salespeople. Also, allocated time per customer is higher, leading to a lower number of customers per KAM'er. Eventually, this leads to higher wages for KAM'ers compared with other salespeople. Given the fact that most of the key accounts want tailormade solutions, KAM'ers not only have a challenge towards customers, but also a challenge inside the own company. Aligning and coordinating the own company's departments is a serious task for KAM'ers. So, skills required in a KAM'er are[631]:

- ✓ Integrity: being able to trust the KAM'er as an individual, also representing an integer company.
- ✓ Product/service knowledge be able to handle technical questions, an understanding how the good/service can be applied.
- ✓ Communications: verbal fluency, presentations skills and exercising influence in meetings. Also, get things done inside the own company.
- ✓ Understanding the customer's business and business environment: customers depend more on the suppliers' contribution, therefore understanding the customer is key.
- ✓ Selling/negotiation skills: selling the value, showing a superior CVP, and mastering negotiations.

In the past, I have seen various failing initiatives to implement KAM. "The organizational context shapes the work environment"[632]. This context can make KAM flourish or fail. Zupancic[633] describes five dimensions that affect companies' KAM-approach:

- ✓ The strategy for the selected key accounts and the embedding of KAM in the corporate strategy.
- ✓ The goods, services, or solutions a company offers its customers.
- ✓ The people (employees) and their skills, personal development programs, career paths, etc. For example, value-based selling requires training and development of the KAM'ers and a remuneration system that is not based on sales volume, but on the value of the customer[634].
- ✓ The KAM-management in terms of structures, processes, and coordination. For example, understanding customers and selling the value of goods-services bundles and total solutions to customers asks for much more coordination, time and negotiation[635].
- ✓ Screening: the knowledge, information, and data to manage key accounts.

These five dimensions can be clustered in two groups of elements:

- ✓ Formal, tangible, and hard elements: strategies, structures, systems, and processes
- ✓ Informal, soft and partly cultural elements that influence an implementation.

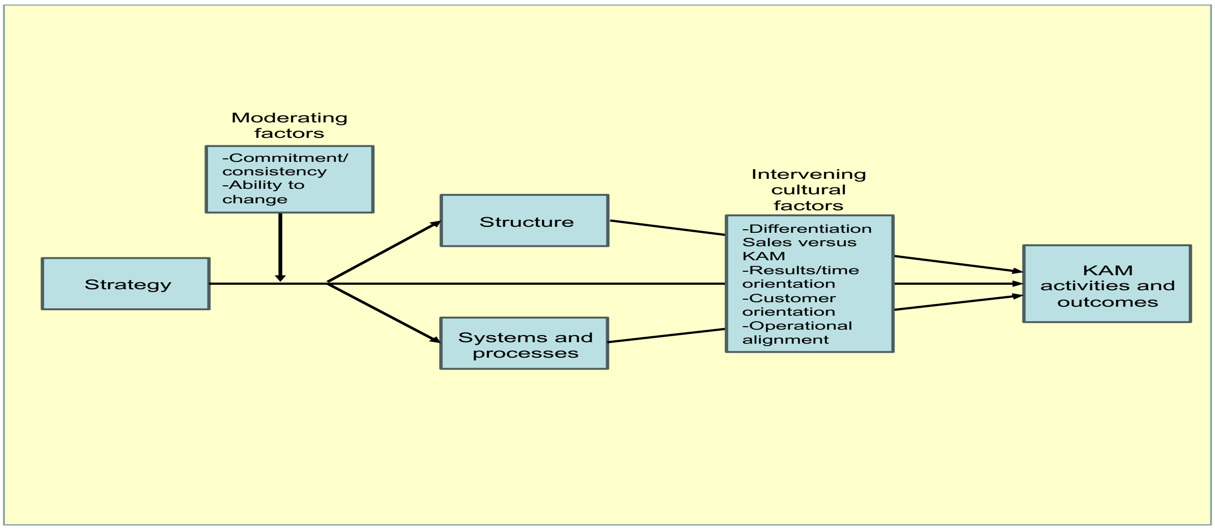


Figure 14.8. A Model of Linkages between Hard and Soft Factors

Figure 14.8.[636] shows the relationships between these dimensions and elements. Based on a strategy a company implements formal and tangible structures, systems, and processes. If these are eventually leading to the desired KAM activities and outcomes depends strongly on the intervening cultural factors. Examples of these are the differentiation between sales and KAM, results/time orientation, customer-orientation, and operational alignment[637]. In line with Millman and Wilson[638], I would add senior management commitment and involvement to this list.

14.8. Summary

In this chapter I have given some insights in how B2B companies organize and use KAM. It's an essential form of relationship marketing for the strategically most important customers. Here I give a short summary of this chapter.

(1) What are key accounts?

Key accounts are a selected group of customers with the highest strategic value for the company. The exact criteria to select key accounts can vary from financial metrics, reputation, and current, but also potential VOC.

(2) What is KAM?

KAM is a form of customer prioritization and relationship management, in which a key account has a dedicated boundary spanner. There are various KAM-concepts, but in all cases the customer has a KAM’er as an important/single point of contact. Some important KAM characteristics are: tailormade, alignment, co-creating value, dedication, one face to the customer, and responsibility.

(3) Why is it important?
Suppliers are forced by customers or competition to implement and use KAM. In other cases, the supplier sees the value of it because there is a positive business case. In this case, the revenues of KAM are higher than the investments.

(4) What different types of KAM exist?
There are various concepts from a KAM’er as the single point of contact, on a continuum to a full account team with dedicated employees. Also, depending on the nature of the customer relationship (no relationship, transactional, towards collaborative), the role of KAM is different. But there are many more differences, like focusing hunting or farming and local versus global KAM’ers.

(5) How to organize KAM?
Organizing KAM asks for formal elements like a strategy, structure, systems, and processes. But whether these are going to lead to the desired outcomes depends on the informal culture-related elements.

SECTION V

ORGANIZING AND DELIVERING VALUE

Chapter 15. Delivering Customer Value: Enablers for Organizing CVPs

15.1. Introduction

"Customers are the lifeblood of any organization. Without customers, a company has no revenues, no profits and therefore no market"[639]. This quote illustrates the importance of customers for a company: without customers, there is no company. In the previous chapters I have described the first two main concepts of CVM:

- ✓ Determining the value of customers (VOC) and for customers (VFC) (Chapters 3 and 4) and segmenting the customer portfolio on these criteria (Chapter 5).
- ✓ Developing a CVP per segment that is line with both VOC and VFC (Chapter 6) and organizing the mix of elements of the CVPs: brand, product, customer service and customer relationship management, sustainability, total cost of ownership and pricing, and reducing risk (Chapters 7-12).
- ✓ Branding and selling the CVP (Chapters 13 and 14).

But what does it take for an organization to not only develop superior CVPs, but also to implement and use them in a sustainable way? In this chapter I describe the 'management' part of CVM: managing customer value. The main questions answered in this chapter are:

1. What are organizational enablers?
2. What are the organizational enablers that are important to implement and use CVPs?

15.2. Organizational Enablers

The organization needs to develop and organize capabilities to deliver superior CVPs; not as a kind of incident depending on the customer, employee, or moment but in a structural way. Each employee and each department contribute to it. This requires that all organizational enablers are positive and contributing. In Figure 15.1. I have given four definitions of organizational enablers.

"Enablers are elements of firm processes (e.g., interfunctional coordination, customer complaint analysis), structures (e.g., cross functional teams), or states (e.g., top management commitment, increased empowerment) necessary and antecedent to the successful implementation of service guarantees" (Kashyap, 2001, p. 12).

"Enablers represent the way the organisation operates" (Bou-Llusar et al., 2005, p. 338).

"Structural, cultural, technological, and human practices that can be leveraged to support and sustain the implementation of strategic goals" (PMI, 2013, p. 36).

"Antecedents of a phenomenon, without which the intended phenomenon would not exist or would exist in a different way" (Müller et al., 2014, p. 1313).

Figure 15.1. Definitions of Organizational Enablers

My definition is:

> *Organizational enablers are specific organizational capabilities, and states, that influence the realization of customer value marketing in a B2B-organization.*

Examples of enablers given in Figure 15.1. are processes, structures, human abilities (like commitment and empowerment) and technologies. Enablers can be divided into two groups: process facilitators and discursive abilities[640].

- ✓ Process facilitators: these are "the total of all policies, structures, practices, and routines that occur in the organization and allow for the intended result to occur"[641]. These are tangibles like technologies, structures, and processes.

- ✓ <u>Discursive abilities</u> “can be recognized in social interaction as well as the ideologies of an organization”[642]. It are intangible and include interactional factors like the organizational culture or management-support that could impact the mentality and attitudes of employees.

Organizational enablers reflect a company’s capability and fit within the foundations of the resource-based view theory[643]. Let me explain this theory more in depth. Each company has a significantly heterogeneous set of capabilities. An organizational capability is a higher order resource and refers to “the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular result”[644]. These capabilities are difficult-to-imitate and enable the company to transform input (e.g., information) into more valuable output. These organizational resources (also called ‘operant resources’, ‘intangible assets’ or ‘intellectual capital’) are for example knowledge, contacts, people, and competencies. They are unique for each company. The success of a B2B exchange relationship is influenced significantly by the resources that both the supplier and the customer contribute to the relationship. It is about “creating the most value out of one’s existing resources and by combining these with others’ resources”[645].

To my current knowledge, there is no academic model describing the enablers for managing customer value. So first, four different enabler-related models are described briefly. Secondly, an overview of potential enablers is given based on these models and elements described in the previous chapters.

15.3. Four Related Models

Based on literature, I have selected four models describing enablers for customer satisfaction (the ServQual Gaps Model[646]), customer centeredness (the Product-Customer Centricity Model[647]), quality (the EFQM Business Excellence Model[648]) and outstanding customer experiences (the Service Excellence Model[649]).

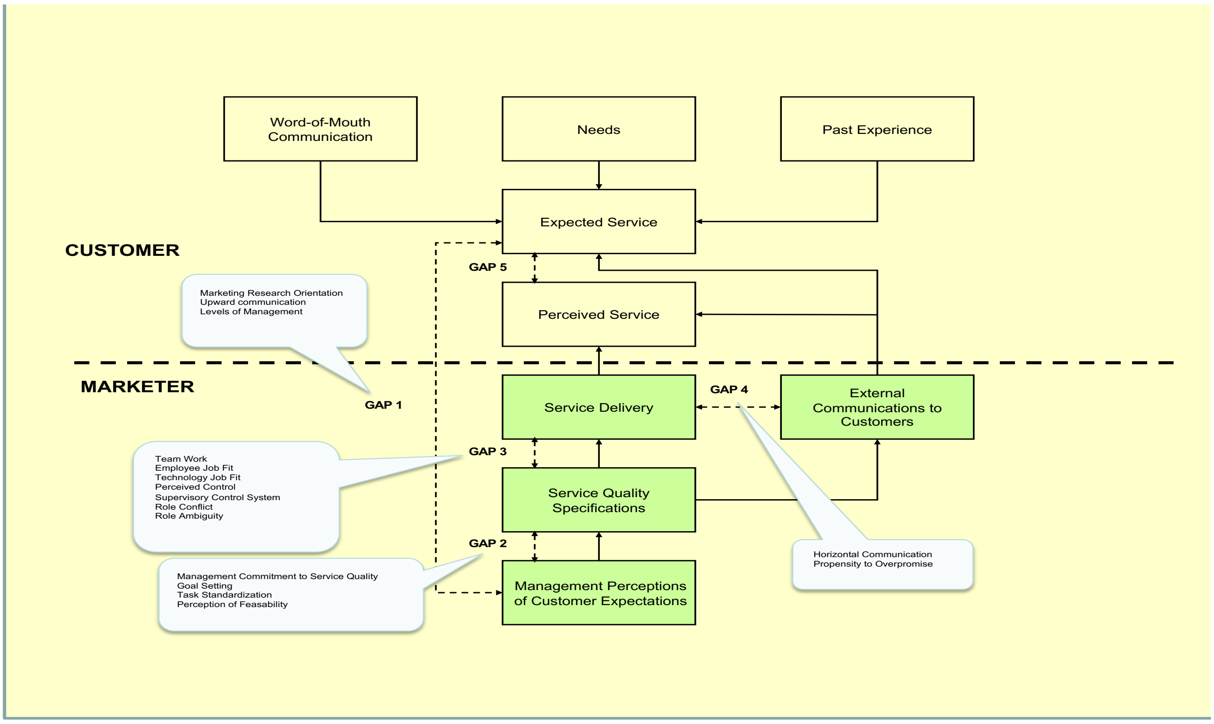


Figure 15.2. The ServQual Gaps Model

Model 1: The ServQual Gaps Model[650]

This model is developed to explain the main causes of the Gap 5 between customers’ perceptions and expectations (see Figure 15.2.[651]). These are Gaps 1-4:

- ✓ Gap 1: this is the gap between the customers' expected service and what management believes customers' expectations are. Organizational enablers of listening, really understanding customers and leadership are important to close this Gap 1.
- ✓ Gap 2: this is the gap between management perceptions of customer expectations and service quality specifications. This can be caused by an absent or wrong service design. Service design is the relevant enabler here.
- ✓ Gap 3: this is the gap between service quality specifications and the actual service delivery that affects perceived service. Aspects concerning operations, processes, culture, and human resources could be the cause of this gap.
- ✓ Gap 4: this is the gap between the actual service delivery and external communication about it to customers. There is a difference between what the company promises (explicitly/implicitly) to customers and what it really delivers.

Although this model is developed for service industries and focusses on expected versus perceived service, this model can also be applied to explain the causes of the difference between expected versus perceived customer value (which is a broader concept). To close Gap 5 and make sure that for customers the perceived value equals the expected value, a wide range of organizational enablers needs to be aligned. Examples are listening to and understanding customers, leadership, CVP-design, operations management, culture/human resources, and external communications. These enablers must be linked and integrated to achieve the maximum effect.

Model 2: The Product-Customer Centricity Mode[652]l
This is a conceptual model that describes the four interlinked enablers that must be worked on to transform a product centered organization into a customer centered organization (see Figure 15.3.). The four enablers are:
- ✓ Structure: a structure that is aligned with markets.
- ✓ Culture: this is the total of values, norms, and beliefs/mental models of people within a company.
- ✓ Processes: company processes for developing and sustaining customer relationships.
- ✓ Financial Metrics: important to help managers measure the financial implications of their decision making.

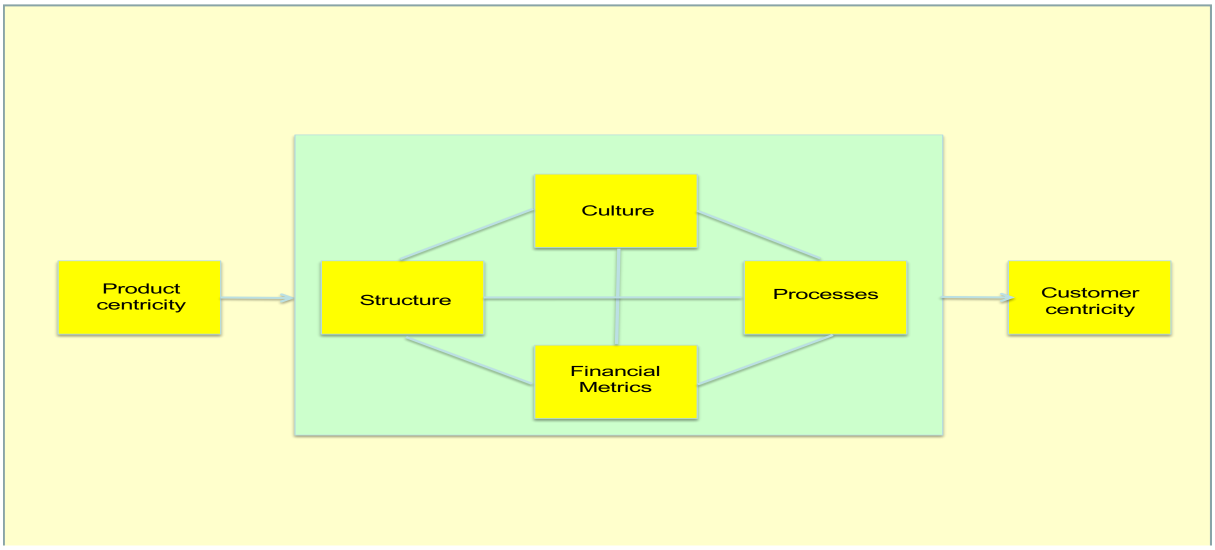


Figure 15.3. The Product-Customer Centricity Model

Model 3: The EFQM Business Excellence Model[653]
This model is developed by the European Society for Quality Management[654]. It is a generic organizational quality model describing the results on the right part (people, customers, society, business results). To achieve these results, measures must be taken affecting all levels and all parts of

the organization. These reflect the five enablers at the left side: (1) leadership, (2) people, (3) strategy, (4) partnerships and resources and (5) processes, products (tangible goods), and services. Important to note that the EFQM has recently developed a new version of the business excellence model, but, to my knowledge, it has not yet been described in an academic paper.

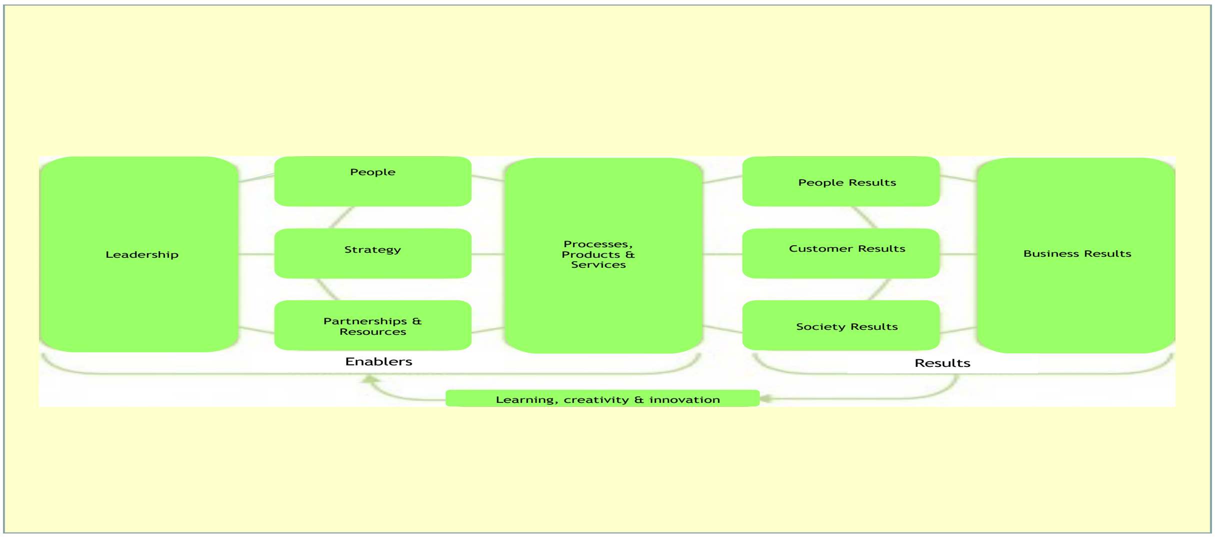


Figure 15.4. The EFQM Business Excellence Model

Model 4: The Service Excellence Model[655]

This model is derived from the European standard CEN/TS 16880 ‘Service excellence – Creating outstanding customer experiences through service excellence’. The model describes 9 enablers clustered in 5 dimensions (design, strategy, culture, innovation, and operations). When these 9 enablers are aligned, it supports results on four aspects: excellent service performance (1), enthusiastic and loyal customers (2), enthusiastic and committed employees (3), and excellent reputation and financial results (4). As you can see, there are several similarities with the EFQM Business Excellence Model. See www.serviceexcellence.nu for more information on this model.

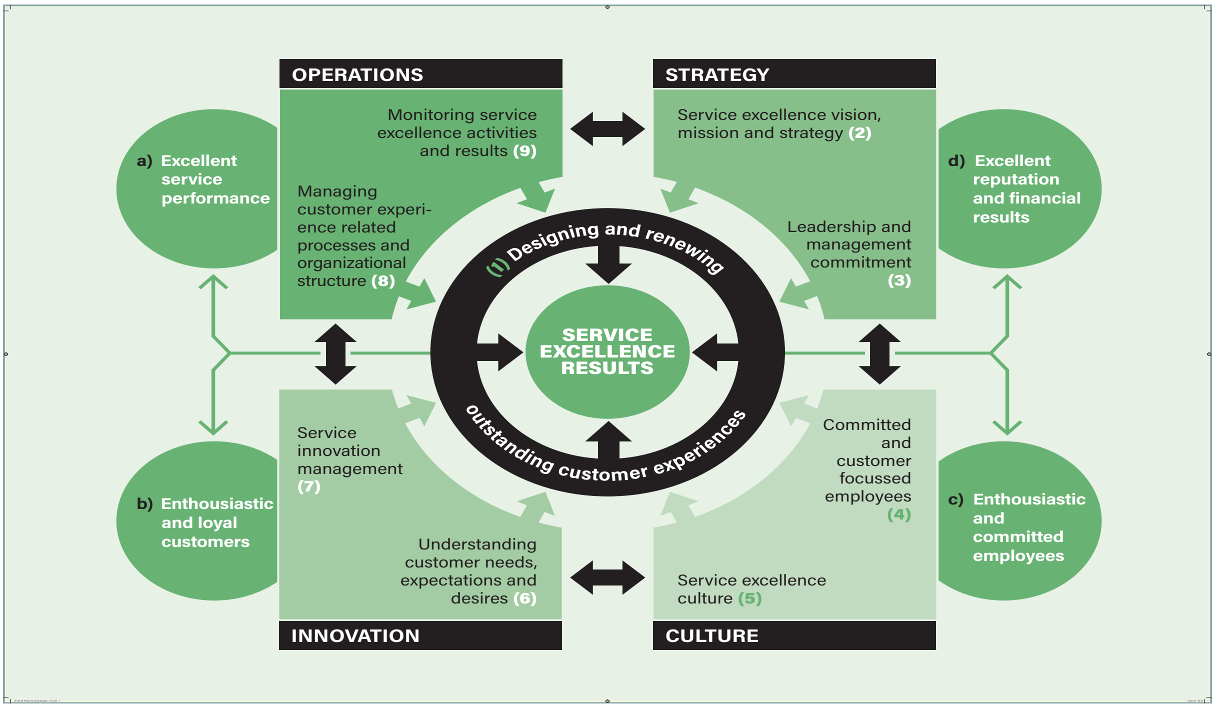


Figure 15.5. The Service Excellence Model

These models describe the enablers for closing the gap between perceived and expected service (ServQual Gaps Model), becoming a customer centered organization (Product-Customer Centricity Model), delivering quality (EFQM Business Excellence Model) and delivering outstanding customer experiences (Service Excellence Model). These models have important enablers that might also be important to manage customer value. Although, various important enablers are missing. Therefore, in the next paragraph I develop a new and extended model that must be validated in practice.

15.4. Enablers for Delivering Customer Value

First, and as previously stated, there is no research published listing the enablers for organizing and managing customer value to the best of my knowledge. Empirical research should therefore be conducted on relevant enablers. The results of such an additional research could significantly change the content of this chapter. But for now, we'll have to work with the following analysis. In the previous paragraph, I have presented four models with enablers. To get an overview of possible organizational enablers, I have put these models together in Figure 15.6. These 14 enablers mentioned in the four models could form a first base for general enablers.

	ServQual Gaps	Product-Customer Centricity	EFQM	Service Excellence
(1)Listening to customers	x			x
(2)Leadership and management commitment	x		x	x
(3)Mission, vision and strategy			x	x
(4)Design	x			x
(5)Culture	x	x		x
(6)Employees/people and human resources	x		x	x
(7)Structure of the organization		x		x
(8)Processes/operations	x	x	x	x
(9)Goods and services			x	
(10)Partnerships with other companies (e.g. suppliers)			x	x
(11)Monitoring results/financial metrics		x		x
(12)Innovation management				x
(13)External communication with customers	x			
(14) sustainable organization and products				

Figure 15.6. Potential Enablers of CVM

However, for managing customer value this set seems to be incomplete. Missing enablers relate to some issues concerning CVM and the six CVP-elements. In Figure 15.7. you see the result.

Customer Value Marketing

Aspects of CVM like segmenting customers and CVPs are missing in Figure 15.6. Therefore, I think that the following enablers should be added:

- ✓ Customer segmentation: the practice of understanding customers and segmenting them on VOC and VFC (see Chapters 3-5).
- ✓ CVPs: the practice of designing and using CVPs (see Chapter 6).

The six CVP-elements

Looking at Figure 15.6., products are represented in nr. 9 (goods and services). However, other CVP-elements and their consequences are still missing:

- ✓ The brand: how to build a strong brand in the eyes of the customer? See chapter 7.

- ✓ Customer service and customer relationship management: how to organize business exchange relationships. See Chapter 9.
- ✓ Sustainability: the sustainability of the organization and the products it produces. See Chapter 10.
- ✓ Pricing: the ability as an organization to do effective customer value-based pricing. See Chapter 11.
- ✓ Cost management: to offer superior CVPs it is also necessary to make sure that the total cost of ownership for customers is competitive compared with that of competitors' propositions. This means that, to be profitable, working on cost reductions and translating this to prices is essential. This is missing in the four models. For a company this means ambidexterity: focusing both on more value for customers and at the same time working on cost reductions (see § 1.5.).
- ✓ Risk reduction: the ability to reduce potential and current customers' perceived risks (see Chapter 12).

Based on this analysis, a model for the enablers of managing customer value could be divided into two parts: 'CVP-related enablers' and 'internal supporting enablers'.

Part A: CVP-related enablers
These are directly linked to the development and content of the CVPs for VOC-VFC customer segments. This part contains seven groups:
1. Designing CVPs: the capabilities and resources to design superior CVPs that are in line with the VOC/VFC of customer segments.
2. Brands: the capabilities and resources to define and communicate the brand.
3. Products: the capabilities and resources to develop and use goods, services, goods-services bundles, and total solutions.
4. Customer service and customer relationship management: the capabilities and resources to develop and use service levels and relationships.
5. Sustainability: the capabilities and resources to build a sustainable organization with sustainable products.
6. Total cost of ownership and pricing: the capabilities and resources to develop pricing strategies (like customer value-based pricing) and implement them in an effective way.
7. Risk reduction: the capabilities and resources to reduce customers' perceived risk in the exchange relationship.

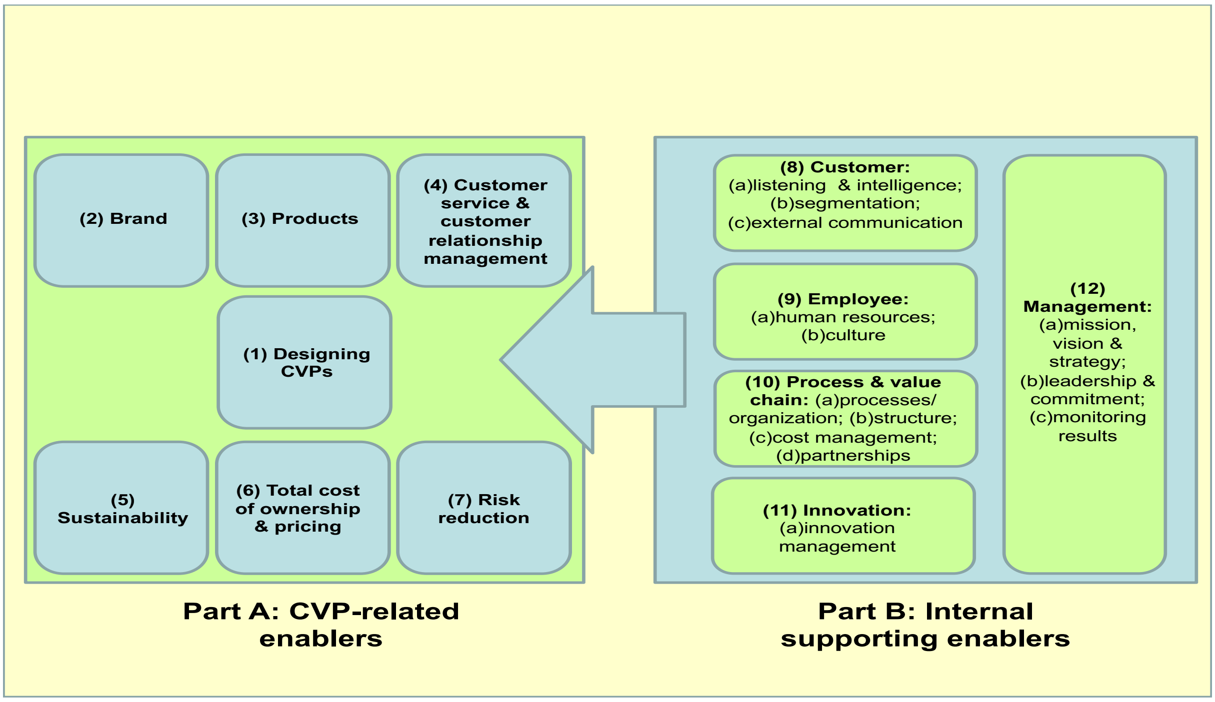


Figure 15.7. Enablers of CV-Management in Two Parts

Part B: Internal supporting enablers
These are enablers that can be both process facilitators or discursive abilities (see § 15.3.). They support the enablers directly related to the CVP (therefore an arrow is used in the model). I have clustered these enablers in five groups.

8. Customer related enablers: this consists of 7a: listening to customers and customer intelligence; 7b: segmenting customers; and 7c: external communication with customers.
9. Employee related enablers: this consists of 8a: human resources; and 8b: culture.
10. Process and value chain related enablers: this consists of 9a: processes/operations; 9b: structure of the organization; 9c: cost management; and 9d: partnerships with other companies.
11. Innovation related enablers: this consists of 10a: innovation management.
12. Management related enablers: this consists of 11a: mission, vision, and strategy; 11b: leadership and management commitment; and 11c: monitoring results.

This means that an organization that wants to work in a structural way on CV-management should address these enablers. In Figure 15.7. you see a graphical representation of these two parts A and B and the 12 enablers.

15.5. Summary
In this chapter I have developed a model of the enablers for organizing CVM in a structural way. Since there is no existing model, I developed one using four other enabler-related models. Of course, this should be validated in the future. Here I give a short summary of this chapter.

(1) What are organizational enablers?
Enablers are specific organizational capabilities, and states, that influence the realization of a certain strategic goal of an organization. CVM-related enablers, like for example processes, structures, human abilities, and technologies, have an influence on how effectively and efficiently a company can manage customer value to achieve the defined business goals. Organizational enablers can be divided into two groups: process facilitators and discursive abilities.

(2) What are the organizational enablers that are important to implement and use CV-management?
Using the enabler-related ServQual Gaps Model, the Product-Customer Centricity Model, the EFQM Business Excellence Model and the Service Excellence Model as a basis, and adding missing elements, a first conceptual model for the enablers of managing customer value is developed. It consists of two parts (A: CVP related enablers and B: supporting organizational enablers) with a total of 12 enablers. This model, however, has not been validated yet.

SECTION VI

HARVESTING ON VALUE

Chapter 16. Return on Value: The Business Case of CVM

16.1. Introduction

In the last three chapters of this textbook, the focus is on the results of CVM. This 16th chapter discusses the relationship between value for the customer (VFC) and shareholder value. It describes what we know about the causal and financial effects. Having a good view on these effects is essential for making a business case of CVM and convincing top management to start working with it.

According to Doyle[656] the purpose of marketing is "to contribute to maximizing shareholder value". Consequently, it is crucial to develop, execute and evaluate marketing strategies based on the value they accumulate for these shareholders[657]. In marketing practice, you see that for many initiatives it is not clear what they add to the financial results and the shareholders' value. So, one of the major challenges of B2B marketing is to make it accountable and to link choices and actions with business economics. According to Rust et al.[658], top management has often viewed marketing expenditures as short-term costs rather than long-term investments, and as financially unaccountable. In many B2B companies, senior management and board members understand and recognize the importance of CVM. In practice however, they make important decisions mainly based on financial measures[659]. CVM should help organizations to make the switch from a product-based strategy to a customer-based strategy. It helps departments like marketing, operations, and quality to make long-term investments financially accountable. This helps senior management and shareholders that are ambivalent towards marketing efforts, especially in companies dominated by a finance- or operations-oriented mindset, to better understand how value and organizational efforts affect financial statements and market valuation[660].

> "Modeling in marketing science must continue to evolve from a goods-based, transaction-specific perspective that asks how marketing can best influence individual purchase decisions to a service-based perspective of customer value creation and relationships that asks how service and marketing efforts influence customers and value creation dynamically. Without creating greater intellectual capital in this important area, marketing science may find itself increasingly less relevant to management practice and, consequently, less relevant to business research and education"[661].

To summarize, understanding how companies can profit from CVM is highly important for both B2B companies and academics[662]. In this chapter I give answers to the following questions:

1. What is a business case?
2. What models describe the effects of customer value on financial results?
3. What are the cost related causal effects of steering on VOC/VFC?
4. What are the revenue related causal effects of steering on VOC/VFC?
5. What is the relationship between the value of a customer portfolio and shareholder value?

I start this chapter with a description of four relevant models. Because of the difference between these models, and missing elements, using these models I developed a new model. I present this 'Return on Value Model', discuss its elements, and explain the causal relationships between these elements.

16.2. A CVM Business Case

A business case is a calculation of the cost and revenue of an intervention like an organizational development and within it certain programs or projects. Its goal is to make visible what the incidental and structural cost are of certain changes. But it also shows the results of these changes in terms of more revenue, lower costs, or a better allocation of costs. Figure 16.1. gives a simplified structure of such a business case.

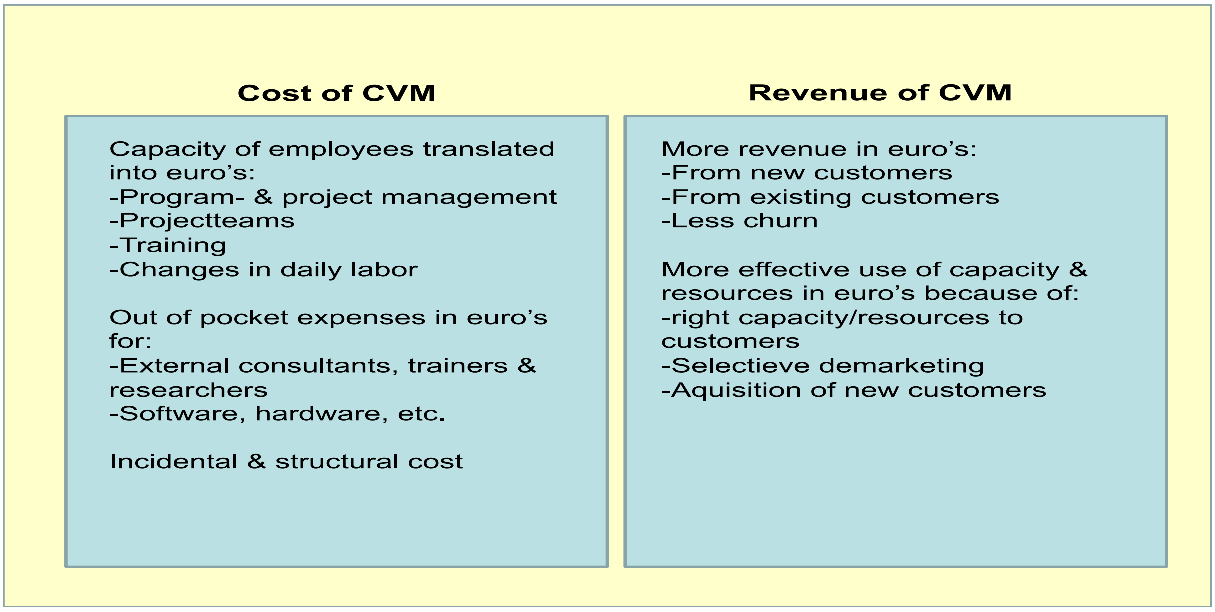


Figure 16.1. Structure of a Business Case

The cost of CVM is related to the capacity of employees needed to implement changes. A differentiation can be made between the use of internal capacity and external capacity. Internal capacity/time is needed for project teams, training, etc. And time is money. This time employees cannot be productive. Hiring external people like consultants, project managers, researchers and trainers leads to out-of-the-pocket expenses where the company gets a bill for. These also apply to other expenses like those for buying software and other resources. The sum of all internal costs and out-of-the-pocket expenses, translated into Euros, is the left side of the business case. The right side represents the revenues of CVM. Often, these are much more difficult to calculate. What's the value of a higher level of customer satisfaction and NPS? Using a business case forces you to translate positive effects into Euros. You must find the direct effects of CVM-improvements. Think about customer behavior in terms of less churn, customers buying more, etc. Recommendations leading to new customers and revenue. But also, because of practices like differentiation in CVPs and selective demarketing (relatively) less cost can be made. All these effects can be translated into Euros. Therefore, I added the next two chapters to this textbook. In a business case, the revenues should be higher than the costs. It should be a 'positive business case'. This is often a prerequisite and criterium for management to invest.

Finally, here are some tips when making a business case. Sometimes it is difficult to calculate what the revenues are. In this case it can be handy to make an optimistic, a pessimistic, and a realistic scenario that is between the two former ones. In case the pessimistic scenario leads to a positive business case, then you're certainly safe. Further it's important for a multi-year development to involve the cost/revenue of several years. It can be possible that in the first years there is a negative business case, but after some years it turns into a positive one. By calculating the payback period, it becomes clear how long it takes to become a positive business case. Finally, a business case should be based on facts, at least as much as possible.

16.3. Related Customer Models

As a starting point for determining the effects of CVM, there is the notion of action-reaction. The supplier does something (for example, he offers something in the value exchange) leading to a reaction of the customer. The basic idea is presented in Figure 16.2.[663].

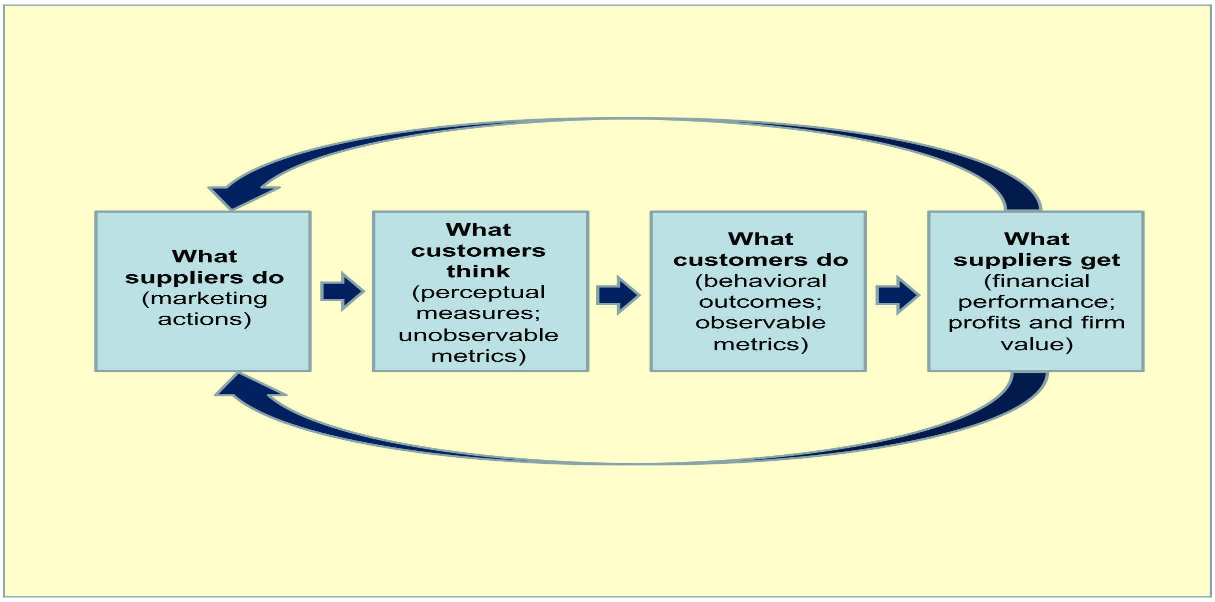


Figure 16.2. Causal Effects

It starts with what the supplier does, which leads to what the customer thinks followed by what he does. These actions lead to what the supplier gets in terms of financial outcomes. What the supplier gets in its turn determines his actions towards customers, and so the circle of causal effects starts again. You could see this as a kind of continuous sequence of positive actions and reactions. Several models with causal effects between value and financial results use this principle as described in Figure 16.2. One of them is the CAM Model: cognition (customer perceived value) – affect (e.g., customer satisfaction) – behavior (loyalty)[664]. Four other models that are briefly described in the following section of this paragraph are the Satisfaction-Profit Chain[665], the Return on Marketing Model[666], the Relationship Profitability Model[667] and the Service Profit Chain (SPC) initially described by Heskett et al.[668].

Model 1: The Satisfaction-Profit Chain[669]

Anderson and Mittal have presented a simple model describing the causal relationships between supplier's performance, customer satisfaction, customer retention and eventually company profit. It states that the performance on specific drivers influences the level of customer satisfaction, which in turn influences customer retention and eventually profits. This is a very simple model that is a translation of Figure 16.2. However, it is too simple, there are various elements missing.

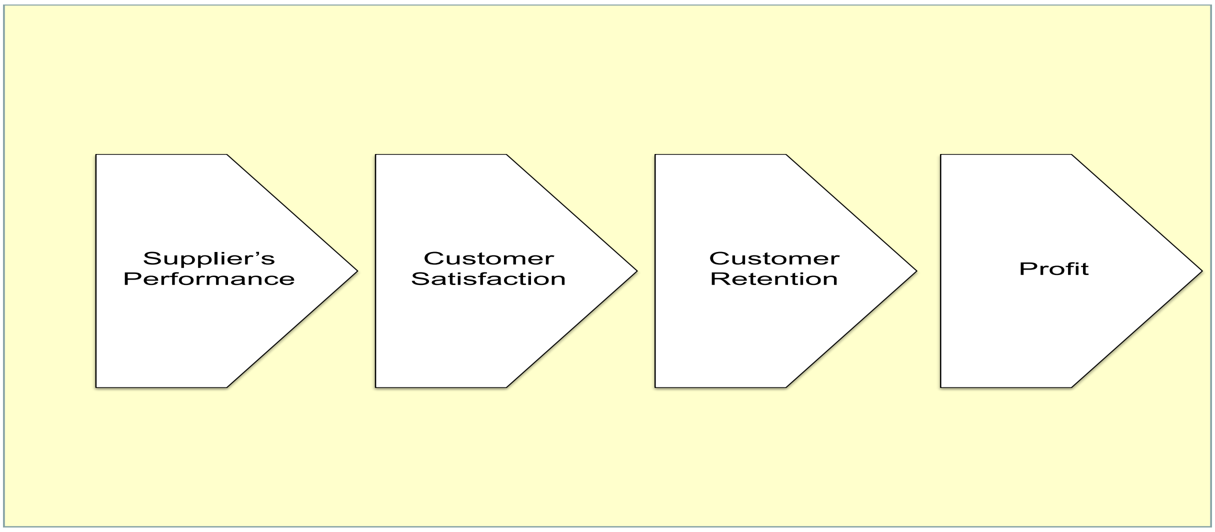


Figure 16.3. The Satisfaction-Profit Chain

Model 2: The Return on Marketing Model [670]

This conceptual model has the objective to make strategic marketing actions and expenditures more accountable by considering the financial effects of them. Marketing is viewed as: "an investment that produces improvements in drivers of customer equity"[671]. Customer equity is the value of the customer base. In Figure 16.4., the effects and consequences of marketing investments are presented.

- ✓ Marketing investments improve drivers/aspects that influence customers with the effect of improved customers' impressions. These impressions could be for example perceived value or satisfaction. The effect of this is that existing customers stay (increased customer retention) and the company becomes more attractive for new customers (increased customer attraction). This, in turn, increases the customer lifetime value (individual customer level) and customer equity (on a customer base level).
- ✓ Return on marketing investment is the result of an increased customer equity minus the cost of the marketing investment.

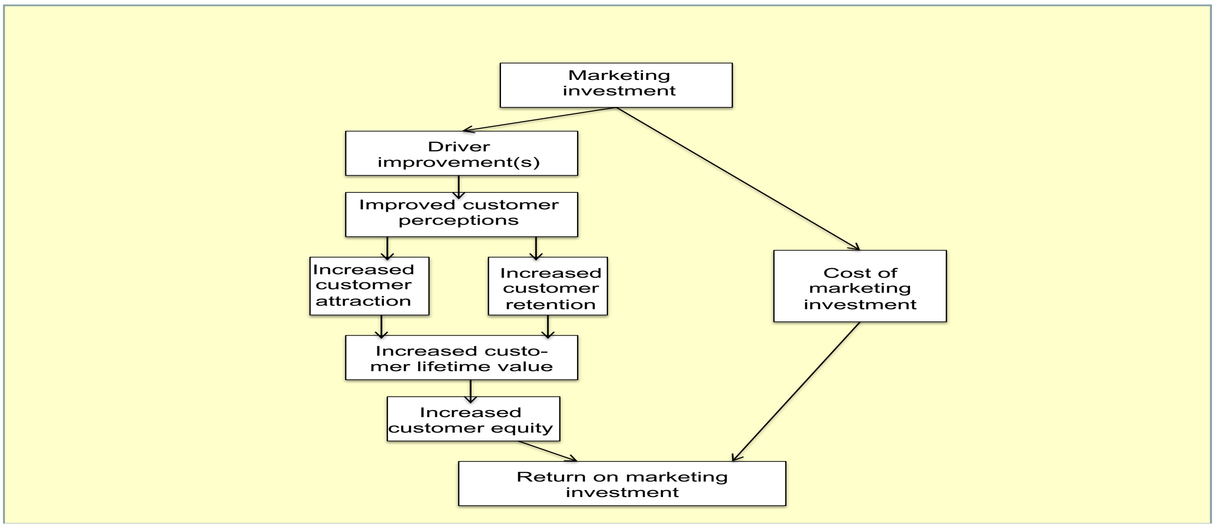


Figure 16.4. Return on Marketing

Value for the customer is an element of 'improved customer perceptions'. Furthermore, through retention and attraction there is a link with the value of individual customers (customer lifetime value) and the full customer portfolio (customer equity).

Model 3: The Relationship Profitability Model[672]

This model describes the links between customer perceived value (VFC) and customer relationship profitability (see Figure 16.5.). In this model, Storbacka et al. propose a sequence of causal effects between several elements. The five elements in the second row form the backbone of this model. These elements are influenced by several other elements of the top and bottom rows (and vice versa). Furthermore, these elements in the top and bottom rows can also have interdependencies.

Perceived Value is the effect of the comparison of service quality with perceived sacrifice (column 1). In this model, the focus is on service episodes and not products or the full CVP, as you can see in Storbacka's definition of Perceived Service Quality: "customers' cognitive evaluation of the service across episodes compared with some explicit or implicit comparison standard". The perceived sacrifice consists of the total cost with explicit/implicit comparison standards. An increase of the perceived value leads to an increase in the customer's satisfaction.

Customer satisfaction influences customer commitment based on intentions and plans for the future. Customer commitment can be positive, neutral, or negative and is defined as: "the parties' intentions to act and their attitude towards interacting with each other". Satisfaction also influences Bonds. These switching barriers tie the customer to the supplier. Bonds in B2B markets can be social bonds, technological bonds, knowledge bonds, planning bonds and legal/economic bonds (see also § 18.10.). Bonds, together with customer satisfaction and customer commitment (column 2), influence the strength of the relationship.

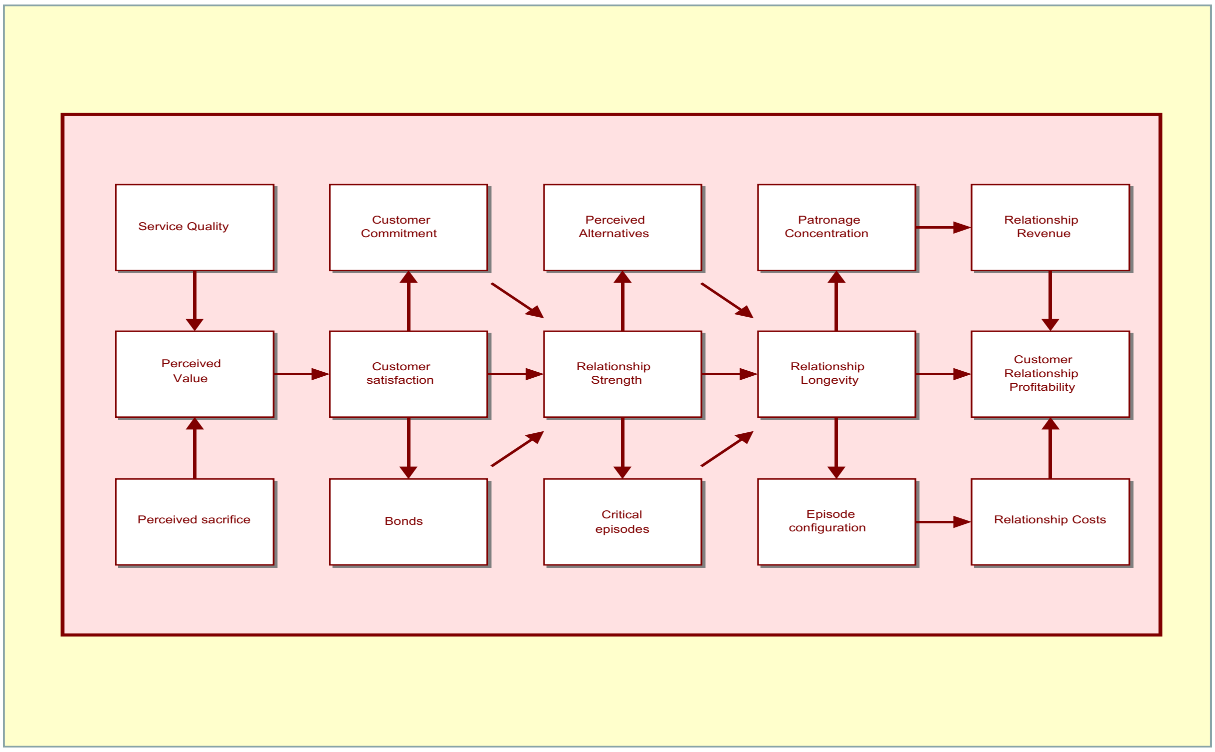


Figure 16.5. The Relationship Profitability Model

Relationship strength (column 3): Storbacka et al. indicate that relationship strength consists of both behavior (repetitive purchase behavior) and communication behavior (word-of-mouth and complaints). Both are influenced by positive commitment by the customer. Relationship strength influences perceived alternatives and critical episodes. Critical episodes are moments in a relationship that could be critical for the continuation of a relationship. The combination of relationship strength, critical episodes and perceived alternatives affect the relationship longevity.

Relationship Longevity is the length of the relationship (column 4). This longevity has an influence on patronage concentration, which is "the share of the customer's cash flow in a certain industry in which the customer chooses to concentrate on one provider". This concentration influences the relationship revenue (the revenue a customer generates for the company during a fiscal year). Longevity also influences the episode configuration: "the episode types and number of each type that occur over time in a relationship between a provider and a customer". This configuration influences relationship costs that are: "the total cost incurred from serving a customer relationship – including direct and indirect costs – during a fiscal year".

Customer Relationship Profitability is the difference between relationship revenue and relationship costs and can be positive, neutral (0) or negative (column 5). Increasing customer relationship profitability is seen as one of the key goals of marketing.

Storbacka et al. nuance these causal effects: "the logic is, however, a simplification of the reality in many industries". In general, however, the main causal effects are perceived value (value for the customer), which leads to customer satisfaction, which in turn leads to two aspects of customer loyalty (relationship strength and longevity), eventually leading to relationship profitability through costs and revenues.

Model 4: The Service Profit Chain[673]

This conceptual model is conceived for service organizations. It links internal actions and performance with external effects on customers and, finally, on financial results. The model (see Figure 16.6.) consists of two parts. The first is the internal part. It is the operating strategy and service delivery system with the elements: 'internal service quality', 'employee satisfaction', 'employee retention' and 'employee productivity'. It starts with the internal service quality: "support services and policies that enable employees to deliver results to customers"[674]. When this internal service quality increases, this has positive effects on employee satisfaction that in turn has positive effects on employee retention and productivity.

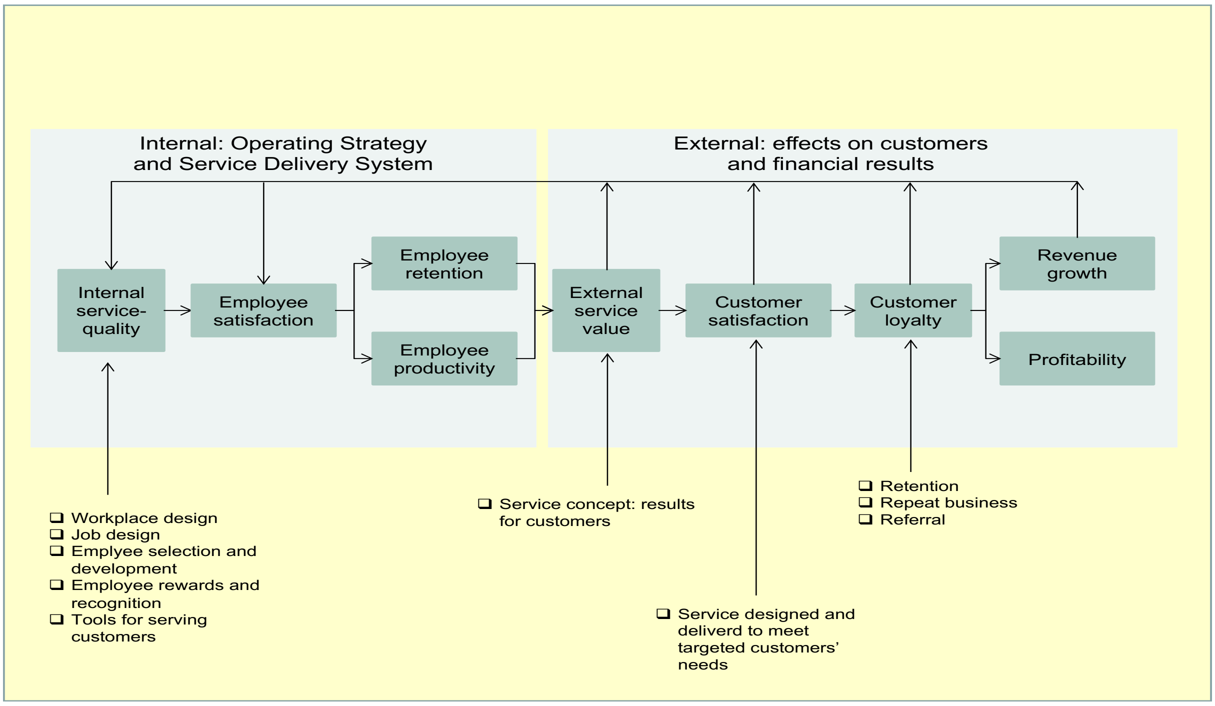


Figure 16.6. The Service Profit Chain

When the performance of the internal part improves, this has a positive effect on the second, external part. This consists of five elements. The first is external service value. This external service value leads to customer satisfaction, customer loyalty and eventually to revenue growth and an increased profitability. In 1994[675] they stated, "while many organizations are beginning to measure relationships between individual links in the service-profit chain, only a few have related the links in meaningful ways - ways that can lead to comprehensive strategies for achieving lasting competitive advantage". Some exceptions are for example the application of the model for the supermarket chain Sears[676] and in a B2B industrial market setting[677].

There is, however, also some criticism on this model. First, research by Hogreve et al.[678] revealed that internal service quality translates into external service value not only through employee satisfaction, as proposed in the service profit chain, but also through other and complementary paths (think about products and customer journeys for example). Second, research by Bowman and Narayandas[679] and Hogreve et al.[680] revealed the importance of customer-specific factors. The characteristics of the customer, the account-relationship and the competition are different per customer. These factors have an impact on the relationship between the elements of the SPC-model and eventually the profitability per customer. The relationships between the elements of the model are different depending on these customer-specific factors. Therefore, it is important to understand customers and segment them on VOC/VFC.

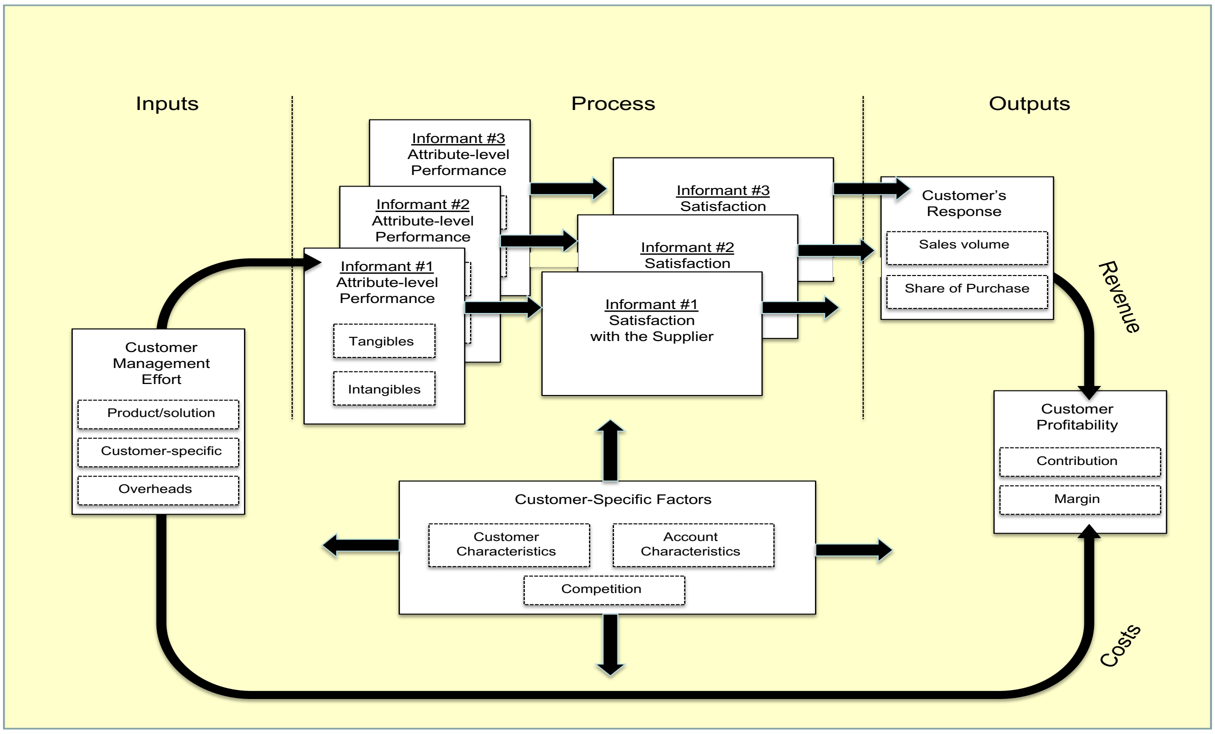


Figure 16.7. The Service Profit Chain in industrial Markets

Bowman and Narayandas[681] have adapted and extended Heskett's SPC for a B2B setting (see Figure 16.7.) and empirically validated it in a commoditized industrial market. Some of the principles, like the performance, satisfaction, loyalty, and profitability are like the SPC. However, many other aspects have been changed. Some of the relationships are:

- ✓ Margin (see 'outputs') is positively influenced by share-of-customer-wallet and negatively influenced by customer management costs.
- ✓ Share of customer wallet is influenced by overall customer satisfaction, which is a result of supplier performance on important value drivers. When the supplier's performance of an important value driver is superior (and not just parity) to that of the closest competitor, the impact on customer satisfaction is asymmetrically high.
- ✓ This supplier performance is influenced by customer management efforts (in terms of contact hours with the customer).
- ✓ For certain customers there can be decreasing returns of customer management effort when the costs of these efforts are higher than the gains of it. Therefore, for these customers it is, from a financial perspective, not wise to invest more in customer management efforts.

Based on the paper of Bowman and Narayandas (2004), there are, in addition to the two points of criticism given above, three other important notes of criticism to Heskett's SPC:

1. The buying center within a B2B customer is complex and consists of several actors (informants). Each of these actors evaluates the for him important value drivers leading to the informant's satisfaction with the supplier (see also § 1.6. and § 17.3.).
2. The main outputs in terms of customer behavior are a change in sales volume and in the share of purchase (share-of-wallet), leading to a change in revenues.
3. B2B customers use strategic supplier selection. Customer-supplier exchange relationships should always be studied in the context of the customer's relationship with other suppliers. The research shows that competition plays a significant role in each of the links of the model.

16.4. From Customer Perceived Value to Shareholder Value

I used elements of the four models, described in the previous paragraph, to develop a simple and conceptual structure for the Return on Value Model consisting of for example perceptual measures, attitudes, and actual behavior[682]. Not only the effects of steering on VFC are used, but also the effects of steering on VOC are integrated in this model (see Figure 16.8.). This leads to two paths between offering superior CVPs to customers and increased profits and shareholder value:

- ✓ The cost effects of better allocating costs to the right customers or even reducing costs. The cost effects of more loyal customers are also integrated here.
- ✓ The revenue effects of a CVP that leads to a higher customer perceived value and all following effects.

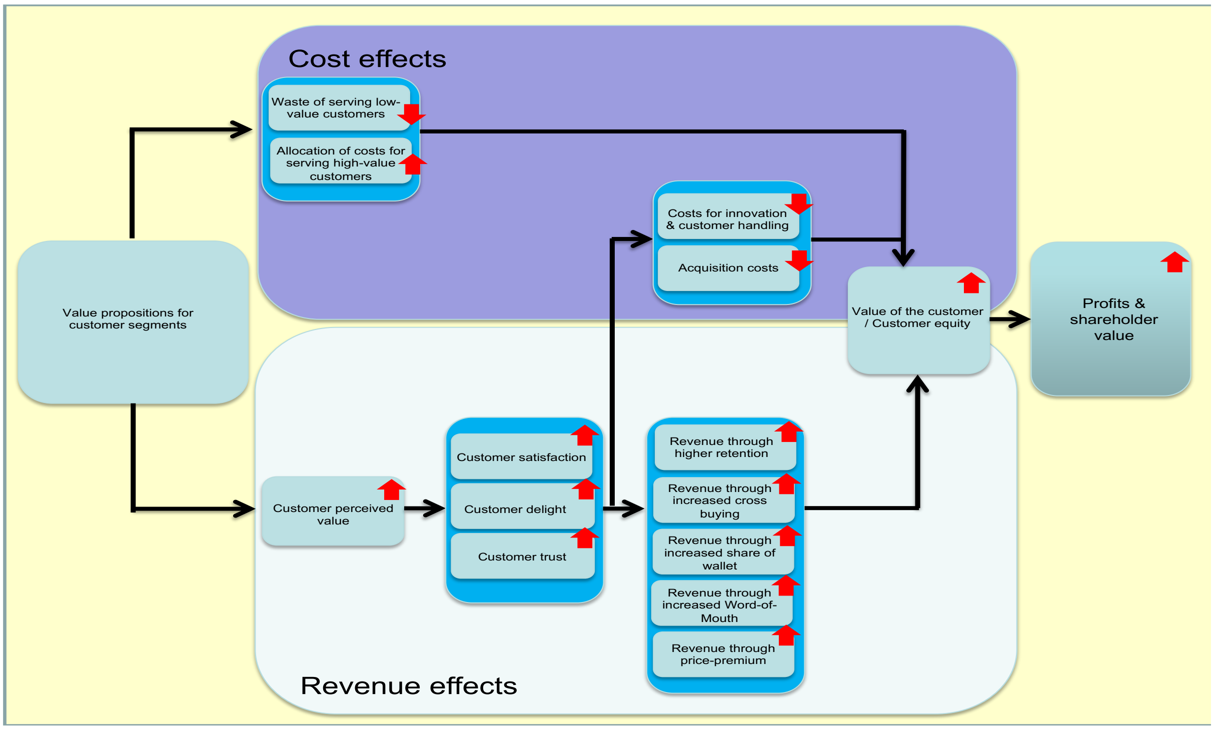


Figure 16.8. The Return on Value Model

These paths and their effects are described more detailed in the next two paragraphs. Of course, there are many more connections between the two paths and this model, it's just a simplification of reality. The causal relationships between these elements of the model seem to be evident, however very few organizations have been able to estimate them at a customer portfolio, customer segment or an individual customer level[683]. The main reason is the extensive data collection effort for using and combining multiple sources. Certain causal relationships that can be measured using one source (e.g., a survey) are researched relatively more frequently.

16.5. Cost Effects

An insurance company had the policy that all customers should be treated similarly. Too low-value, low-value, mid-value, and high-value customers, all received the same service level. However, after a VOC analysis and customer segmentation, the board decided to take measures: the relationship was terminated with a substantial part of the too low-value customers, the low-value customers received a simpler and more efficient service, and the high-value customers received a more expensive 'pamper-service'. This action led to a reallocation of resources and more profitable revenue at the same cost level. By steering on VOC, there is an adequate allocation of resources that is in line with their value for the company[684]. Since loyal customers are not always valuable customers, it makes sense to differentiate in cost levels per customer segment. There are two effects related to this principle:

- ✓ Cost reductions because of selective demarketing.
- ✓ Better allocation of resources to high-value customers.

In § 6.3., I described selective demarketing for too low-value customers. The value-exchange for a part of the customer portfolio (the bleeders) can be so negative that the company decides to terminate the relationship with these customers. The cost savings incurred have positive financial effects for the company.

For the customer segments the company wants to serve, a better allocation of resources is made[685]. This is realized by offering a low-cost CVP to low-value customers and a high-cost CVP to high-value customers. Also, offering more services for free to high-value customers and billing them to low-value customers could be an option. As already mentioned in § 6.7., differentiation in investments in customer segments through customer prioritization[686] leads to reduced marketing and sales costs. At the same time, it has no negative effect on the relationship with low-value customers and it even has a positive effect on high-value customers. Furthermore, Kumar et al.[687] described an IBM-case where marketing resources were reallocated based on customer lifetime value calculations for 14% of the customer portfolio. These customers were predicted to have a high customer lifetime value and were treated differently than the other customers. The effect was that on average the revenues of this group of customers increased ten times (+ $20 million) while the marketing investments stayed the same. Finally, Reinartz et al.[688] showed for a B2B manufacturer that marketing spending decreased by 64% and profits increased by 41% when marketing budgets were allocated based on the Customer Lifetime Value model. These results hold true for other industries as well[689].

Also, an increasing loyalty of the customer base can also have its effects on the company's costs. Loyal customers are better customers, they cooperate more and act as comakers in new developments (see § 18.7.). Furthermore, the cost of serving existing customers is less than that of serving newly acquired customers[690]. The effects are lower costs for serving these customers and lower investments in innovation. In the life insurance business, a 5 percent increase of customer retention led to a cost reduction of 18 percent per policy[691]. However, loyal corporate and perceived customers can in certain situations be more expensive to serve, for example when they are very demanding[692]. In B2B settings it is not always cheaper to serve long-standing customers than short-term customers. For a high-tech corporate service provider for example, serving loyal customers was more expensive than serving short term customers[693]. The second loyalty related cost-effect is that on acquisition costs. The cost of retaining existing customers is less than acquiring new customers. Hart et al.[694] state that it costs five times more to replace a customer than it does to retain one. In general, the net return on investment of a retention strategy seems to be higher than that of an acquisition strategy[695].

16.6. Revenue Effects

In § 16.3. I presented four models that give ideas about the links between value for the customer and that for the shareholder. These links are presented in Figure 16.8. In this paragraph I give a brief overview of what we know about the revenue effects.

Customer perceived value: customers determine perceived value based on the comparison of received benefits and offered sacrifices (see § 17.2.). Various studies[696] have shown that customer perceived value has a positive effect on customer satisfaction. Customer satisfaction seems to be a mediator between customer perceived value and customer loyalty.

Customer satisfaction, delight, and trust: customer satisfaction is a predominantly affective reaction based on the comparison between the customers' expected and perceived value[697]. Customers compare the desired and expected value with the perceived value. The difference determines the satisfaction. A higher perceived value leads to a higher level of satisfaction. Empirical research has proven the positive relationship between satisfaction and dimensions of loyalty. For example, increasing overall satisfaction leads to more positive repurchase intentions, as well as actual repurchase behavior[698]. Delighted customers show significant more positive behavior than just satisfied customers. Xerox used service satisfaction measurements using a five-point scale from 1 (low) to 5 (high). Analysis of the data revealed that customers giving Xerox 5s were six times more likely to repurchase Xerox equipment than those giving 4s[699]. In other words, satisfaction alone is not an unconditional guarantee of profitability[700]. Finally, trust is “the result of a gradual deepening of the relationship through a process of mutual adaptation to the needs of the other party”[701]. For an overview of sources related to this subject[702].

Customer loyalty: customer loyalty is a multidimensional construct. Loyal customers could remain customer, buy more, are less costly to serve, co-create value, recommend the organization, and pay price premiums. This can be measured in terms of intentions (commitment) and actual behavior. The actual behavior of customers can lead to an increased value of the customer for the company. In general, research on a customer portfolio level shows that loyalty is positively related to profitability[703]. This is different, however, on an individual customer level. Research in B2B settings[704] shows that “the relationship between loyalty and profitability is much weaker, and subtler, than the proponents of loyalty programs claim”. This is caused by the fact that when unprofitable customers are more loyal, they have a more negative impact on profitability.

Empirical research has investigated the effects of specific dimensions of loyalty on financial results and the value of customers. Loyalty can be broken down into six dimensions (see Chapter 18). Five of these are discussed below; the sixth (‘value of co-creation’) has been discussed in the previous paragraph. The link between *retention/churn* and profits has often been studied[705], probably because data to investigate that relationship exist in single or related databases in many companies. When retention increases and churn decreases, the company’s profit increases. Several studies give fact-based evidence of these causal effects. Some examples are:
- ✓ When retention increases by 5-percent-points, the value of the customer base increases with 35-95 percent depending on the industry[706].
- ✓ The credit card company MBNA was able to increase profits by 60 percent within 5 years due to a 5 percent increase of the customer retention rate[707].

Research shows that, on an aggregate customer portfolio level, a 1 percent improvement in retention on average leads to an increase of the company’s value of 5 percent[708]. However, this effect strongly depends on the profitability of a customer. The conclusion of this research was that “the lift in Market Capitalization (stock price in percentage terms) is three times as much when acquisition and cross-selling efforts are targeted only at high-customer lifetime value customers than at all customers”[709].

When there is more *cross-buying*, companies’ profits increase. According to Kumar and Reinartz[710], an important strategy for retaining customers is to improve cross-buying. Research shows that when customers purchase more goods or services from the same company, they extend the duration of their relationship with that company[711] and increase purchase frequency[712]. Cross-buying results in an increase in revenue contribution for the supplier through more engagement with that supplier, higher profit contribution, and higher switching costs[713]. Nevertheless, there is again a warning. High-cross-buying but unprofitable customers are significantly less profitable than unprofitable non-cross-buying customers because of adverse behavioral traits such as service requests, returning goods, low revenue growth and promotion purchase[714].

When the customers’ *share-of-wallet* increases, the company’s profit also increases. Bowman and Narayandas[715] have researched the effects of share of wallet on companies’ margins and showed that this is positive. When there is more *word-of-mouth* by customers, the revenues increase because there are more new customers and therefore the company’s profit increases. When customers are loyal, they are willing to pay a *price premium*, leading to higher profits. In many B2B situations this will be the case. However, loyal customers are not always willing to pay a price premium[716]. For example, in commoditized B2B markets, loyal customers could be more willing to attempt to use their buying power to get discounts and become aggressive bargain hunters (see Figure 3.12.). Reinartz and Kumar[717] provide evidence that for a high-tech corporate service provider, long-term customers consistently paid lower prices than the newer customers (between 5-7 percent less, depending on the product category). Loyal B2B customers seem to be more price sensitive than occasional customers.

In general, the conclusion is that for a complete customer portfolio the causal relationships between loyalty and profitability are positive: an increase of the dimensions of loyalty leads to an increase in profits. Nevertheless, it is important to be careful and not to see this as a standard effect. Several studies[718] show that there are various B2B situations where loyalty does not lead to more profits. This is caused by individual customers. Customers with a low or even negative value for the company (e.g., measured in terms of Customer Lifetime Value) could have a negative impact on profitability: an increase in loyalty leads to a decrease in profits. This is especially relevant in many heterogeneous B2B settings. Reinartz and Kumar[719] have identified four different loyalty strategies depending on the longevity of the relationship (short-term versus long-term customers) and the profitability of the customer for the company (low versus high). In Figure 18.21. these four strategies are presented.

Value of the customer/customer equity: because of lower costs and more revenues of existing and new customers, the value of individual customers, customer segments and the full customer portfolio grows in terms of direct and indirect financial value, but also in terms of relationship value. When the value of the individual customer grows, the value of the full customer portfolio (customer equity) grows as well, leading to sustainably higher profits.

Business outcomes: when the value of the customer portfolio grows, it positively affects the company's profitability, the company's worth and eventually the shareholders' value. A customer portfolio could be seen as an intangible asset of a company influencing the value of that company[720]. As was the case for several other topics discussed in this chapter, literature has not yet spent much attention on this subject. However, Kumar and Shah[721] have investigated the relationship between customer equity based on the customer lifetime value metric and the stock price of B2C and B2B companies. They concluded that improving the customer equity leads to an increase of the stock price of a company. Companies that want to increase their market value should therefore deploy a CVM-strategy that is directed at increasing the customer equity.

16.7. CVM and Shareholder Value

In the previous three paragraphs I have described what the effects of CVM are on costs and revenues. But what are the effects on companies' shareholders in the end? An important effect is a higher dividend for shareholders, which results from a better profitability on the short and long run. But there are more effects on shareholders: a higher company value and more ease of attracting funds.

A higher company value

The intangible asset of the value of a customer portfolio cannot be included in the companies' balance sheet. This is against accounting standards. However, company value, as indicated on the balance sheet, versus the value of that company at the stock exchange, or when it is bought, can differ significantly. Stock and acquisition prices can be significantly higher compared to what the bookkeeping indicates due to the value of capabilities, resources, and other intangible assets like the value of the customer portfolio. As indicated, the value of a customer portfolio is not reflected on the balance sheet, but when a company is valued, it is seen as an intangible asset/intellectual capital and part of the company's goodwill. Barnes[722] illustrates this: "when a company is sold or when it issues an IPO (stock launch), the marketplace and investors have little difficulty placing a value on the company's intellectual capital and its potential or future profits. What is required to provide a better understanding of the true value of the future potential of a company is more than financial measures". In literature Customer Lifetime Value is seen as an driver for company value: "maximizing CLV is effectively maximizing the long-run profitability and financial health of the company"[723].

Gupta et al.[724] estimated the value of the current and future customer portfolio as a base for the value of high growth B2C companies (like Amazon and eBay) using average acquisition costs, margins, and retention rates. Results were:
- ✓ A 1% increase in margins (because of cross selling) improves the value of the customer portfolio by 1%.
- ✓ A 1% increase in customer retention improves the value of the customer portfolio by 2.45% to 6.75%. The higher the current retention rate, the higher the impact of improved retention.

These numbers show the importance of retention and support research done by Reichheld (see § 18.2.). One of the few studies that has made a direct link between the value of a customer portfolio (customer equity) and the stock price of a company (market capitalization) is that of Kumar and Shah[725]. Also, for a B2B company they showed that:
- ✓ A customer equity-based framework can reliably predict the company's stock price.
- ✓ Strategies to increase customer equity led to an increase in the company's stock price, which is higher than market expectations.
- ✓ The relationship between customer equity and the stock price is moderated by risk related factors like the volatility and vulnerability of customers' cash flows. For an investor, the lower the risk the better.

Easier to attract funds
The previous quote of Barnes[726] illustrates this effect. The value of a customer portfolio could contribute to a higher stock price and makes attracting funds easier. When companies launch stocks on the stock exchange (an Initial Public Offering/IPO), it is possible that the stock prices are far higher than the accounting ratios based on past profits indicate. When companies like Amazon and Tesla launched their shares on the stock exchange, they made massive losses. Only valuing these companies on profit would lead to a negative company value in these cases; based on general accounting ratio's these company would be valueless. But because of the value of intangible assets, stock prices were very high.

Looking at all these studies linking the value of a customer portfolio with stock prices and shareholder value, I must conclude that all are based on customer lifetime value and customer equity. Going further by also including other elements of customer value (like revenues or forms of indirect financial value) is still a scientific gap in literature.

16.8. Summary
In this chapter I described the link between VFC and VOC and eventually shareholder value. It gives insights in these relationships as a basis for developing a CVM business case. An overview of existing literature is given on what we know about these links, although many issues still must be discovered. Based on four existing models, I develop a new model in which not only the revenue effects but also the cost effects have an important place. Here I give a short summary of this chapter.

(1) What is a business case?
A business case is a calculation of the cost and revenue of an intervention like an organizational development and within it certain programs or projects. Its goal is to make visible what the cost are of certain changes, both for implementing them and afterwards daily. But it also shows the results of these changes in terms of more revenue, lower costs, or a better allocation of costs.

(2) What models describe the effects of customer value on financial results?
There are various models describing the causal effects between what the company does, what customers think, what they do and what the company eventually gets. Some of them are the Satisfaction-Profit Chain, the Return on Marketing Model, the Relationship Profitability Model, and the Service Profit Chain. These models describe causal effects, which eventually lead to more revenues and profits.

(3) What are the cost related causal effects of steering on VOC/VFC?
The main effects are as follows. First, the company reduces the waste of spending too many resources on too-low value customers by reducing the resources spent (or even terminating relationships). Consequently, resources are better balanced with the value of customers. Also cost allocation for high-value customers is better managed. Finally, because of customers helping with innovation and co-creation and customers acting as ambassadors, costs for innovation and acquisition are lower.

(4) What are the revenue related causal effects of steering on VOC/VFC?
Customers perceive a better value, leading to higher levels of customer satisfaction, delight, and trust in the relationship, with higher levels of commitment as a result. This leads to more revenue because of positive forms of loyalty behavior like retention, increased cross buying and share of wallet, word-of-mouth and paying premium prices.

(5) What is the relationship between the value of a customer portfolio and shareholder value?
The cost and revenue effects lead to a higher value of the customer portfolio (customer equity) and higher profits. The effects for shareholders are higher dividends, a higher company value (because of higher stock prices when selling shares), and an easier attraction of funds.

Chapter 17. Customer Perceived Value, Satisfaction, Delight, and Trust

17.1. Introduction

In the previous chapter I have given an overview of the causal effects of offering superior CVPs. Customer perceived value is a “cognition-based construct capturing any benefit-sacrifice discrepancy”[727]. This leads to the affective and evaluative response[728] of satisfaction, eventually resulting in the behavioral outcome of loyalty. However, there are more concepts that could have a mediating role between customer perceived value and loyalty. In this chapter, I also describe customer delight and trust as drivers of loyalty. Each B2B company aims for satisfied customers. Nonetheless, some put the bar even higher. For these companies, satisfaction is not enough: they strive for delighted customers. Mercedes-Benz for example, operating both in consumer and business markets, has shifted its corporate ambitions and strategy from achieving customer satisfaction to customer delight[729]. Satisfaction and delight eventually lead to trust between two companies. This is seen as a critical element of economic exchange and deemed a ‘fundamental relationship building block’[730]. This chapter gives answers to the following questions:

1. What is Customer Perceived Value?
2. What is customer satisfaction in a B2B context?
3. What is customer delight and why is it important for B2B companies?
4. What is trust in a B2B context?

17.2. Customer Perceived Value

In § 4.2., I already briefly described the concept of customer perceived value. Many VFC-related papers describe customer perceived value as the result of customers’ comparison of the benefits gained and the sacrifices made (see Figure 17.1. for five definitions).

“The results customers receive in relation to the total costs (both the price and other costs to customers incurred in acquiring the service” (Heskett et al., 1994, p. 166).

“The difference between the benefits and the sacrifices (e.g. the total costs, both monetary and non-monetary) perceived by customers in terms of their expectations, i.e. needs and wants” (Lapierre, 2000, p. 123).

“The perceived trade-off between multiple benefits and sacrifices gained through a customer relationship by key decision makers in the supplier’s organization. Those benefits and sacrifices can result from the relationship under question as well as from connected relationships on which the focal relationship has an impact or is effected by those other relationships” (Walter et al., 2001, p. 366).

“A comparison of weighted “get” attributes to “give” attributes. Customer value is operationalized as a ratio or trade-off between total benefit received to total sacrifices, taking into consideration the available suppliers’ offerings and prices” (Lam et al., 2004, p. 195).

“A business customer’s overall assessment of the utility of a relationship with a vendor based on perceptions of benefits received and sacrifices made” (Menon et al., 2005, p. 5).

Figure 17.1. Definitions of Customer Perceived Value

What you see in these definitions is that customer perceived value is about subjective perceptions because of comparing benefits and sacrifices. Based on these definitions, my definition is:

> *A cognition based subjective perception and belief of members of a customer’s buying center, resulting from their comparison of benefits gained and sacrifices made.*

Since it is often not a single person but multiple persons that act as members of a customer's buying center and are important for the relationship, it is important to determine the perceived value of all members of a buying center, instead of a single-informant approach[731]. This is vital because perceptions can be different between the various members. As you will remember from the previous chapter (§ 16.5.) we already saw that customer perceived value has a positive effect on customer satisfaction, that again has a mediating role in the relationship with customer loyalty. It is therefore crucial for organizations to have a good understanding of their customers' perceived value.

17.3. Customer Satisfaction

Customer satisfaction is one of the most used outcome measures in business practice. Five definitions of customer satisfaction are presented in Figure 17.2. Some are formulated for B2C, others for B2B contexts.

"The emotional reaction following a disconfirmation experience which acts on the base attitude level and is consumption-specific" (Oliver, 1981, p. 42).
"The customers' overall dis/satisfaction with the organization based on all encounters and experiences with that particular organization" (Bitner and Hubbert,1994, p. 77).
"A customer's cumulative evaluation of the purchase and consumption experience" (Anderson et al., 1994; Bolton et al., 2004, p. 274).
"A positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm" (Geyskens et al., 1999; Lam et al., 2004, p. 295; Stock, 2005, p. 65).
"The customers' judgment that a good or service meets or falls short of expectations" (Gupta and Zeithaml, 2006, p. 720).

Figure 17.2. Definitions of Customer Satisfaction

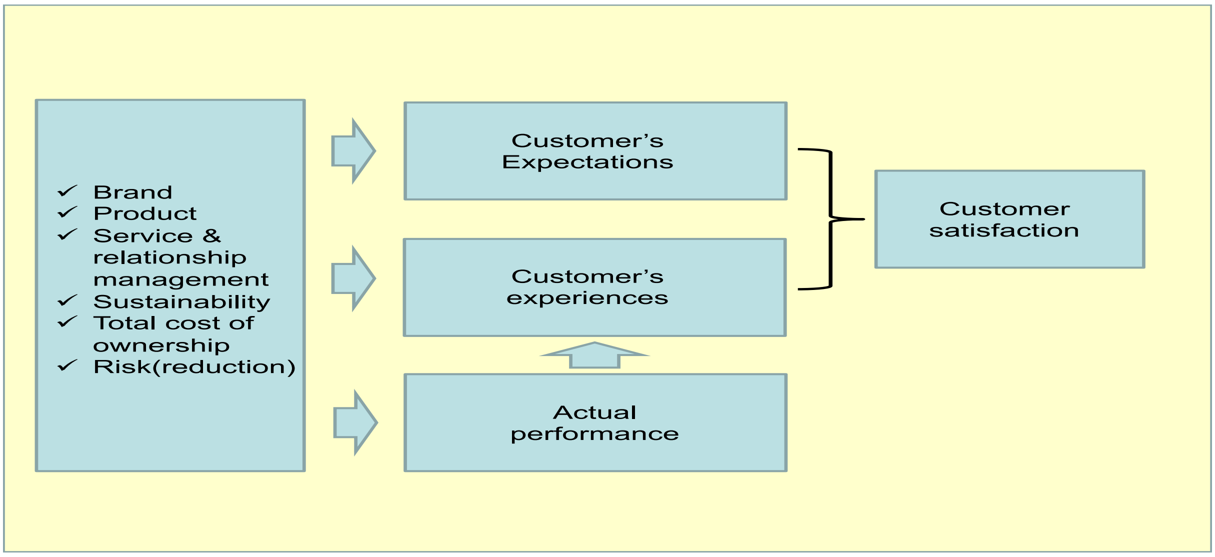


Figure 17.3. How customer satisfaction is formed

Satisfaction has a complex formation process (see Figure 17.3.). Customers have certain expectations concerning the five elements of a CVP that can be influenced by:

- ✓ The company's <u>explicit promises</u> made in advertisements, by salespersons, in contracts and other communication with the customer.
- ✓ The company's <u>implicit promises</u> made because of the products, the pricing or other elements of the CVP.

- ✓ Word-of-mouth: that what others are saying about the company in personal contacts or social media.
- ✓ Experiences in the past: people use scripts based on past experiences in which they have a forecast of what will happen in the future.

By comparing the experiences with these expectations, satisfaction is formed. Experiences are in the mind of the customer and can sometimes be different from the actual performance. Within customers' expectations there is a difference between the desired value level and the adequate value level. The desired level is what the customer would like to receive. The adequate level is the lowest level that is still acceptable for the customer leading to satisfaction. The difference between the desired and the adequate level is the zone of tolerance (see Figure 17.4.). This can range from large to zero. When the experiences are between the upper bound of the zone of tolerance (the desired level) and the lower bound (the adequate level) the customer is satisfied.

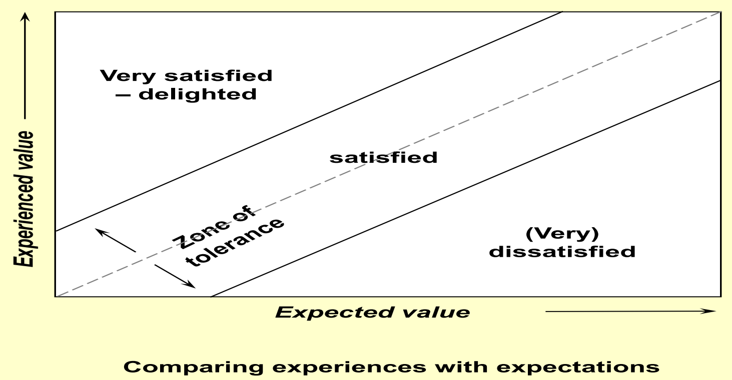


Figure 17.4. The Zone of Tolerance

In conformance with disconfirmation-of-expectations theory (see further in this paragraph), customers can be very satisfied or very dissatisfied when beyond this zone of tolerance. Note that this model assumes that customer delight is a high level of customer satisfaction in line with viewpoint 1 (see next paragraph). Many papers deal with the drivers of customer satisfaction. For example, Fornell et al.[732] (see Figure 17.5.) researched the effects of perceived quality, customer expectations and perceived value (value for the customer) on overall customer satisfaction. All drivers had a positive impact.

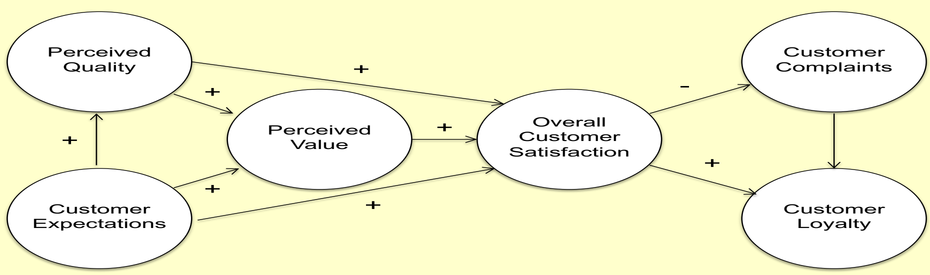


Figure 17.5. Relationship with Outcomes

The social exchange theory indicates that factors like commitment, social bonds, and trust in the exchange influence relationship satisfaction[733] (see also § 2.4.). In various papers, drivers like service quality and types of benefits are studied. However, as mentioned earlier in this paragraph: customers evaluate the combination of benefits and sacrifices of a complete CVP. Therefore, I see customer perceived value as the ultimate driver for overall customer satisfaction. Or as Jones and Sasser[734] state it: "even in markets with relatively little competition, providing customers with outstanding value may be the only reliable way to achieve sustained customer satisfaction and loyalty".

Also, many studies have researched the effects of customer satisfaction on dimensions of customer engagement and customer loyalty like retention, share of wallet and word-of-mouth[735], sales margin[736] and price sensitivity[737]. Many of these publications show a positive relationship. However, be aware that customer satisfaction is not the ultimate goal. Customers do not have to be satisfied and retained by all means[738]. This is only important when they have sufficient value for the company. As presented in the previous chapters, it is important to identify and invest in the valuable customers and avoid wasting time and money on too low and low value customers[739]. Finally, reviewing the definitions presented in Figure 17.2., I would like to briefly discuss the following six important aspects of B2B customer satisfaction.

(1) Expectations and experiences
It is an emotional and affective state of the customer[740] and results from the subconscious or conscious comparison of expectations and experiences. Depending on the outcomes there are positive, neutral, or negative affective reactions. An important theory related to customer satisfaction is the disconfirmation-of-expectations theory from Oliver[741]. This theory states that customers compare their experiences with expectations resulting in:

- ✓ <u>Positive disconfirmation</u>: the experiences are better/more positive than the expectations resulting in very satisfied customers.
- ✓ <u>No disconfirmation</u>: the experiences equal the expectations resulting in satisfied customers.
- ✓ <u>Negative disconfirmation</u>: the experiences are worse/more negative than the expectations resulting in dissatisfied to very dissatisfied customers.

(2) Transactions and relationship
Satisfaction reflects an affective judgement concerning a transaction (see for example the definition of Oliver[742] in Figure 16.2.) or an overall relationship (e.g., the definition of Bitner and Hubbert[743]). A differentiation can be made between transaction specific satisfaction and overall or cumulative satisfaction[744]. The latter is "a satisfaction that accumulates across a series of transactions and is a more fundamental indicator of the company's past, current, and future, performance than transaction specific satisfaction"[745]. But this can even go a step further involving the network (see § 1.3.). A study of Candi and Kahn[746] shows that customers judge the value and resource quality of suppliers at three levels: that of the employee, the organization, and the network of sourcing that the supplier is using. So, in B2B relationships, it is not only the supplier but also its network that can be evaluated.

(3) Related to known alternatives
Customers are satisfied as long as they do not know a better alternative. A case from AT&T Universal Card Services (a US long distance telephone operator) illustrates this[747]. The company was using customer satisfaction as a strategic indicator to predict future business success. Their quality levels were high, and AT&T was best in class on customer satisfaction. However, at a certain moment they were losing market share dramatically. A customer analysis showed that AT&T was more expensive than a new competitor. The key problem was that AT&T's overall lead in perceived quality was not enough to justify its perceived higher price compared with that new competitor Sprint. AT&T's overall worth-what-paid-for score fell behind. Customers did not want to pay for the better service and choose massively for Sprint, even satisfied and very satisfied customers ended their relationship. It showed that customer satisfaction was high until the moment there was a better competitor on the market.

(4) Related to the full CVP

Various studies have focused on drivers of satisfaction like service quality or certain benefits of customer satisfaction[748], but "they ignore any sacrifice component"[749] like total cost of ownership or risk. It is not only the service that companies evaluate, but it is the perceived value of the combined CVP-elements that counts. Therefore, to research satisfaction to forecast future customer behavior, it only makes sense to measure the satisfaction with all elements and the full CVP. So, also customers' sacrifices should be involved when the drivers of customer satisfaction are investigated.

In this context, Woodruff's Customer Value Hierarchy Model is relevant[750]. It has related customer satisfaction to three desired value levels (see Figure 17.6.). These can be linked to Value-in-Use and Value-in-Exchange (see Chapter 4). The customer value hierarchy represents three levels of value. At the bottom of the hierarchy there is the desired value in terms of product attributes and attribute performance (value drivers) leading to attribute-based satisfaction. This can be defined in terms of Value-in-Exchange. Are these desires fulfilled, then this leads to attribute specific satisfaction. Value-in-Use focuses on the value perceived through the consequences in use situations and eventually fulfilling customers' goals and purposes. This leads to consequence-based and goal-based satisfaction:

- ✓ Consequence based satisfaction: the satisfaction with the outcomes of certain transactions.
- ✓ Goal based satisfaction: the satisfaction with the contribution to achieving the company's goals.

On an operational level within the customer's organization the attribute-based satisfaction will be important. Conversely, on a management and board level the two upper levels will be the most important ones.

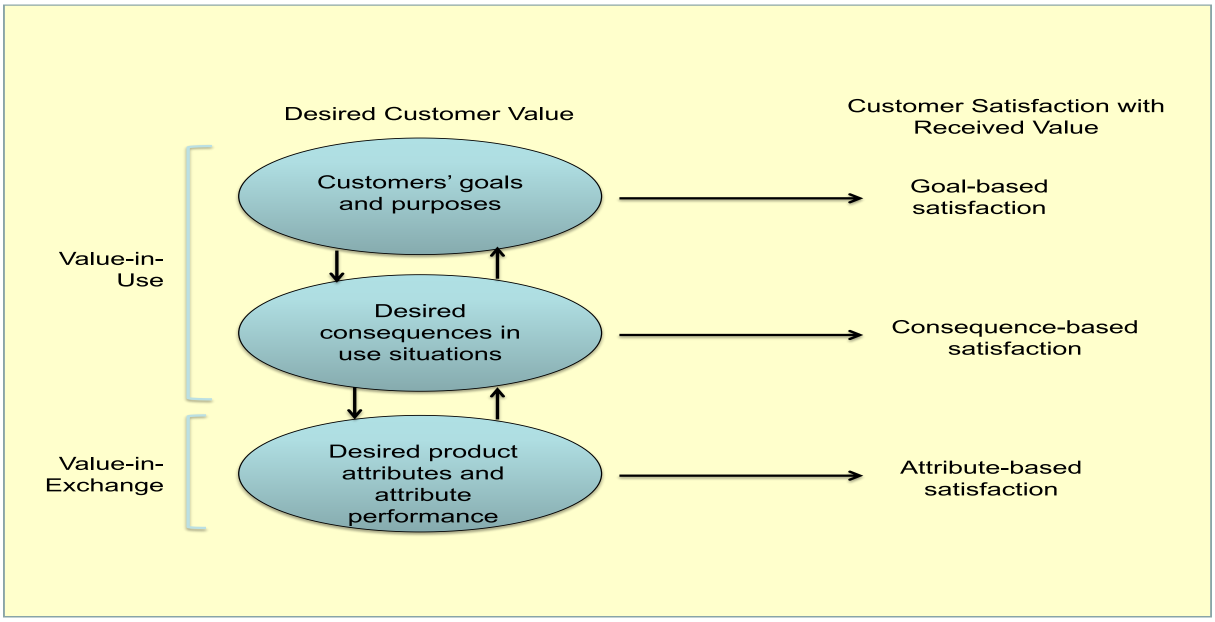


Figure 17.6. Customer Value Hierarchy Model

(5) Buying center member and company levels

As you have seen, the interests of different members of the buying center concerning a supplier can be different. Various departments, committees and employees have different interests and motivations towards a supplier[751]. Additionally, they can exert different levels of influence on purchase decisions, retaining decisions, and the overall satisfaction of a corporate customer. This can lead to different levels of satisfaction between members of a buying center for one supplier. As mentioned in § 1.6., I did a satisfaction study for a metal producer. At one of their customers, I interviewed three managers. The head of purchasing was dissatisfied, the head of production was very satisfied and the general manager in between. For customer satisfaction in a B2B setting, this could lead to the satisfaction on a buying center member level and on an aggregate company level. Putting all the information on customer satisfaction together, my definition of customer satisfaction is:

The affective and evaluative state of members of the customer's buying center resulting from the conscious or subconscious comparison of experiences/perceptions and expectations concerning the benefits and sacrifices of a value exchange relationship.

(6) Measuring customer satisfaction
Satisfaction is seen as a black box and as an unobservable construct[752]. It can only be investigated by involving customers in qualitative or quantitative research (surveys). Qualitative research, like in-depth interviews and focus groups, has the objective to investigate the needs, desires, expectations, perceptions and satisfaction of individual customers or customer segments. This type of research gives in-depth information on the psychology of customers. On the other hand, quantitative research in the form of surveys gives a representative and reliable overview of the experiences and satisfaction of a larger group of customers. Two basic types of quantitative customer satisfaction research can be identified:

- ✓ Measurements on a transactional level. These ongoing short surveys ask customers to reflect on a specific transaction/customer journey or service contact. Results only give information on that transaction, but they can be very useful on an operational level.
- ✓ Measurements on a relationship level. These periodic surveys ask customers to reflect on the full relationship. These are valuable on a relationship management level.

For further reading on this subject, see Thomassen and Markey et al.[753]. In B2C-settings, measuring customer satisfaction is relatively simple: there is only one consumer to investigate. Measuring in B2B settings is more complicated, due to multiple respondents per customer, complex good/service value drivers, the influence of connected networks and (in)directly competing connected networks[754], and a more diverse customer portfolio[755]. In various industries, suppliers have a limited number of customers making statistical techniques less applicable. Furthermore, using one 'key informant' as a proxy reporter[756] to measure satisfaction is a bad practice. It is better to use a composite of satisfaction evaluations involving the various members of the buying center. In a purchase, different boundary spanners have different roles and interests in the prepurchase, purchase and post purchase/usage phases. Figure 17.7.[757] shows the involved boundary spanners on the customer's and on the supplier's side for the three phases, each with other types of satisfaction. Therefore, using one key informant does not make sense, and different questionnaires for the three phases should be used.

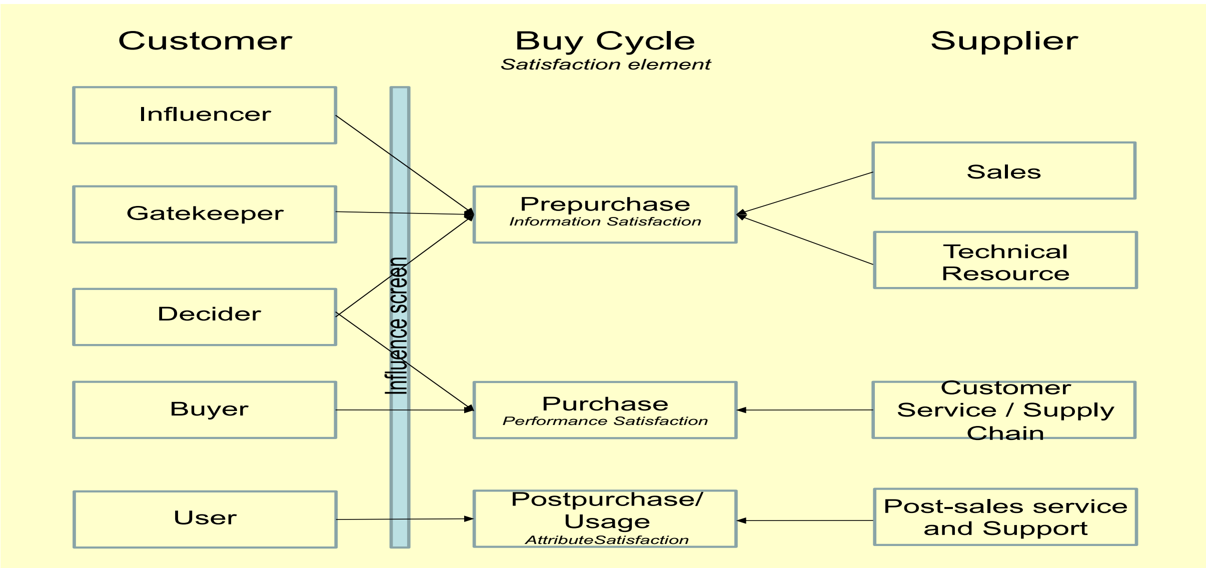


Figure 17.7. Various Types of Satisfaction

17.4. Customer Delight

In the last 25 years, more than 50 papers have been published in academic journals about customer delight (CD). In those publications, scholars have used different perspectives and definitions of CD. Since the first articles on CD, the perspectives used vary in no/yes emotions and what types of emotions lead to CD. In figure 17.8. I present five definitions.

"Customer delight refers to a profoundly positive emotional state generally resulting from having one's expectations exceeded to a surprising degree" (Rust and Oliver, 2000, p. 86).

"Customer delight requires that customers receive a positive surprise that is beyond their expectations" (Berman, 2005, p. 129).

"Customer delight is a customer's positive emotional and rational state leading to enthusiasm about the company. Customers express this through positive emotions, a very high level of satisfaction (very/extremely satisfied) and a strong intent to retain and strengthen the relationship, and to use positive word of mouth" (Thomassen, 2012, p. 26).

"Customer delight is the highest state of engagement perceived by the guest. It represents a higher state of emotional arousal and excitement towards a hotel than customer satisfaction. Delight is caused by satisfying the guest's higher order needs, namely, the need for self-esteem" (Torres and Kline 2013, p. 648).

"Customer delight is traditionally regarded as a function of surprise, arousal and positive affect" (Loureiro et al., 2014, p. 102).

17.8. Five Definitions of Customer Delight

The first CD-publications defined CD as an extreme positive form of customer satisfaction (viewpoint 1). In Figure 16.9.[758] a scale from extremely dissatisfied to delight is presented. Terrorists at the left side are "customers so unhappy that they speak out against a poorly delivered service at every opportunity"[759]. At the right side there are the apostles. These are "customers so satisfied that they convert the uninitiated to a good or service"[760]. CD is measured in this vision as 'very satisfied'. It is an extreme form of customer satisfaction; for example, the 5 on a scale of 1-5, the 7 on a scale of 1-7, or the 9-10 on a scale of 0-10.

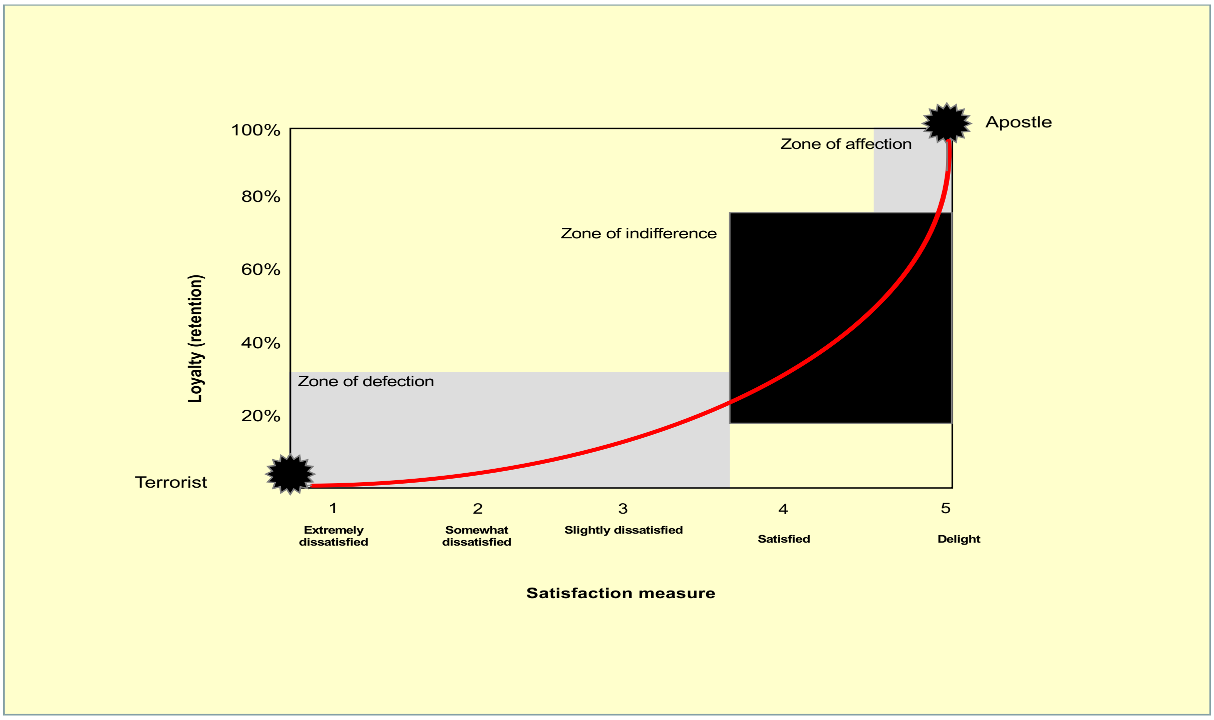


Figure 17.9. From Terrorists to Apostles

However, after some years, a new stream of CD-literature[761] emerged, indicating that CD was a totally different construct than customer satisfaction. This new second viewpoint became dominant and indicated that CD was a "profoundly positive emotional state generally resulting from having one's expectations exceeded to a surprising degree"[762]. CD was defined as the combination of two primary emotions (joy and surprise) of Plutchik's wheel of emotions[763]. CD, from this viewpoint, is measured in terms of the degree of joy and surprise customers have. Several empirical studies[764] have proven that CD measured as satisfaction and measured as emotions are constructs with distinct effects on customer behavior[765]. Later, a new stream of papers appeared with a third viewpoint indicating that CD is an extremely affective customer's reaction and emotional response, but this can also be caused by emotions without that of surprise[766]. Emotions in this case could be gratitude[767] and for example goal-fulfilment. Schneider and Bowen[768] claim that fulfillment on three tiers of peoples' core human needs can lead to CD:

- ✓ Security: the need to feel unthreatened.
- ✓ Justice: the need to be fairly treated (see the info on equity theory in Figure 17.10.).
- ✓ Self-esteem: the need to maintain and enhance one's self esteem.

Equity theory (Adams, 1965) in general describes "an individual's search for equity in social exchange"[769]. It is also called 'justice theory' and sees individuals evaluating fairness of a relationship by comparing:

- ✓ "The ratio of what they receive from an exchange (outcomes) to what they bring into the exchange (inputs)"[770].
- ✓ "It can even be more complex when comparing this with the exchange partner: the ratio of their perceived inputs and outputs to the ratio of perceived inputs and outputs for the other relationship partner"[771].

When the ratio of perceived inputs/outputs is equal to that of those of the partner the relationship is seen as equitable and fair. In marketing literature, applying equity in customer-supplier relationships, equity and fairness are based on three types of justice[772]:

- ✓ Distributive justice is the perceived fairness of the outcome.
- ✓ Procedural justice is the perceived fairness of the rules and procedures.
- ✓ Interactional justice is how employees relate personally to the customer.

This theory can be fully applied to business exchange relationships[773]. When the perceived inputs/outputs ratio is not equitable for the business customer and/or supplier, there is a state of inequity that could lead to dissatisfaction and relationship dissolution.

Figure 17.10. Equity Theory

A definition of customer delight linked to self-esteem is that of Torres and Kline (see Figure 17.8.). Since a company's buying center consists of people, higher order needs like the need for self-esteem could also have an impact on CD in B2B settings. To my knowledge, all CD-studies have been done in a B2C-context. There is a real theoretical gap concerning CD in B2B settings. But based on my experience with B2B companies I think that a part of the customers can be delighted mostly because of very high levels of satisfaction (viewpoint 1) or very positive emotions caused by fulfilling self-esteem and gratitude (viewpoint 3). So, my definition of customer delight in B2B settings is:

> *The customers' affective state because of very high levels of satisfaction and/or emotions caused by fulfilling self-esteem and gratitude.*

For a leasing company, I interviewed 20 business customers that had given a 9 or a 10 (scale 0-10) in a satisfaction study. The main objective was to investigate what the reasons for this high score were. It appeared that most of these customers also showed positive emotions of joy, self-esteem, and gratitude. What also emerged was that it was mainly employee driven factors (of the leasing company) that led to CD. Not the products, not the price, but the relationship with employees were real drivers of CD. Due to the (potentially) key role of relationships in CD, the Kano-model is relevant as it discusses the drivers of CD. The Kano-model[774] distinguishes three types of drivers (see Figure 17.11.[775]):

✓ Basic needs (also named dissatisfiers): these are unspoken by the customer. They must be good. If so, the customer is just satisfied, if not he is dissatisfied. Fulfilling basic needs will never lead to CD.
✓ Expected needs (also named linear factors): these are spoken out by customers. Depending on the perceptions and expectations of the customer, these can lead to unsatisfied, satisfied, or delighted customers.
✓ Excitement needs (also named delighters): these are unspoken by customers. When not offered, the customer will not miss them and in that case, they have no negative effect on satisfaction. When offered, it leads to delighted customers.

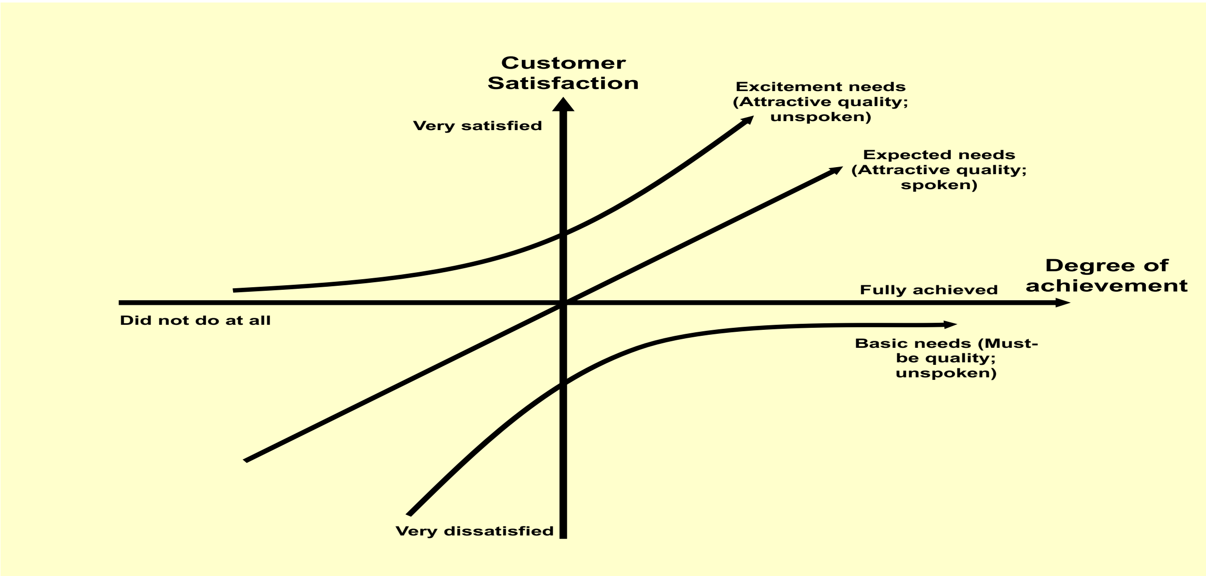


Figure 17.11. The Kano Model

In various studies these three types of needs have been identified in specific situations[776]. Again, to my knowledge these are all B2C-studies, so there is an interesting scientific gap. It is interesting to research whether expected needs and/or excitement needs lead to customer delight in B2B settings.

Finally, you have seen that the ambitions of suppliers can be differentiated depending on the VOC-VFC segment; there is customer prioritization and even selective demarketing (see § 6.3.). Therefore, the ambitions, objectives and targets concerning satisfaction, customer delight, but also trust could vary for the various customer segments.

17.5. Trust

The fourth concept I discuss in this chapter is that of trust. Whereas satisfaction and delight are short term feelings, trust develops during the lifespan of an exchange relationship: “it is the result of a gradual deepening of the relationship through a process of mutual adaptation to the needs of the other party”[777]. Trust develops by repeatedly delivering in conformance with promises and customers’ expectations. Trust is seen as the variable most accepted as a basis for any human interaction and therefore crucial in B2B customer-supplier relationships[778], and it are humans that are responsible for and run these relationships[779]. Successful CVM requires, but also leads to, long-lasting exchange relationships based on trust[780]. As such, not “power and the ability to condition the exchange partner”, but a trust-relationship is key[781]. In vulnerable exchange relationships where the customer depends on a supplier, only trustworthy partners are selected[782]. The fact is that there are many short-term successful companies that steer on short term financial results, making misleading claims and hiding the truth about their business model[783]. On the long run, these companies will not be successful.

In Chapter 12, I already discussed ‘risk’ and the reduction of perceived risk as one of the five elements of a CVP. Does the supplier invest in a long-term relationship? Is it reliable and does it stick to agreements? How are the boundary spanners performing? How customer centered is the supplier? Many factors of the actual CVP have a direct influence on trust. Additionally, customer perceived value, satisfaction and delight have a mediating role in the relationship between actual performance and trust. During the years, many different definitions of trust have been given. Figure 17.12. gives an overview of some of them.

"One party's belief that its needs will be fulfilled in the future by actions undertaken by the other party" (Anderson and Weitz, 1989, p. 312; Doney et al., 2007).

"The firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes" (Anderson and Narus, 1990, p. 45).

"A willingness to rely on an exchange partner in whom one has confidence" (Moorman et al., 1993, p.82).

"A belief, a sentiment, or an expectation about an exchange partner that results from the partner's expertise, reliability and intentionality" (Ganesan, 1994, p. 3; Paulssen and Roulet, 2017).

"When one party has confidence in an exchange partner's reliability and integrity" (Guenzi et al., 2009; Morgan and Hunt, 1994, p. 23).

"The perceived credibility and benevolence of a target of trust" (Doney and Cannon, 1997, p. 36; Doney et al., 2007).

"Having the confidence that the other party will not exploit one's vulnerabilities. It is the belief, confidence, and faith that a company and its people will be fair, reliable, competent, and ethical in all dealings" (Hart and Johnson, 1999, p. 12).

"The outcome of reflexive consideration/s of the ability of an actor (e.g., a firm or brand) to meet set obligations" (Harris and Goode, 2004, p. 141).

''The confidence of the exchange actors in the goodwill of each other" (Gounaris, 2005, p. 127).

"The level of reliability ensured by one party to another within a given exchange relationship" (Nguyen et al., 2013, p. 99).

Figure 17.12. Definitions of Trust

Trust is a multidimensional concept, and there is a long tradition of exploring the trust construct[784]. It is based on the exchange partner's abilities/competence and expertise[785], reliability[786], integrity[787], not taking unexpected actions with a negative outcome[788], credibility[789], benevolence[790], goodwill[791], fairness[792], ethicality[793] and intentionality[794]. Trust is not only based on doing what is promised and expected but goes beyond that. Kirby[795] explains this: "You must go to extremes to show you're on their side. Beyond trustworthiness, you must achieve trustability. It's a more proactive stance that has you not just keeping up your end of a bargain but ensuring that the bargain is the best one from the customers' point of view and even saving customers from their own mistakes". Hart and Johnson[796] call this 'total trust'; it is "the belief that a company and its people would never take opportunistic advantage of customer vulnerabilities". They believe that customers want to find suppliers they trust enough to qualify as 'suppliers for life'. In this respect, the dimension of benevolence is important. This is "the extent to which one partner is genuinely interested in the other partner's welfare and motivated to seek joint gain"[797]. Sun et al.[798] even go a step further in customer centeredness with the concept of operational benevolence: "behaviors that reflect an underlying motivation to place the customer's interest ahead of self-interest". I would, for this textbook, follow the 'trust' definitions of Hart and Johnson[799] and Sun et al.[800]:

> *The customers' belief that a supplier and its people would never take opportunistic advantage of him because it places the customer's interest ahead of its own interests.*

Years ago, I did a large customer survey among the business customers of a large accounting company. One of the statements was 'For Accountancy X the interest of its customers are more important than those of Accountancy X'. Approximately 20% of the respondents did not agree. They had the feeling that this accountancy only looked at its own interests. Focus groups with customers showed that this group of customers had a low trust level. They were suspicious in everything the accountancy did, wanted to leave but had not done so because of the high switching barriers. Apparently, there had been a 'trust defect' the accountancy had not seen and not solved. Such a defect is: "anything that detracts from the trust a customer feels for an organization, its people, and its products"[801].

Eventually, these drivers lead to certain expectations[802], perceptions[803], beliefs[804], confidence[805] and/or willingness[806]. There is a positive relationship between trust and affective commitment[807] and eventually this increases actual loyalty behavior. "To gain the loyalty of customers, you must first gain their trust"[808]. Effects are an increased retention[809], repurchasing, cross buying[810] and share of wallet[811]. It also mitigates opportunism in exchange contexts characterized by uncertainty and dependence[812], increases the levels of cooperation and information sharing[813], reduces conflicts and limits the company's choice to only one company[814].

Trust has been studied widely in social exchange literature[815] (see § 2.4. for an explanation of this theory). For example, "trust leads the exchange partners to focus more on the positive motivation because of a sense of affiliation and identification with each other, and this may be a stimulus to focus less on calculative reasons for attachment to a supplier"[816]. The more a customer trusts its supplier the less the customer leans on calculative commitment and the more on affective commitment (see § 18.2.) Finally, concerning this important driver of customer loyalty and value of the customer I want to make remarks on three issues: trust depends on the type of relationship, trust on an organizational and personal level and finally trust in B2B service organizations.

In the Figures 1.7. and 5.9., I described the different types of B2B exchange relationships: transactional exchanges, value-adding exchanges, and collaborative exchanges. In many publications[817] there is no attention for the fact that these types of relationships can influence the importance of trust. In these publications, it is assumed that the relationship is close, intensive and should be characterized as collaborative exchanges with high interdependencies. In this case trust is extremely important for a long-lasting relationship. However, this could be totally different in exchange relationships with superficial transactional exchanges. In these cases, customers have a low level of commitment that is basically calculative. The importance and the dimensions of trust could be completely different as compared to those in collaborative exchanges. To my knowledge, this subject is a theoretical gap. The second issue is that of two levels of trust: customer-to-supplier and customer-to-boundary spanner (see § 9.4. for a description of boundary spanners). Research has been done on customer-to-boundary spanner trust with for example salespersons involved[818]. The trust in a salesperson could be influenced by the trust in the supplier company and vice versa. Doney and Cannon[819] showed that these two types of trust are positively associated. As such, the organizational level and personal level trust may very well influence each other. Finally, the third issue refers to trust and services. In Chapter 8, I have described the development of servitization in markets from goods to goods-services bundles (GSB) and total solutions. The share of intangible services increases in CVPs, leading to an increase of the importance of trust. "Effective services marketing depends on the management of trust because the customer typically must buy a service before experiencing it"[820]. Services cannot be stored and checked by the customer because production and consumption are at the same time. The outcome of future performance is often uncertain[821]. In the case of total solutions, the primary process of a company becomes highly dependent on the performance of the supplier. In these cases, because of an increased vulnerability, a very high level of trust in the exchange relationship is crucial.

17.6. Summary

In this chapter I have given some insights in customer perceived value and the mediators in the relationship with customer commitment and loyalty: satisfaction, delight, and trust. Here I give a short summary of this chapter.

(1) What is Customer Perceived Value?

Customer perceived value is a cognition based subjective perception and belief of members of a customer's buying center resulting from their comparison of benefits gained and sacrifices made. It is positively related with customer satisfaction.

(2) What is customer satisfaction in a B2B context?

The customer's affective state resulting from the conscious or subconscious comparison of experiences/perceptions and expectations concerning the benefits and sacrifices of a value exchange relationship. Based on this comparison, customers can have various satisfaction levels. These can also be influenced by customers' experiences with alternatives of competitors. Measuring customer satisfaction in a B2B setting is a challenge because different members of the buying center could have different opinions.

(3) What is customer delight and why is it important for B2B companies?

For customer delight there is no uniform definition. A first stream of literature indicates that customer delight is not so much an emotion, but a high level of customer satisfaction. A second stream of literature indicates that delight is an emotion based on joy and surprise, yet a third stream indicates that surprise is not necessary to be delighted, but fulfilling self-esteem and gratitude is. The first and the third stream seem to be the most relevant for B2B value exchanges. Business customers can be delighted mostly because of very high levels of satisfaction (viewpoint 1) or very positive emotions caused by fulfilling self-esteem and gratitude (viewpoint 3).

(4) What is trust in a B2B context?

Trust is the customers' belief that a supplier and its people would never take opportunistic advantage of him because it places the customer's interest ahead of its own interests. Trust is an important mediator and driver for commitment and loyalty.

Chapter 18. Commitment and Loyalty: The Ultimate VOC-drivers

18.1. Introduction

As you have seen in § 2.3., there are two types of marketing: defensive and offensive marketing[822]. Offensive marketing aims at acquiring new customers and extending the size of the company's customer portfolio while defensive marketing aims at keeping customers committed, loyal and make the business relationship grow. Business practices to increase loyalty such as loyalty analytics, service recovery and regain management could be classified as defensive marketing.

Customer commitment and loyalty act as mediators between customer attitudes like satisfaction, delight and trust and the financial value of a customer. It consists of both an attitudinal and a behavioral perspective[823]. Commitment, the attitudinal perspective is unobservable and consists of customers' behavioral intentions, such as intention to repurchase or refer[824]. This could act as a driver for the behavioral perspective (loyalty) that can be observed and consists of actual customers' behavior.

Customer commitment and loyalty are multidimensional constructs reflecting Hirschman's 'Exit, Voice, and Loyalty'[825]. Dimensions are what customers intent to do and what they actually do in terms of for example retaining as a customer, buying more, or acting as an ambassador. As we have seen in Chapter 16, this leads to more revenues and less costs, and eventually to more profits. Many academic papers have described these causal effects. For example, Reichheld[826] shows that when the retention of customers increases with five-percentage-points, the profit increases with 25 to 85 percent, depending on the industry. However, we should be careful with these apparently obvious causal effects between dimensions of loyalty and financial gains in B2B settings. As you have seen in Chapter 15, some scholars have shown opposing viewpoints and results[827]. Loyal customers are not always profitable customers. The main questions answered in this last, but extensive chapter are:

1. What are customer commitment and customer loyalty?
2. What are their main dimensions and how do they work?
3. Why are some dissatisfied customers loyal?
4. What are typical customer loyalty management practices?

18.2. Customer Commitment and Loyalty

Customer commitment, also called 'attitudinal loyalty' is the customer's future intention to behave in a certain way towards a supplier. Figure 18.1. presents three definitions.

> *"An enduring desire to maintain a valued relationship"* (Moorman et al., 1992, p. 316; Gupta and Zeithaml, 2006, p. 720).
>
> *"An exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely"* (Morgan and Hunt, 1994, p. 23).
>
> *"The desire for continuity manifested by the willingness to invest resources into a relationship"'* (Gounaris, 2005, p. 127).

Figure 18.1. Definitions of Commitment

The intentions to behave in a certain way are expressed in terms of attitudes, desires[828], and beliefs[829]. So, commitment could be defined as:

> *The intended behavior B2B customers have towards a supplier that influences their value for the company.*

There is no consensus about what types of activities commitment reflects. Furthermore, various scholars make a differentiation in types of commitment. For example, both publications of Gounaris and Verhoef et al.[830] differentiate between affective and calculative commitment.

- ✓ Affective commitment: affective commitment is a positive motivational type of commitment because of a "positive regard for and attachment to the other party"[831]. Verhoef et al.[832] define this as "the psychological attachment of an exchange partner to the other and is based on feelings of identification, loyalty, and affiliation".
- ✓ Calculative commitment: calculative commitment is a negative motivational type of commitment because of "an anticipation of high termination or switching costs associated with leaving from the relationship. It results from a calculation of costs and benefits (e.g., investments already made in the relationship)"[833]. Geyskens et al.[834] define it as "the extent to which exchange partners perceive the need to maintain a relationship given the anticipated termination or switching costs associated with leaving".

Intended behavior (commitment) could act as a driver for actual behavior. However, be careful when making inferences about this relationship. Helgesen[835] states: "an intention is only a tentative measure of behavioral loyalty". There is a difference between what customers say they will do, and what they really do. "In general, customers are not good predictors of their own behavior, they tend to overreport their intentions to buy goods and services"[836].

Secondly, concerning customer loyalty, there is no consensus regarding its definition[837]. It is a multidimensional construct with no internationally accepted standards – that is, in terms of the dimensions used. Some scholars use behavioral intentions like repurchase intentions[838] or WOM-intentions[839] as the definition of loyalty. Others use dimensions of actual and revealed behavior. Scholars use one, or a combination of, several dimensions to define and measure loyalty. In this respect, it is difficult to use one definition of customer loyalty. However, my definition for this chapter is:

> *The actual behavior B2B customers have related to a supplier that influences their value for the company.*

To give you some more insights into the various dimensions of loyalty, two different loyalty models are presented here that deal with the subject from different perspectives. The models and concepts are Reichheld's[840] 'customer volume effect and profit-per-customer effects' and the 'loyalty ladder' from Narayandas[841].

The customer volume effect and profit-per-customer effects

Reichheld[842] describes two effects of customer loyalty economics that are applied in B2C and B2B settings alike:

1. The customer volume effect: less customers defecting (less churn) leads to more customers that make more revenues and profits for the company.
2. The profit-per-customer effect: loyal customers become more profitable over the years.

Figure 18.2.[843] presents this profit-per-customer effect over time. Before the customer becomes a customer (year 0) costs are being made to acquire the customer. When a customer ends the relationship in year 1, it could be that there is a net loss on this customer. During the following years there is a base profit. In addition, during the lifespan of the relationship, customers are buying more and their volume and share-of-wallet increase. The operating costs are decreasing, and efficiency improves because the customer gains experience with the supplier (and vice versa). During the years, loyal customers pay a price premium; the supplier can charge more for its goods and services. Finally, after some years, loyal customers become better ambassadors, resulting in many new customers through positive word-of-mouth.

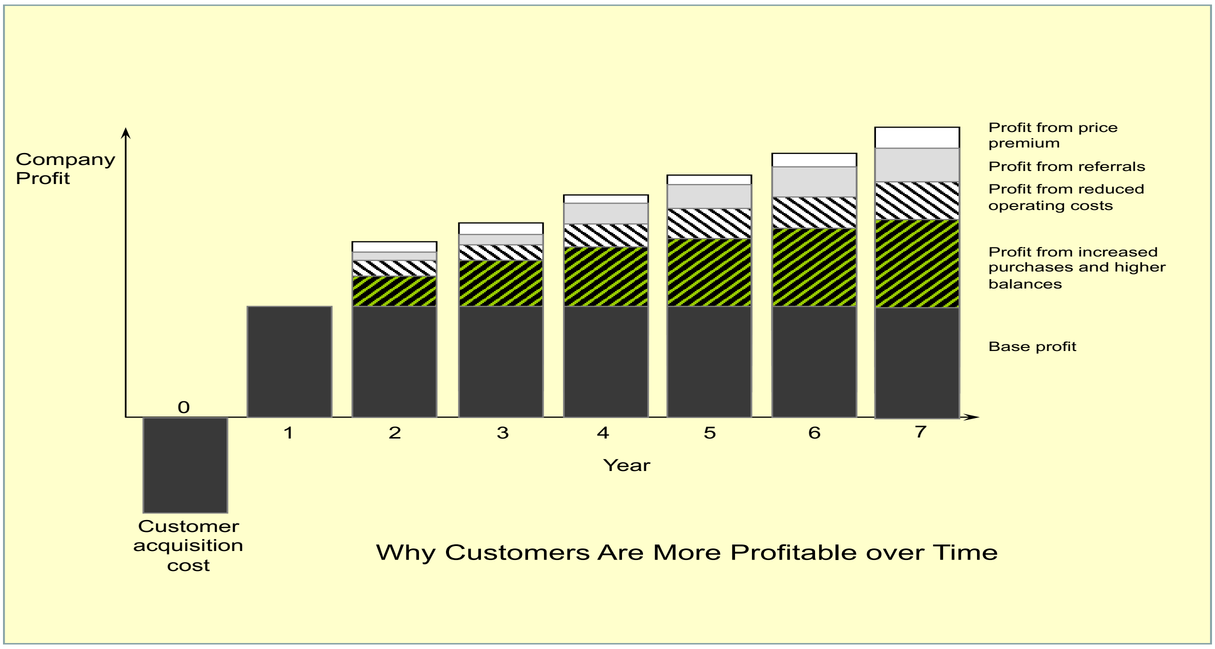


Figure 18.2. The Profit-per-Customer Effect

The loyalty ladder

Narayandas[844] describes the concept of the loyalty ladder (see Figure 18.3.). When climbing the ladder, the customer shows an increasing commitment towards the supplier in six successive steps. It starts with the willingness to grow the relationship and do more business (rung 1). In time, customers start to endorse the companies' products by positive word-of-mouth (rung 2) followed by a resistance towards offerings of competitors (rung 3). Customers become willing to pay a price premium after a while because of the high added value (rung 4).

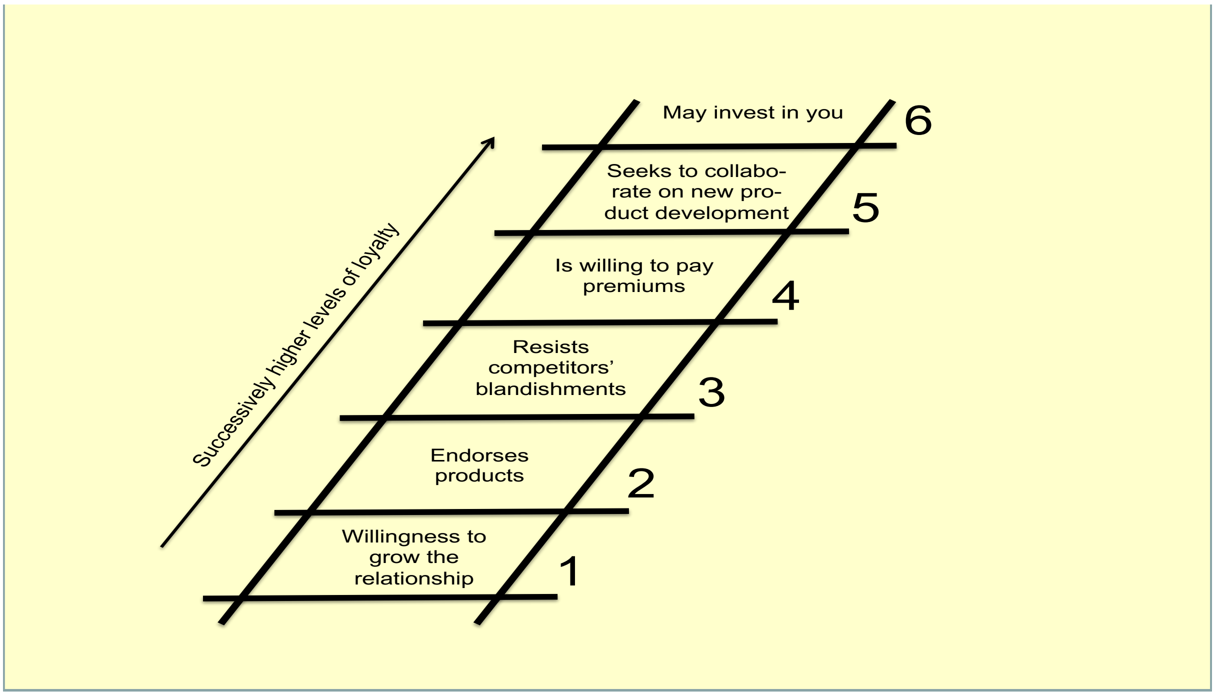


Figure 18.3. The Loyalty Ladder

This is followed in this evolutionary loyalty process by co-creation, for example in the form of collaboration on new product developments (rung 5). Eventually on the highest rung 6, customers invest financially in the supplier. Narayandas states that business customers state their loyalty in a predictable sequence (moving up the ladder). Organizations can determine per customer on what rung of the ladder that customer is.

18.3. Six Commitment and Loyalty Dimensions

The two models presented in the previous paragraph show that customer commitment and loyalty are multidimensional concepts both consisting of six dimensions (see Figure 18.4.).

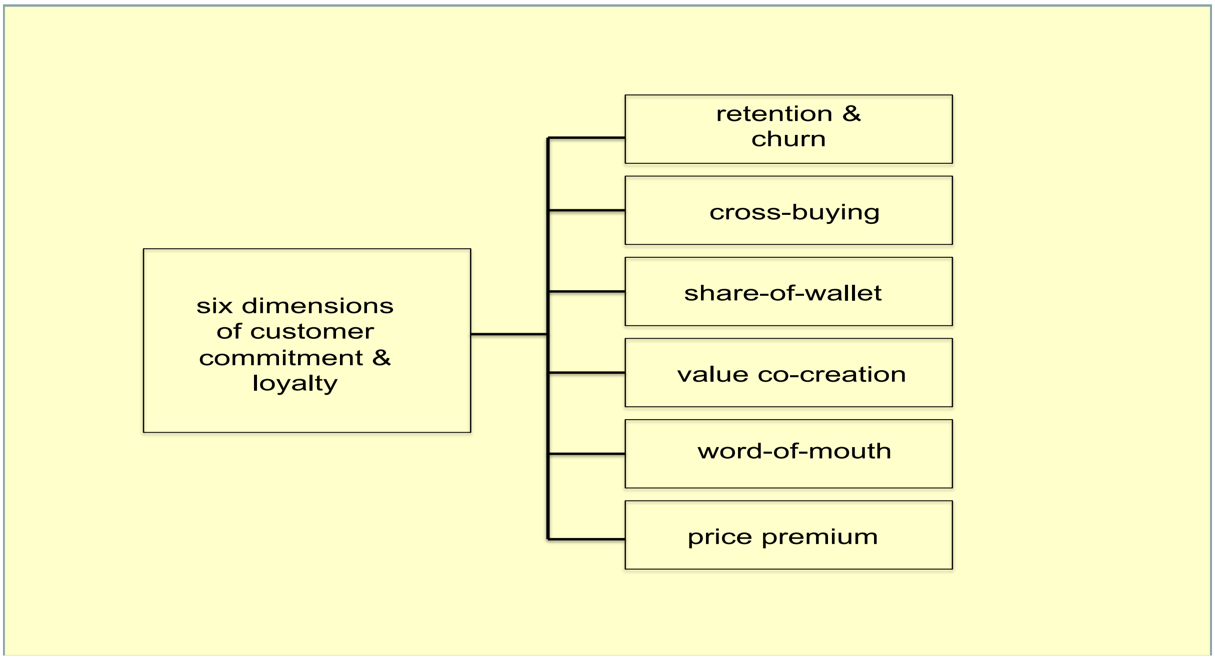


Figure 18.4. The Six Dimensions of Customer Commitment and Loyalty

These dimensions are:

1. Retention and churn: the customers' (intended) behavior of continuing or terminating the relationship with the supplier.
2. Cross-buying: customers' (intended) behavior of growing the relationship by buying more different goods and/or services from the supplier.
3. Share-of-wallet: the (intended) behavior of spending a larger portion of purchases at the supplier.
4. Value co-creation: the (intended) behavior of intensive collaboration, for example on new product development.
5. Positive word-of-mouth (WOM): the (intended) behavior of referring the company positively to others.
6. Price premium: the (intended) behavior of paying a higher price because of the perceived higher value.

As indicated in the previous paragraph, a distinction can be made between commitment and loyalty (see Figure 18.5). Intended behavior describes intentions towards the future and can only be measured by asking customers directly. Actual behavior indicates previous and future behavior and can be measured by asking customers, but also by using internal registrations.

	Intended behavior (commitment)	Actual behavior (loyalty)
Retention and churn	-Repurchase intent -Intent to continue/end the relationship (research among customers)	Internal registrations of retained and lost customers
Cross buying	Intentions to also buy other goods/services (research among customers)	Internal sales registrations
Share of Wallet	Intentions to grow/reduce the wallet (research among customers)	Internal sales registrations, research among employees and customers
Value co-creation	Intentions to co-create with the supplier (research among customers)	Actual co-creation between customer and supplier
Positive word-of-mouth	Intentions to spread positive word-of-mouth (e.g., Net Promoter Score)	Actual positive word-of-mouth in the past
Price premium	Intentions to pay more	Actual price premiums a customer pays

Figure 18.5. Intended and Actual Behavior

When you compare these dimensions with the clusters and drivers of the value of the customer (VOC) in Figure 3.1., you see many similarities. Many of the value elements of direct financial value, indirect financial value and relational value are formed by the behavior of customers as described in the six dimensions. In the next six paragraphs I describe the dimensions in detail. The paragraphs on 'retention and churn' and 'positive word-of-mouth' are the longest. This reflects the amount of attention for these dimensions in academic literature. For example, many papers have been published on retention whereas paying a price premium has received little attention in literature.

18.4. Retention and Churn

One of the loyalty effects Reichheld[845] describes is the customer volume effect (see § 18.2.). This effect reflects customers staying as customers (retention) or ending their relationship (churn). In this extensive paragraph you find information on:

- ✓ Definitions and measurement
- ✓ The churn process
- ✓ Reasons for churn
- ✓ Drivers and effects

Definitions and measurement (1)

In literature about retention and churn, various concepts are used. In Figure 18.6. I have given an overview of these.

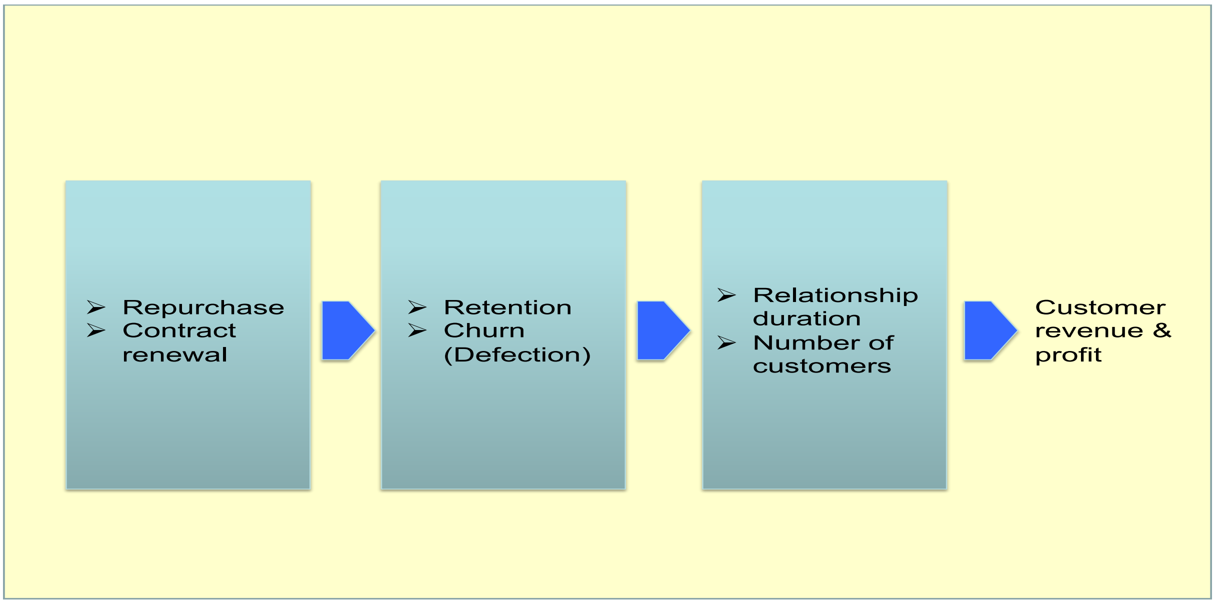


Figure 18.6. Retention Relationships

Repurchase and contract renewal: business customers can have the intention to repurchase goods and/or services. Repurchase intentions represent "a customer's judgment about buying again a designated service from the same company, considering the customer's current situation and likely circumstances"[846]. Repurchase intentions lead to actual repurchase behavior. In fact, often there is a contractual relationship between suppliers and customers. In this case customers have the intention to renew the contract leading to actual contract renewals.

Churn and retention: customers are 'expired' or 'lost' whenever they either cease to purchase goods/services or explicitly terminate the relationship[847]. In this way companies have their own kind of scrap heap: customers who will not come back[848]. Churn and retention are like two sides of the same coin. Whereas customer retention is an obvious term, churn needs some clarification. Figure 18.7. presents three definitions.

"The tendency for customers to defect or cease business with a company" (Jahromi et al., 2014, p. 1258; Kamakura et al., 2005, p. 286).

"Defection behavior manifests when a customer moves some or all of its spending in a product category away from a supplier" (Hollmann et al., 2015, p. 258).

"The propensity of customers to cease doing business with a company in a given time period" (Gordini and Veglio, 2017, p. 100).

Figure 18.7. Definitions of Churn

Churn is the percentage of customers the company loses, while retention is the percentage of customers that remains. In Figure 18.8. I have illustrated this by some examples.

Alpha Industries
Alpha Industries has 800 business customers on the 1st of January. A 'customer' is an organization that has been billed in the last three months. Twelve months later, on the 31st of December it has 950 customers. What is the retention and the churn?

One could say that the retention is 118,75% (950/800 x 100%). But this is incorrect. Actually, based on these figures, retention/churn cannot be calculated. During the year customers have ended the relation while others have been acquired. So, retention is the percentage of customers in the customer portfolio on the 1st of January that still is a customer at the 31st of December. So, if the company has lost 200 of the 800 initial customers and gained 350, what is than the retention and churn?

Retention is: 600/800 x 100% = 75%
Churn is: 200/800 x 100% = 25%

Depending on the industry the period of one year can differ in a shorter or longer period. Also, the definition of a customer (here billed in last three months) can differ per industry.

Beta Industries
Imagine that Beta Industries is a competitor. Just like the previous example, this company has 800 customers on the 1st of January and 950 at the end of the year. Only 50 customers ended their relationship during the year; 200 new customers were recruited.

Retention is 750/800 x 100% = 94%
Churn is 50/800 x 100% = 6%

Acquiring new customers
Acquiring a new customer is five times more expensive than retaining a customer[849]. Beta Industries must acquire 200 new customers while Alpha Industries has a challenge to acquire 350 new customers. In this case the marketing cost of acquisition for Alpha Industries are much higher than those of Beta Industries.

Figure 18.8. Calculating Churn and Retention

Relationship duration/number of customers: ultimately a higher retention leads to more customers in the customer portfolio with a longer relation duration (also named 'tenure' and 'longevity') resulting in more revenue, business volume and eventually more customer profitability.

The churn process (2)
A business customer's lifecycle with a supplier is expected to proceed through the phases of acquisition, retention, development, and finally churn[850]. Churn, also called defection, in business relationships is a complex process. Often, there is a contractual relationship, and the organizational interdependencies are larger than in B2C-settings. Therefore, switching is less impulsive, and it is often a longer process in which several departments are involved.

Hollmann et al.[851] researched the defection process of several business customers. The results showed that such a defection process was different per customer and took an average of 16.7 months. During this period the distance from defection faded gradually. See Figure 18.9. for an example of a defection gradient chart of one defecting customer[852]. Time and events represent the horizontal axis, while distance from defection represents the vertical axis. Distance from defection is the emotional distance at that moment from ending the relationship. In time, different critical events, both internal and external to the relationship, trigger the evaluation of the relationship. These triggers are reasons why customers start to consider switching. Roos et al.[853] describe three types of triggers that influence the distance from defection: situational, influential, and reactional.

- ✓ Situational triggers are changes in the customers' own situation, not necessarily related to the supplier at all. These triggers can cause defection that cannot be influenced by the supplier.
- ✓ Influential triggers are factors related to the competitive situation. The actions of competitors (e.g., to increase their market share) influence defection.
- ✓ Reactional triggers are factors that are caused by the company itself. They are often critical incidents in interactions between customers and the supplier.

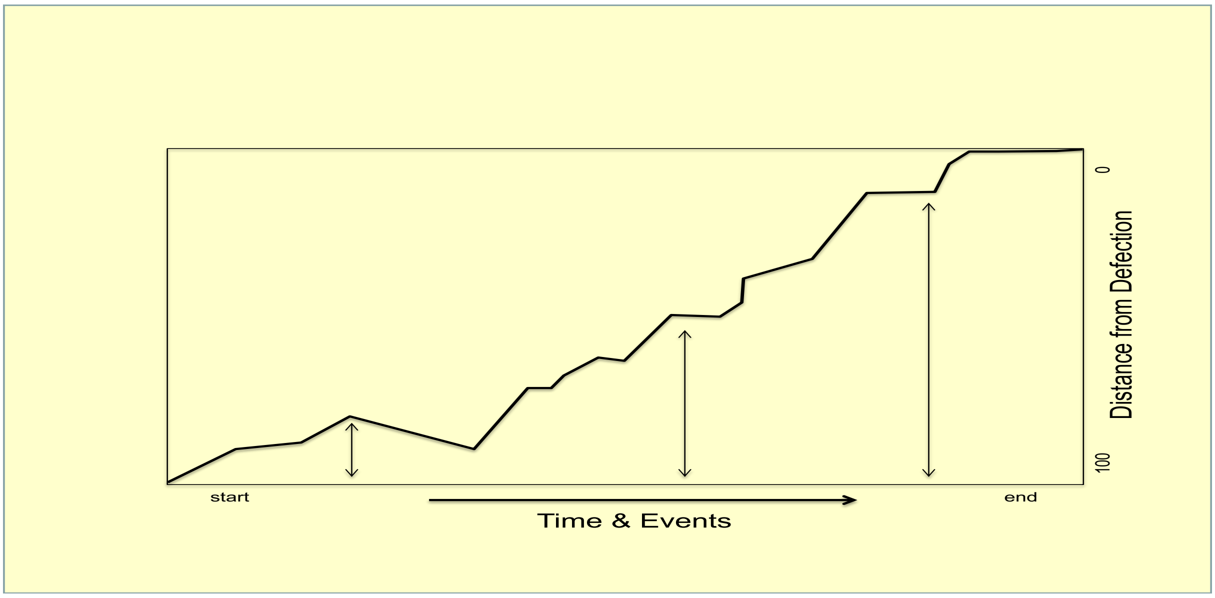


Figure 18.9. Example of a Defection Gradient Chart

Decisions are made on both an organizational-level and an individual decision maker-level (buying center member) based on goals, practices, and values. This leads to a lower or higher level of defection energy, which is "the motivation for a customer to move from relationship status quo toward a defection decision"[854]. Depending on the level of this energy, the distance from defection increases or decreases. Eventually, the defection decision is triggered when the cumulative defection energy reaches a certain threshold level[855]. Defection decisions are made over many months or even years and are influenced by a combination of the previously mentioned three triggers.

Reasons for churn (3)
Churn (defection) ultimately leads to lost customers. Stauss and Friege[856] have identified five types of lost customers:

1. Intentionally pushed-away customers: these are customers with whom it is not economically viable to continue the relationship. The value of these customers is too low to maintain the relationship, thus it is ended by the supplier through selective demarketing (see § 6.3.). In this case it is a desired type of churn.
2. Unintentionally pushed-away customers: these customers defect because the supplier's performance does not meet their expectations. This is an undesired type of churn.
3. Pulled-away customers: a competitor has pulled the customer to his side. The customer terminates its relationship with the company because of the competitor's superior CVP. A critical incidents study by Keaveney[857] shows that many customers switched to competitors that were more personal and reliable, or provided higher quality even when the new supplier's prices were higher. This type of churn is also undesired.
4. Bought-away customers: these customers switch because the competitor bribes them with offers to 'buy' them. Again, this is undesired.
5. Moved-away customers: these customers drift apart from the supplier due to relocation, bankruptcy or changing policies and needs. It cannot be influenced by the supplier.

These five types of lost customers show that figures concerning churn/lost customers must be interpreted with caution. The two main reasons for this are:

- ✓ Churn can be (partly) initiated by the company itself (type 1). This is a desired type of churn that is not negative; other types of churn are not desired.
- ✓ A part of the churn cannot be influenced (type 5). External factors like relocation, bankruptcy and changing policies of customers cannot be influenced, while other types of churn can.

When setting objectives concerning retention/churn, these reasons and factors mentioned above should be considered. It's better to work with net churn than with gross churn. Let me explain this. The gross churn is the complete churn (reasons 1-5 involved) while the net churn is the lost percentage because of undesired churn and factors that can be influenced by the supplier (only types 2, 3 ad 4 involved). So, the net churn is the figure that a supplier can and wants to reduce. In the next example of Alpha Industries, you see how it is calculated.

Alpha Industries
Alpha Industries has per 1st of January 800 B2B customers. 12 Months later, on the 31st of December it has 950 customers. The company has gained 350 new customers and lost 200 of the initial customers during the year. The gross churn is: 200/800 x 100% = 25%.

An analysis showed the reasons of the 200 left customers:

- ✓ A total of 33 customers left because of bankruptcy, mergers and other factors that cannot be influenced by the supplier.
- ✓ Alpha Industries has ended the relationship with 5 of its customers (selective demarketing).
- ✓ From 75 customers it is clear that they have left because of mass price reductions by a new supplier that has entered the market.
- ✓ From the remaining 87 left customers it is clear that 37 have left because of dissatisfaction. 25 Have indicated that the CVP of a competitor was better, for the other 25 it was a combination of both reasons.

A total of 38 left customers (33 + 5) cannot be influenced or is desired. However, 162 customers can be influenced and have left undesired. The net churn is 162/800 x 100% = appr. 20%.

Figuur 18.10. Calculating Net Churn

Furthermore, with regard to retention and churn, the concept of the Markov switching matrix (also named transition matrix) is relevant to discuss. Through such a matrix, the individual customer's probability of switching from one supplier to another supplier, based on individual-level utilities, is modeled[858]. This concept gives an overview of switching behavior of customers in a market. It helps a company to predict retention/churn. In Figure 18.11., an example of such a matrix is given.

former supplier / current supplier

	A	B	C	D	E	F	
A	82	-	10	8	-	-	100%
B	3	68	9	10	8	2	100%
C	-	8	71	2	10	9	100%
D	17	13	15	52	2	1	100%
E	16	21	26	12	21	4	100%
F	28	14	14	9	2	33	100%

Per row: the percentage indicates the percentage of customers that has remained (in red circle) and the percentage that has switched to an alternative supplier (per row the total is 100%)

Figure 18.11. Example of a Markov Switching Matrix

Drivers and effects (4)

Research on the drivers of retention has been focused mainly on the relationship between satisfaction and repurchase intent. In a B2C-setting, scholars have shown that there is a positive relationship between satisfaction and repurchase intent[859]. However, literature is not clear about the relationship between intended and actual repurchase behavior. Jones and Sasser[860] describe that repurchase intent is a very strong indicator of future behavior. They state: "although this measure will generally overstate the probability of repurchase, the degree of exaggeration usually is fairly consistent, meaning that the future results can be predicted fairly accurate". However, Mittal and Kamakura[861] show in their research that whereas the link between satisfaction and repurchase intent exhibits decreasing returns, the link between satisfaction and actual repurchase behavior actually exhibits increasing returns. Thus, there is an interesting research gap related to this subject.

In business relationships, retention/churn is a, compared with B2C, less important loyalty dimension. In many B2B relationships customers use the policy to have two or more suppliers for one good/service (dual suppliership, see § 1.5.). Seen this policy they often use the 'always a share' principle[862] leading to always-a-share retention. They stay customer but decrease/increase business. The opposite (lost-for-good retention) where a customer is in or out is not frequently used.

When a customer ends its relationship, however, it can have a big impact on business. From this perspective, customer retention is a central concept for developing business relationships[863]. Compared to B2C-settings, the number of customers in B2B settings is lower, customers make larger and more frequent purchases with higher transaction values, and customers are eventually more valuable. For example, the German mail company Deutsche Post has delivered the catalogues for the mail-order company Quelle (one of its key customers) for several years. In 2009, it lost the company Quelle as a customer. Because of this, it lost 800 million of annual revenues and nearly 3000 employees lost their jobs because of one lost customer[864].

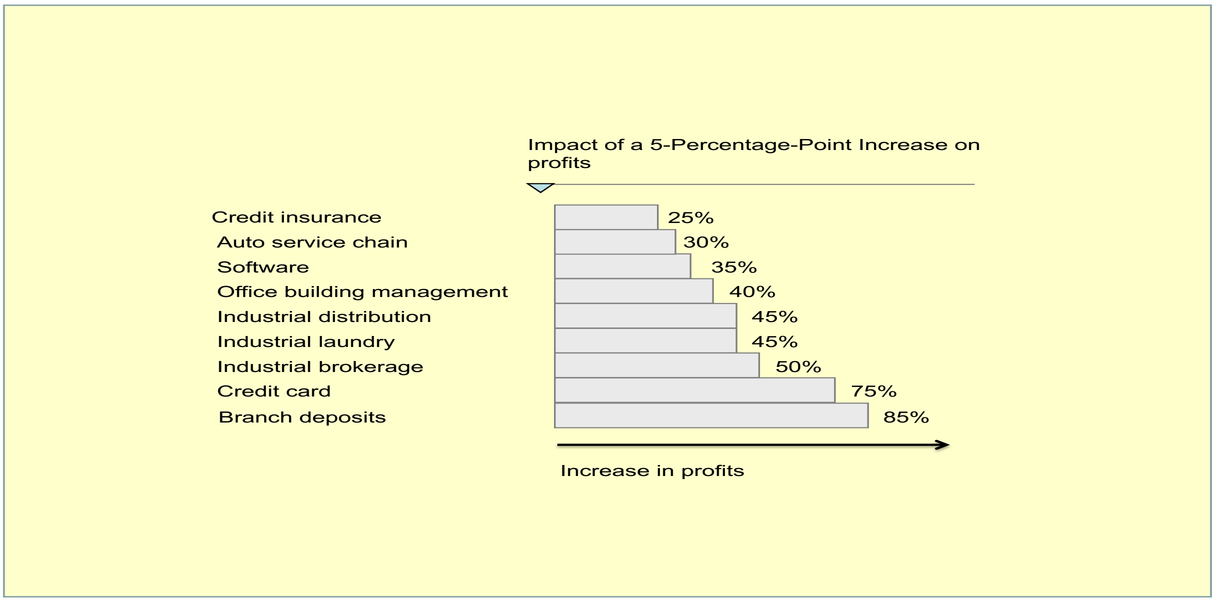


Figure 18.12. The Effects of 5-Percentage-Points Retention Increase

Due to improved access to information, B2B customers have become more transient, and it has become easier and less costly for them to switch between competitors[865]. Because of that, it is now common for a business to lose 15% to 20% of the customer portfolio yearly. According to Reichheld[866], the average corporation loses half of its customers every five years. Eventually, a higher retention leads to an average customer relationship that lasts longer (duration, tenure, longevity). This leads to a higher value of customers and profits climb steeply. According to Reichheld and Sasser[867], cutting defections in half more than doubles the average company's growth rate. They have researched the effects of a 5-percentage-point increase of the retention rate on profits in several B2B and B2C industries. Figure 18.12.[868] shows the results: the profits increase by 25-85% depending on the industry. Thus, it makes sense for B2B companies to focus on retention.

15.5. Cross-Buying

B2B customers often switch to another provider or change their pattern of usage of the offered goods and services for a part of their business[869]. They change the goods- and services portfolio they obtain from a supplier. One of the effects is a change in cross-buying, this can be defined as:

- ✓ "The customer behavior of buying additional goods and/or services from the same company"[870].
- ✓ "The total number of different product categories that a customer has purchased from a company from the time of first purchase"[871].

Reinartz et al.[872] define cross-buying by two indicators: width and balance. Width is "the total number of distinct categories from which the customer has purchased during the year" and balance is "the dispersion of spending across categories". From the customers' perspective, the term 'cross-buying' is often used. From the suppliers' perspective the term 'cross-selling' is often used, which refers to the number of different goods or services a customer buys compared to its potential. In Figure 18.13. an illustration of calculating the cross-selling index is given.

A large commercial business bank uses a cross-selling index to determine customer loyalty and upgrade relationships. The bank has defined 12 different customer segments. Based on research, it knows how many financial products a customer in each segment could buy.

Customer A has 5 different banking products. It is determined that this customer segment could potentially use 18 different banking products, ranging from loans, paying services, and mortgages to different insurances. The cross-buying index for customer A is approximately 28%.

Customer B has 10 different banking products; the segment this customer belongs to could potentially use 30 financial products. In this case, the cross-buying index of customer B is approximately 33%.

The bank knows that selling additional products to existing customers is less expensive than acquiring new customers. Therefore, it tries to sell more different products to customer A and B and increase their cross-buying index.

Figure 18.13. Calculating a Cross-Buying Index

Companies actively promote cross-buying because it can have positive effects on the duration of the customer relationship, increase purchase frequency, increase the contribution margin per order and increase customers' lifetime value and profitability[873]. Research among business customers of a financial services company and an Information Technology company show that the average profit of a high-cross-buy customer is at least five times higher than the average profit of a no-cross-buy customer[874].

Concerning the drivers of cross-buying, some research has been done. Reinartz et al.[875] showed in a B2C setting that customers' purchasing frequency and amount spent drives both the width and balance of cross-buying. Paulssen and Roulet[876] showed in a B2B manufacturing setting that there is a positive relationship between social bonding ('a feeling of friendship and liking shared by the buyer and seller') and actual cross-buying behavior. This relationship is mediated by trust between the interacting parties ('the reservoir of goodwill'). They also showed that customer satisfaction is not a driver for cross-buying, which is in line with results of research in B2C-markets[877]. Customers did not necessarily translate their satisfaction towards the qualities of a specific good or service to another good or service of which they had no experience. Thus, it makes sense to do more research on cross-buying in B2B settings.

18.6. Share-of-Wallet

An important dimension of loyalty in B2B settings is share-of-wallet (SOW). It is the total relevant size (in Euros) of the yearly purchases (the wallet) of a customer. The automobile maintenance industry calls it 'share of garage', the fashion industry 'share of closet', the media industry 'share of eyeballs' and the restaurant industry 'share of stomach'[878]. In Figure 18.14. some relevant definitions are given. The total wallet of a customer is called size-of-wallet. The SOW reflects the aggregate and total offering of a company. Looking at a specific brand or category of goods or services this is called the 'share of (category) requirements',

Size-of-wallet:
"The customer's total wallet" (Du et al., 2007, p. 94).

Share-of-wallet:
"The share of business a customer conducts with a particular service provider" and "the actual share of business (in Dollars) a client allocates to the firm" (Keiningham et al., 2003, p. 37).

"The share of total requirements across all the product categories the focal firm offers" (Du et al., 2007, p. 96).

"The percentage of a customer's spending within a category that's captured by a given brand, or store or firm" (Keiningham et al., 2011, p. 29).

Share of (category) requirements: *"The ratio of (1) a customer's requirements for a particular category of products from a focal supplier to (2) the customer's total requirements from all suppliers in the category; the total category requirements"* (Du et al., 2007, p. 96). *"A brand level version of share of wallet"* (Buoye et al., 2016, p. 435).

Figure 18.14. Some SOW-Related Definitions

For specific studies, SOW can be operationalized as "the percentage of the volume of total business conducted with a company by a client organization within a 12-month period"[879] or "the ranking relative to other institutions the company has with a client based on the volume of total business in the product category within a 12-month period (1 = highest percentage, 2 = second, etc.)"[880]. As you can see in the definitions, SOW is relative to other suppliers. If supplier A delivers for $50.000 of light bulbs while the customer buys yearly for $500.000, the supplier's A SOW is 10 percent. One or several other suppliers have a SOW of 90 percent. SOW is calculated in terms of money and generally over a time span of 12 months.

As mentioned before in this chapter, in B2B settings a change of spending patterns and always-a-share retention will be used more frequently than lost-for-good retention (when companies completely stop doing business)[881]. B2B companies often shift some of their business to another supplier, or increase their spending at one of their suppliers, so the share changes. Thus, SOW better reflects customer loyalty than repurchase[882] and retention rates. McKinsey and Company argue that focusing on SOW as well as retention rates can have as much as ten times greater value to a company than solely focusing on retention[883]. In a B2C banking setting, Coyles and Gokey[884] showed that on an annual basis, 5 percent of customers ended their relationship, taking 3 percent of the banks' balances with them. However, 35 percent of the customers reduced (again on an annual basis) their business, taking 24 percent of banks' balances with them. This effect could be the same or even stronger in B2B settings. Retention figures could not be alarming and at the same time SOW figures could show severe problems. As Du et al.[885] state it: "partial defection or silent attrition (churn) caused by decreasing SOW can be more serious than attrition, which is detected only when a customer has decided to no longer use the company's good or service". A decreasing SOW can be seen as an early warning signal that a relationship is gradually decaying.

Companies use SOW relatively infrequently. One of the main reasons is the difficulty of getting the information on the size-of-wallet and SOW of customers. One way to gather the data is asking customers (e.g., in questionnaires). However, these self-reported SOW data have their limitations: customers could be unfair or exaggerate their estimates. Other methods include a database augmentation by combining the data of several databases[886], or using specific key figures. For example, in a project for a cable manufacturer, we calculated the SOW of cable installation companies by using the number of employees of these companies. A key figure was that the average cable use per employee was 100.000 Euro. By comparing the number of employees with the sales made at that customer, the SOW could be calculated. For example, the size-of-wallet of a company with 100 employees is $10 million. By comparing the annual sales ($ 2 million) with this size-of-wallet, the SOW is 20%.

Du et al.[887] have segmented a customer portfolio based on the size-of-wallet and SOW (see Figure 18.15.). This offers a strong base to develop strategies to increase the SOW and/or the size-of-wallet. The percentages in the 25 segments (5x5) add up to 100%. As you can clearly see in this example, the four biggest segments are those with a total size-of-wallet in the 2nd, 3d, 4th and Top Quintile with a SOW between 10.1 and 14.3 percent. These insights give direction concerning on what customers to focus.

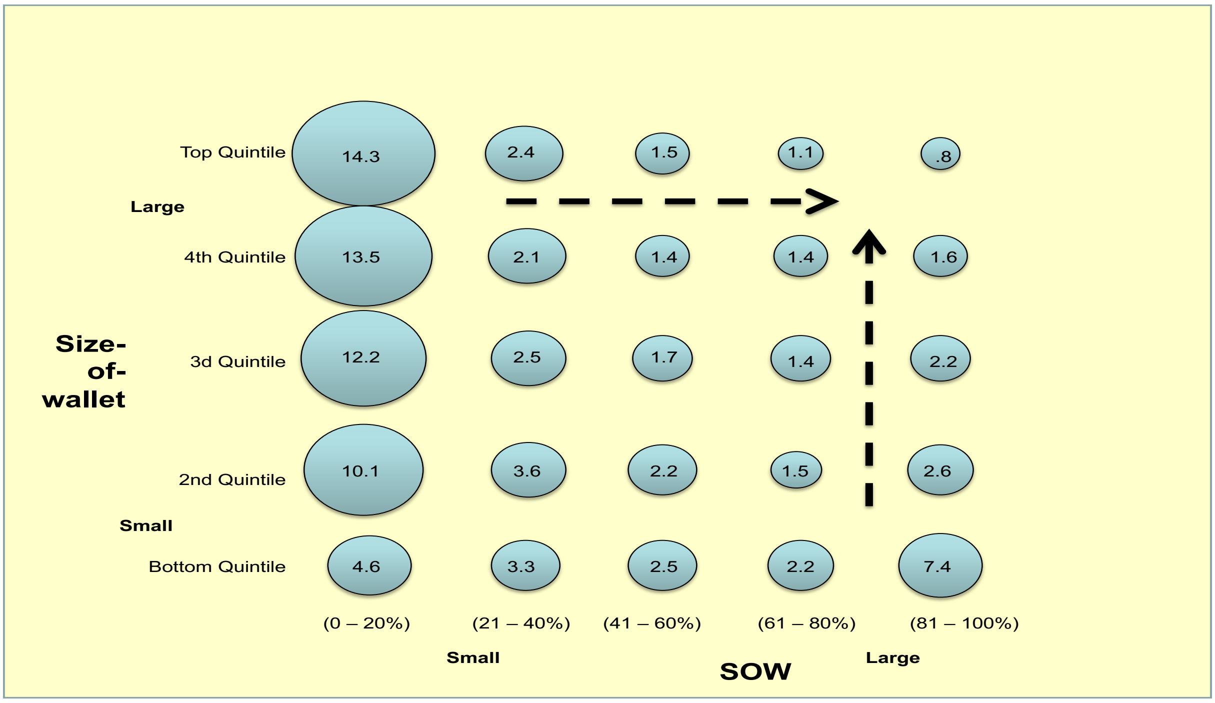


Figure 18.15. Segmentation Based on SOW and Size-of-Wallet

As mentioned earlier, SOW is all about the relative position (the rank) to other suppliers. Keiningham et al.[888] have developed the Wallet Allocation Rule in B2C-settings. Nevertheless, this could also be relevant for B2B settings. The rank that customers assign to a supplier relative to other suppliers they use, predicts the SOW according to a formula. For various industries the correlation between the score according to this rule and SOW was 0.9. See Figure 18.16. for an illustration.

The Wallet Allocation Rule can be used in three steps:

Step 1. Establish the number of companies customers use in the product category you want to analyze. This could be CompA, CompB and CompC.

Step 2. Survey customers and obtain satisfaction or other loyalty scores for each company: convert the scores into ranks. The table below gives an example of the outcome.

	CompA	CompB	CompC
Customer 1	3	1	2
Customer 2	3	2	1
Customer 3	3	1	2

Step 3. To determine the company's SOW for a given customer use the following formula:

SOW = (1 – rank/(number of companies+1)) x (2/number of companies)

In the case CompA for Customer 1 the SOW = (1 – 3/4) x (2/3) = **17%**. Repeat this calculation for each customer and company. This results in the following table:

	CompA	CompB	CompC
Customer 1	**17%**	50%	33%
Customer 2	17%	33%	50%
Customer 3	17%	50%	33%
SOW	17%	44%	39%

Figure 18.16. The Wallet Allocation Rule

Much of the SOW-research has focused on the drivers and outcomes of SOW. The focus in research is on the impact of satisfaction on SOW. Hereby it is important to use satisfaction metrics relative to competing suppliers instead of absolute satisfaction ratings. In this case, satisfaction is a strong predictor of SOW[889]. Research has been done on impact of satisfaction on SOW in B2B financial services. Keiningham et al.[890] showed that satisfaction has a positive and nonlinear relationship with SOW: there is a dramatic increase in predicted SOW at the satisfaction scores of 9-10 (scale 1-10). Furthermore, the relationship varies per buying group researched. The positive effect of satisfaction on SOW is also shown in another research in the same industry[891]. This research proved the positive relationship between SOW and revenue. Finally, Paulssen and Roulet[892] researched the relationship between social bonding, trust, and SOW of a manufacturer of light commercial vehicles and its B2B customers. The research shows that social bonding between the supplier's and customer's employees influences SOW positively through the generation of trust. Apparently, it is not only satisfaction that acts as a driver of SOW in B2B relationships.

18.7. Value Co-Creation

A dimension of customer loyalty that seems to be forgotten by marketing scholars is value co-creation. This can be defined as: "understanding the processes, resources, and practices which customers use to manage their activities. Achieving value co-creation requires finding a 'structural fit' between the customer activities and those of the seller"[893]. Although this subject is already discussed in § 9.6. briefly, I want to spend another paragraph on this important subject.

Customers take the time for, and spend resources in, cooperating with their supplier to improve results. Co-creation could be seen as the upper two rungs (5 and 6) of the loyalty ladder (see Figure 18.3.). This is especially important in intensive and complex B2B relationships where Value-in-Use is jointly created by the supplier, the customer, and other actors[894]. Three types of value co-creation can be differentiated: linking, materializing, and institutionalizing.

- ✓ Linking: facilitating connections and mobilizing networks. This includes "sharing and circulating knowledge and ideas not only about the offering, but also about the relationship, markets, and resources".
- ✓ Materializing: operational practices tightly related to the emergence of co-created offerings. This includes "the creation of material objects and artifacts that demonstrate and realize elements of the co-created value offering". For example, value co-creation increases the effectiveness of the product development process. But the advantages could be extended to innovation and business improvements in general. You could think about process improvements, digitalization of communication, packaging improvements, and joint cost reductions.
- ✓ Institutionalizing: these are actions to capture and retain the value created through linking and materializing activities. Examples of 'linking' and 'materializing' are organized in such a way that they become standard operation procedures in the cooperation.

An example of the 'linking' type of value co-creation is that of an accountancy company with a large customer portfolio. It organizes each month sessions where it invites customers with similar profiles and needs. The accountants know their customers, their ambitions, and challenges. Based on these, a group of 5-10 customers is invited to cook and have dinner in the accountancy's kitchen and talk with each other and the accountants on specific subjects. In this way the accountancy facilitates connections and adds value to the relationship.

One of the 'materializing' types of value co-creation corresponds with rung 5 of the loyalty ladder (see Figure 18.3.): a customer that seeks to collaborate on new product development. Laage-Hellman et al.[895] describe some of the advantages of customer involvement in product development and innovation. These are: (1) suppliers have a better understanding of the customer's requirements and acquire new ideas and solutions, (2) it reduces development costs, (3) it shortens time to market, (4) it gives the supplier the possibility to get in touch with the customers' customers, (5) it activates customers as 'lead users' to start using the new products and finally (6) it leads to these 'lead users' as references in the market, as they legitimize the new product. Lead users are: "unusually skilled and motivated users who have the capability to make substantial contributions in the development of a new product"[896]. A second example of materializing corresponds with rung 6 of the loyalty ladder: a customer that invests financial resources in the supplier. This is the customers' willingness to invest in a supplier, incurring substantial expenses in the form of capital outlays[897].

18.8. Word-of-Mouth

A fifth dimension of customer loyalty is word-of-mouth (WOM), In Figure 18.17. I have given three WOM-definitions. Except for some specific papers on WOM-promotion[898], the relationship between satisfaction, WOM referrals and new customer acquisition[899] and the effects of references[900], this subject seems to be ignored in B2B literature. Therefore, I also use several sources from B2C literature and try to convert these into B2B settings. In practice, it is in fact people working in companies that are both the producers and recipients of WOM. So, I could imagine that there are many similarities between B2B and B2C-settings.

> *"Informal communications between private parties concerning evaluations of goods and services"* (Anderson, 1998, p. 6).
>
> *"Informal, person-to-person communication between a perceived non-commercial communicator and a receiver regarding a brand, a good, an organization, or a service"* (Harrison-Walker, 2001, p. 63).
>
> *"The favorable personal recommendations from one individual to other individuals regarding a firm and its goods and services"* (Lacey and Morgan, 2009, p. 5).

Figure 18.17. Three WOM-Definitions

Both in practice and in literature, WOM is seen as a major source of new customers and sales and keeping customers[901]. Many service companies obtain a substantial part of their new customers by WOM[902]. WOM seems to be more effective than companies' advertisements and direct sales. The main reason is that customers perceive personal sources by other customers as more trustworthy and persuasive[903]. WOM is generally seen as more important for intangible services than for tangible goods[904]. Services are experiential in nature. Furthermore, they are intangible, they are produced and consumed simultaneously, and they require the active participation of customers in the service's production/delivery process. Because of these characteristics, it is very difficult for customers to evaluate and compare the quality of the service prior to the purchase[905]. Therefore, services are seen as a relatively high risk as compared to goods[906]. However, customers view WOM as a reliable source to deal with this risk.

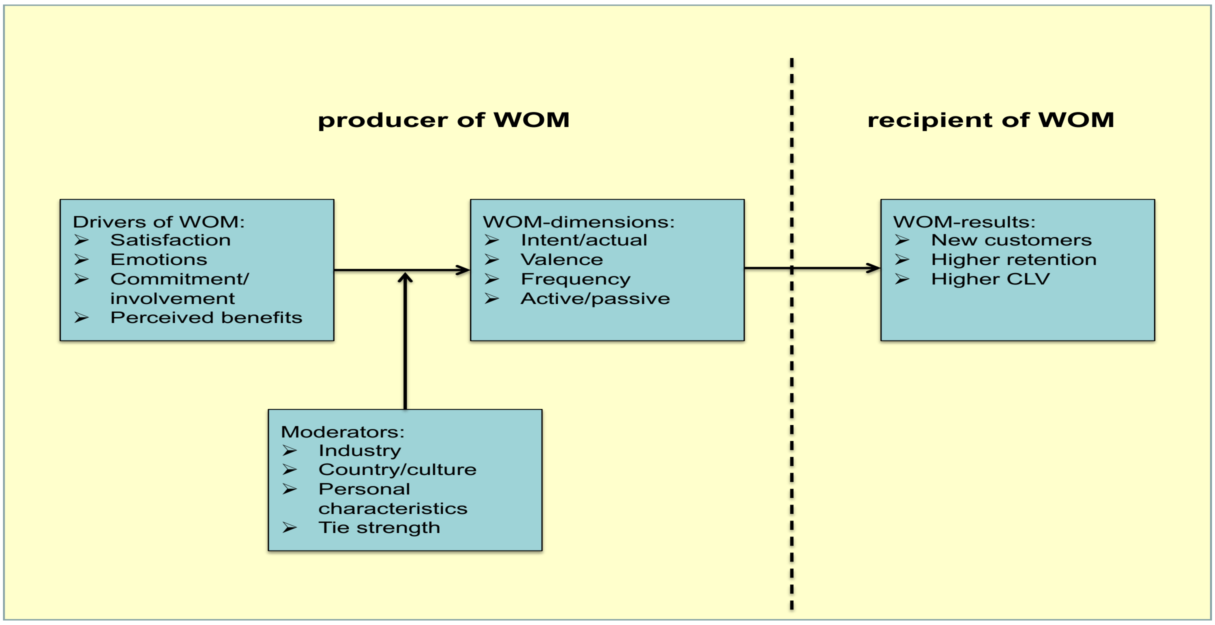


Figure 18.18. Drivers, Moderators, Dimensions and Effects of WOM

Von Wangenheim and Bayón[907] have shown the positive relationships between satisfaction, WOM and new customer acquisition in a B2B context. However, when studying WOM-literature, it becomes clear that many other factors influence these relationships. I have made a simple WOM-model that describes the drivers, dimensions, moderators, and effects of WOM (see Figure 18.18.).

- ✓ Drivers of WOM: what are the triggers that lead a person to have positive WOM?
- ✓ WOM-dimensions: what are the characteristics of this WOM?
- ✓ Moderators: what factors influence this relationship between drivers and WOM?
- ✓ WOM-results: what are the effects of this WOM on others (recipients of WOM)?

Drivers of WOM

Several scholars[908] have researched the effects of WOM-drivers in B2C-settings. Four of the frequently mentioned drivers are: satisfaction, emotions, commitment/involvement, and perceived benefits. *Satisfaction* is seen as the key driver for WOM[909]. Both positive and negative *emotions* have an impact on WOM[910]. Furthermore, this also counts for forms of customers' *commitment* with the company, such as affective commitment to want to maintain the relationship[911]. Finally, *perceived benefits* could be seen as a WOM-driver. Examples given are maximizing own utility by providing information to others as a means of social exchange, warning others, seeking revenge, a desire to help others/altruism, increasing self-esteem, achieving social status and a raise of self-enhancement and visibility[912]. Additionally, a monetary reward for positive WOM can act as an incentive and extrinsic motivator[913]. Many managers seem to have the idea that keeping customers satisfied is enough to make them apostles that actively recommend the company. However, according to Godes, Keiningham et al. and Wirtz and Chen[914] an additional referral program is necessary to increase WOM. This can be in the form of compensating customers for referrals in (non)monetary terms but also in the form of a reference program where the company can actively use certain customers as references to communicate their WOM to potential and existing customers. For example, for a leasing company, I had interviews with customers to develop personal testimonials on two pages. These were then used in the acquisition of new customers.

WOM-dimensions

WOM has several faces and is seen as a multidimensional construct. Dimensions are for example: intent/actual, the valence, frequency, and active/passive. *Intent/actual:* intent is the expectation of the customer to give WOM in the future (willingness to recommend) while actual refers to really having given WOM. The Net Promoter Score is based on this WOM-intent (see last section of this paragraph).

According to Von Wangenheim and Bayón[915], actual customer behavior should be analyzed to determine the effects of WOM. There could be a difference between what customers say they will do and what they actually do. Kumar et al.[916] show that there is a big gap between what customers say they will do and what they really do. Research in two industries shows that 61% and 81% of respondents indicated to have the intention to recommend a company, but only 33 and 30% had actually done so (see Figure 3.18.).

The *valence* of WOM can be divided into positive (favorable), neutral and negative (unfavorable). Positive WOM can be in the form of positive endorsement, sharing pleasant, vivid, and novel experiences with others, acting as a reference, or actively recommending a company[917]. Negative WOM can be operationalized by for example negative reviews and discouraging/warning others not to do business with a company. When conceptualizing and measuring WOM in research the valence should be clearly defined. For positive, neutral, and negative WOM, different constructs are used. Several studies show that there are differences in the effects of positive and negative WOM; extremely dissatisfied people are more likely to communicate negative WOM to more people than extremely satisfied customers, who will spread positive WOM to relatively fewer people. In general, there is a U-shaped relationship between satisfaction and WOM[918]. Extremely dissatisfied and extremely satisfied customers will spread more WOM than the more moderate levels of satisfaction in the middle[919].

A study among Coca Cola customers found that customers that perceived their complaint was not adequately solved, told their negative experience to 9-10 others. However, those that perceived it as adequately solved told it only to 4-5 others[920].

Xerox has discovered that dissatisfied customers engage between 2-3 times as much WOM as satisfied customers.

Figure 18.19. Effects of WOM

The *frequency* refers to the number of referrals[921] or the number of individuals spoken to about the experience[922]. Finally, a*ctive/passive* is the way the WOM is expressed. Customers can recommend a company spontaneously without being asked (active) or passive when asked by others[923].

Moderators
There are several moderators influencing the relationship between the drivers and the WOM-dimensions. Examples are the industry, country/culture, personal characteristics, and tie strength. First of all, the *industry* plays an important role in the relationship[924]. Concerning *country/culture,* Money[925] shows that B2B customers use referrals differently in Japan and the US: US-companies use less referrals to select a new supplier than Japanese companies. Apparently, the country and its culture have a significant influence on the use of WOM. *Personal characteristics* like gender, age, income[926] and social status[927] could have a moderating effect. Finally *tie strength* is related to whom the WOM is communicated. People show different WOM behavior towards others with strong ties (like family) than those with weak ties like acquaintances and social media contacts[928]. Because strong ties are better known, WOM will be more frequent and more intense towards strong than towards weak ties. These effects could be similar in a B2B environment.

WOM-results
WOM does not represent a value in itself; it only becomes of worth if it leads to other positive effects in terms of new customers and other behaviors of WOM-recipients[929]. Von Wangenheim and Bayón[930] have shown the positive effects on new customer acquisition. Money[931] has shown that companies who used referrals to source their service providers switched less than those who did not. A similar effect is shown in a B2C German banking setting[932], in which a customer referral program led to some very positive effects. New customers obtained through referrals were both more loyal and more valuable than

other customers. They were 18% more likely to stay with the bank and they were 16% more profitable. In general, WOM should lead to more customers, which are also more valuable for the company in terms of Customer Lifetime Value.

The Net Promoter Score (NPS)
In 2003, Frederick Reichheld published his article 'The One Number You Need to Grow' in Harvard Business Review. Based on two years of research, he concluded that the traditional customer satisfaction surveys were not at all effective in practice and that there was no clear relationship between satisfaction and company growth. He called this 'the wrong yardstick'. However, according to Reichheld, WOM did show this clear relationship. He suggested to skip satisfaction measurements and use solely the following questions in surveys:

- ✓ 'How likely is it that you would recommend [company X] to a friend or colleague?' This is the top-ranking 'NPS-question' that is, according to Reichheld, far and away the most effective across industries.
- ✓ 'How strongly do you agree that [company X] deserves your loyalty?' and 'How likely is it that you will continue to purchase goods/services from [company X]?' These two questions were effective predictors in certain industries.

For several industries like airlines, internet service providers and car rental companies, Reichheld showed the strong link between the NPS and business growth. For calculating the NPS, from the percentage of Promoters (score 9-10) the percentage of detractors (sore 0-6) is deducted (see Figure 18.20.).

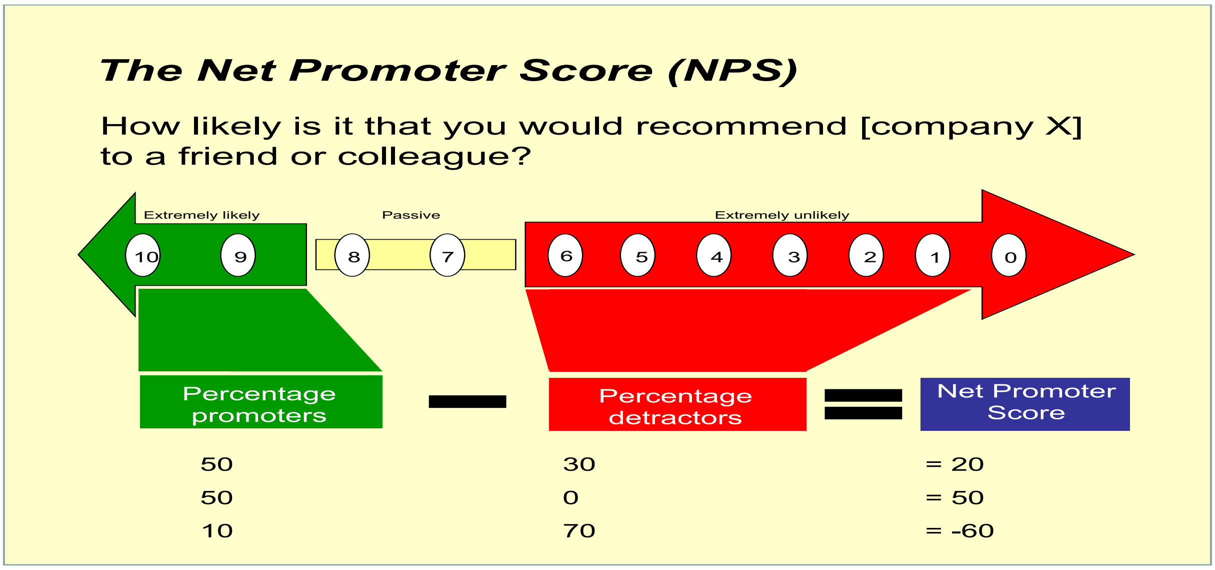


Figure 18.20. Calculating the Net Promoter Score

Based on this publication, many B2C and B2B companies started to use the NPS. The main reasons were the 'proven' link between the NPS and financial results and the simplicity of the concept. However, Keiningham et al.[933] published the results of replication studies showing that the NPS was not superior to other measures like customer satisfaction. They state: "the Net Promoter Score can in no way be categorized as the single most reliable indicator of a company's ability to grow". Maybe this is caused by the fact that a high NPS (intended behavior) does not lead automatically to a high growth of profitable new customers (see Figure 3.19.).

18.9. Price Premium

The last dimension of customer commitment and loyalty is customers paying a higher price. Rauyruen et al.[934] indicate the importance of price premium: "achieving and maintaining a high market share and a high price premium through attracting and retaining a loyal customer base is particularly significant in a B2B market". Not much has been published about this dimension. Reichheld and Sasser[935] describe it in their profit-per-customer effect (see Figure 18.2.). During the years, customers become more profitable. As you can see in this figure, starting in year 2 there is an increasing profit from price premiums. It is also mentioned in the loyalty ladder as rung 4 ('is willing to pay price premium') (see Figure 18.3.). The idea is that customers that are loyal and have a long relationship with the supplier receive more value. This happens for example, because goods and services are more tailormade. Therefore, these customers are willing to pay higher prices. However, this is not always the case: loyal customers can become better informed and get the power to reduce prices. Apparently, this dimension needs more research in B2B settings.

18.10. Dissatisfied but Loyal Business Customers

Normally, we could say that there is a positive relationship between satisfaction and loyalty (e.g., retention). You would assume that dissatisfied customers terminate their relationship. However, this is not always the case. Why? The satisfaction-loyalty matrix[936] consists of a 2X2 matrix with satisfaction (low-high) and loyalty (low/medium-high) on the axes.

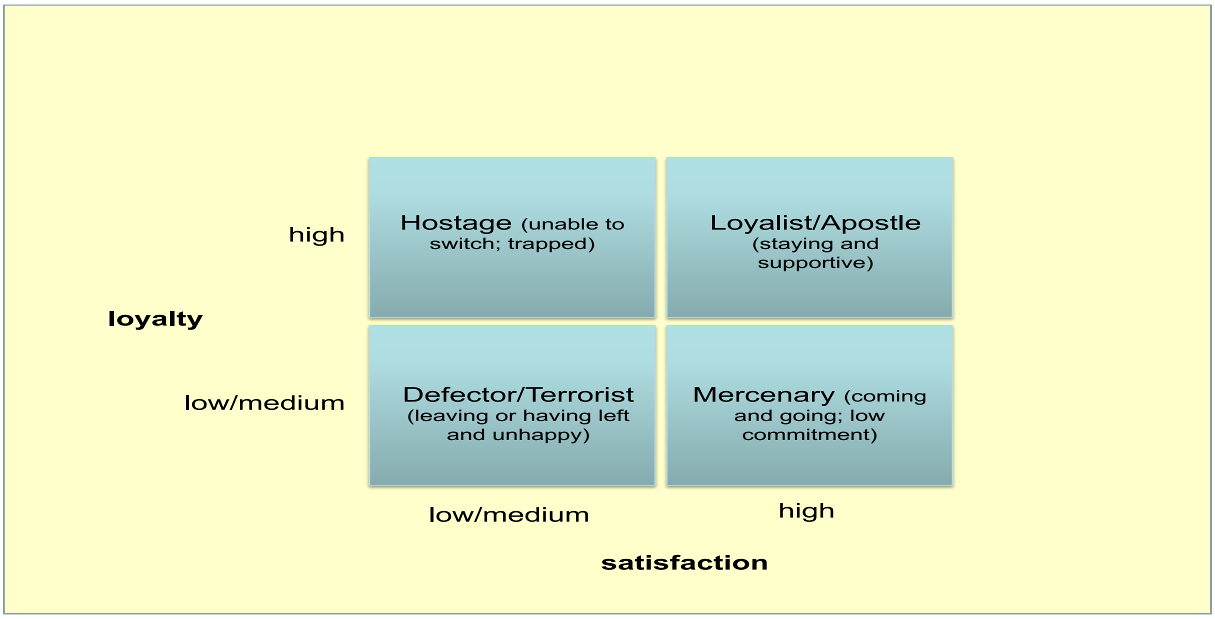


Figure 18.21. The Satisfaction-Loyalty Matrix

Based on these two axes, four different segments can be distinguished (see Figure 18.21.):

- ✓ Loyalist/Apostle: this is a customer whose experiences surpasses expectations (completely satisfied/delighted) with the effect that he shares strong positive feelings with others (positive WOM) and keeps returning to the company.
- ✓ Defector/Terrorist: this is a customer that is dissatisfied or neutral. He has had a bad experience, ends the relationship, and can't wait to tell others about its anger and frustration (negative WOM). Defectors/terrorists are far more committed and effective at telling their negative stories than the loyalists/apostles.
- ✓ Mercenary: this is a customer that may be completely satisfied but exhibits almost no loyalty. These customers are often expensive to acquire, and quick to depart. They chase low prices, buy on impulse, and show no loyalty.
- ✓ Hostage: this is a customer that is stuck. He must stay as a customer because of switching barriers and high switching costs even though he receives bad 'value for money'.

This model shows that not only drivers, such as perceived value and satisfaction, influence loyalty. The type of customer (transaction buyer (mercenary) or relationship buyer) can also have an influence.

Furthermore, the perceived switching barriers (in the case of a hostage) can have a significant effect on loyalty as well.

Jones and Sasser[937] describe two types of a high-level-loyalty. True long-term loyal customers that are affectively committed because they are completely satisfied or even delighted (the Loyalist/Apostle segment). For example, Xerox' totally satisfied customers were six times more likely to repurchase Xerox products over the next 18 months than its satisfied customers. Conversely, there is also false loyalty: customers that are calculative committed because of switching barriers like government regulations that limit competition, or high switching costs and proprietary technology that limits alternatives (the Hostage segment). Concerning this second type of loyalty: there are various reasons why dissatisfied customers do not end and even grow the relationship. Based on the conceptual paper of White and Yanamandram[938] six reasons can be distinguished: switching barriers and costs, dependence, attractiveness of alternatives, interpersonal relationships, inertia, and equity.

Switching barriers and switching costs (1)
As described in Chapter 1, resource dependence theory (RDT) is about dependence and power in supplier-customer relationships. Suppliers use switching barriers to increase their power and the customer's dependence in the relationship. One of the key factors influencing actual customer behavior is switching barriers leading to switching costs when switching from supplier[939]. Customers as 'hostages' are dissatisfied but they cannot defect because of perceived barriers and high switching costs.

> *Switching barriers are by the supplier purposely developed means to make it customers difficult and costly to leave.*

Switching barriers can have a significant influence on customer behavior[940]. According to Roos et al.[941] from a customers' point of view switching barriers are financial, psychological, and social-risk factors. Some examples of switching barriers are:
- ✓ Contracts: customers cannot switch because they have a contract for several years. Preliminarily ending the contract leads to lawsuits and high costs.
- ✓ Guarantees: as long as the customer uses the services of the supplier it has guarantees on the products. These end as soon as the customer switches to another supplier.
- ✓ Hassle: in certain situations, customers can end the relationship, but this needs a lot of effort and leads to a lot of hassle. Switching from bank as a business customer is an example.
- ✓ Knowledge: the supplier has important knowledge on the manufacturing operations of the customer (for example in the case of total solutions). Switching from supplier would lead to operational problems because of a loss of knowledge.
- ✓ Machines/hardware: certain machines that are part of the production process are owned by the supplier. Switching would lead to losing these machines and hence operational and financial problems.
- ✓ Setting up and learning: the investment to buy from a new supplier and grow into a new relationship with this new supplier[942].

Switching costs are the buyers' perceived costs of switching from the existing to a new supplier. They would not incur if the customer stayed with the same supplier. Switching costs can be divided into the following five groups[943]:
- ✓ Uncertainty costs: associated with the psychological uncertainty about the performance of a new supplier.
- ✓ Pre-switching costs: search and evaluation costs of alternative suppliers.
- ✓ Set-up costs: time and effort of initiating a new relationship.
- ✓ Post-switching costs: time and effort to adapt to the new situation.
- ✓ Benefit/loss costs: economic losses of switching like losing accumulated rebate points.

Dependence (2)

In marketing-channel relationships within a value chain (vendor-retailor or manufacturer-distributor), the company needs a particular supplier to achieve its business goals. The dependence is high when the required resources cannot be found elsewhere, or when the business goals cannot be achieved without the channel partner.

Attractiveness of alternatives (3)
This can be defined as "the quality and value that the customer anticipates in the best available alternative to the present supplier"[944]. If the customer perceives the alternatives as equal or even worse than the incumbent supplier. It could decrease the intention to defect. In certain monopolistic situations there are no alternative suppliers (e.g., governmental organization).

Interpersonal relationships (4)
This is "the degree to which personal relationships exist between boundary-spanning personnel in the transacting organizations"[945]. Strong relationships between frontline service personnel, or between decision makers (like family), diminish the mobility.

Inertia (5)
In certain situations, customers are dissatisfied but they do not take the actions to defect. The customer is lazy, inactive, or passive and does not want to have the hassle of switching.

Equity relationships (6)
Relationships can be non-equity based or equity based (see § 1.4.). Equity-based relationships are in the form of joint ventures or partial acquisitions, where one partner has a financial stake in the other. You could imagine that this equity has an impact on switching behavior.

18.11. Customer Loyalty Management Practices
The best way to improve loyalty is to make sure that customers perceive a superior value, are satisfied, and delighted, have a trust relationship, and are committed. In other chapters I have described these aspects, concepts, and adjoining practices. First, the most important loyalty management practices are those that determine dimensions of loyalty per customer combined with financial results and decide on specific actions. Figure 18.22.[946] gives an example. By segmenting a customer portfolio on profitability and short/long term customers it becomes clear what type of marketing actions must be taken per customer. This is just an example, there are many other combinations to make.

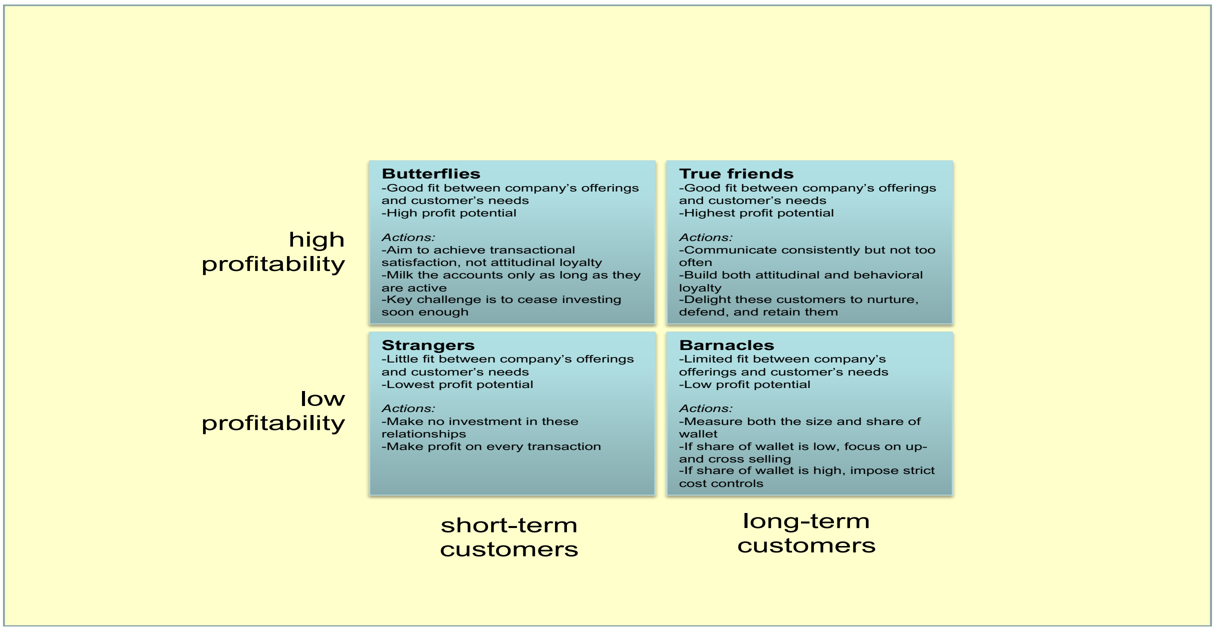


Figure 18.22. Choosing a Loyalty Strategy

Further, companies can use specific practices and strategies to increase customer loyalty. Stauss and Friege[947] identified three goals:

1. Strengthen the relationship with satisfied customers to avoid dissatisfaction and consolidate customer retention. One of the practices for this is the loyalty program in the form of club or card concepts.
2. Stabilization of customers that are dissatisfied and potentially end their relationship. Practices for this are predictive models and an active recovery policy.
3. Rebuild relationships with customers who explicitly quit or have quitted the relationship (lost customers). One of the practices for this is regain management that should only be focused on ex-customers with a sufficient high VOC.

Loyalty programs

Loyalty programs can be defined as “coordinated, membership-based marketing activities designed to enhance closer, more cooperative relationships among pre-identified customers toward specific goods and services offered by the program sponsor”[948]. The objective of these programs is to build stronger bonds between the company and its customers.

Predictive models/customer recovery

For reducing customer churn there are two important organizational practices: predictive churn models and service recovery. According to Kumar and Reinartz[949], customers who are likely to churn often show ‘symptoms’ of their dissatisfaction and churn-intentions. Examples are fewer purchases, more complaints, lower response to marketing communications, and more time between purchases. It is important for a company to have an ‘early warning system’ combining these signals per customer to detect endangered customers. In an attempt to prevent churn, organizations use customers' transactional data to develop predictive early warning models to identify customers that are likely to defect[950]. Based on big data, models are used as early warning systems to detect these customers. However, these practices are less common in B2B than in B2C. Customer recovery is the practice of turning angry, frustrated customers into loyal ones[951]. Customer recovery can create more goodwill and satisfaction than if things had gone smoothly in the first place. This principle in which “customer’s post-failure satisfaction exceeds pre-failure satisfaction” is called the service recovery paradox[952].

Regain management

For a mid-sized accountancy company, I did a loyalty project. One of the assignments was to contact all business customers that had ended their relationship in the last six months. The objective was to understand what the main reasons for defection were. An independent person (so not the accountant) called the customers with one open question (‘why did you leave?’). After having approximately 20 customers interviewed it became clear what the main reasons were: it was a combination of price and attention. The accountancy was more expensive than several competitors. This in itself was not such a big problem, but in combination with a lack of attention by the accountant (no proactive customer contacts) it was.

According to Stauss and Friege[953], regain management “encompasses the planning, realization, and control of all processes that the company puts in place to regain customers who either give notice to terminate the business relationship or whose relationship has already ended”. Tokman et al.[954] name this ‘customer reacquisition management’. They have developed an empirical model that identifies the factors driving the win-back offer’s effectiveness. Two aspects that influence this effectiveness are[955]:

- ✓ Companies must consider a customer’s reasons for leaving and their relationships with their current service provider.
- ✓ Win-back offer worth (WOW): this is the perceived overall value of the offer extended to defected customers in an effort to attract these customers back to their previous service supplier. This WOW (price and benefits provided in the win-back offer, social capital, and service importance) has a large impact on customer switch-back intentions. This regardless of the level of previous satisfaction,

regret, or even customer delight with the provider.

The term 'win back' is used in customer-supplier relationship situations based on a contract where the end of the relationship, the termination, can be observed objectively. In cases where there is no contract, it could be that customers stop doing business without noticing the supplier. In this scenario, we call regain-actions 'reactivation'.

Reichheld[956] states: "by searching for the root causes of customer departures, companies with the desire and capacity to learn can identify business practices that need fixing and, sometimes, can win the customer back and reestablish the relationship on firmer ground". According to Tokman et al.[957] win-back programs have the following two benefits:

(1) There are win-back opportunities. Customers decide to switch-back to the supplier which is cheaper than winning a new customer. A study by Marketing Metrics[958] supports this. It has found that an average company has:
✓ A 5–20 percent probability of making a successful sale to new prospects.
✓ A 60–70 percent probability of successfully selling again to active buyers.
✓ A 20–40 percent probability of successfully selling to lost customers.

(2) The company learns from the reasons why customers have defected. By improving on these reasons, the churn decreases.

In Figure 18.23., you see the results of a study among business customers that had stopped their subscription for a management magazine of a Dutch publisher. As you can see here, the causes are a combination of those that can and those that cannot be influenced by the company. It gives information on signals to detect endangered customers that not yet have left but will do so. This corresponds with the predictive churn models discussed in the first part of this paragraph. By regaining customers, the chance that these customers will spread negative WOM is massively reduced.

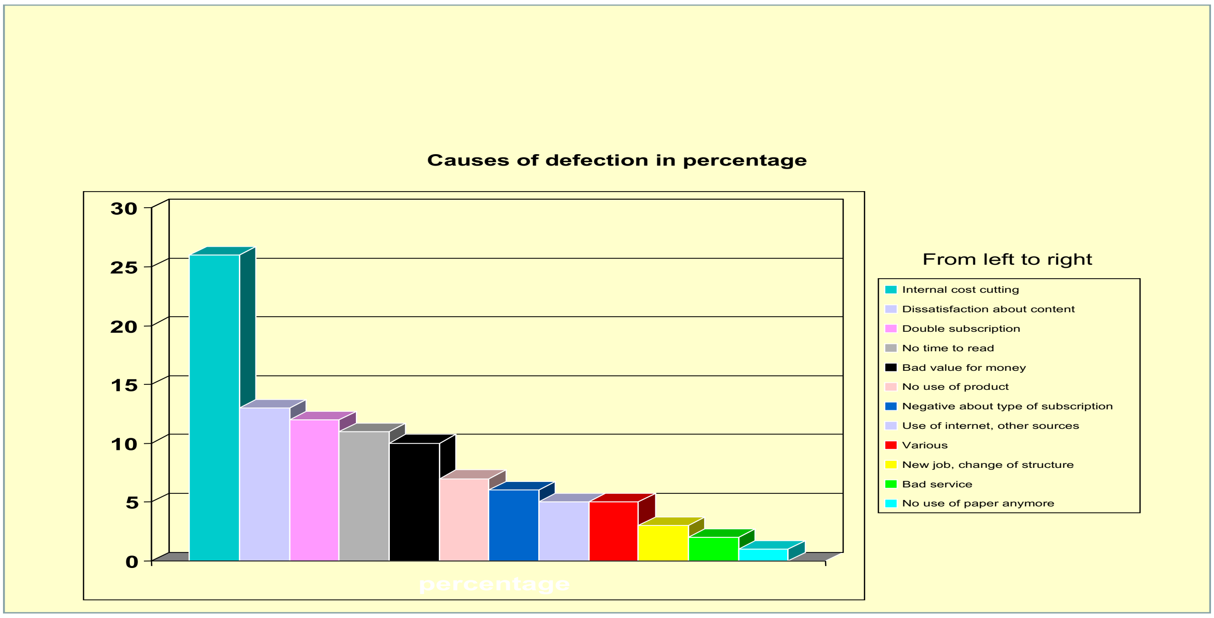


Figure 18.23. Causes of Defection

18.12. Summary

In this final chapter I have given some insights in the concepts of customer commitment and loyalty. There is no generally accepted definition for them, but literature shows that it consists of six dimensions. Here I give a short summary of this chapter.

(1) What are customer commitment and customer loyalty?
Whereas customer commitment, also called ‘attitudinal loyalty’, is the customer’s future intentions to behave in a certain way towards a supplier, customer loyalty is the actual behavior. More positive behavior leads to more revenue and is a direct link with the value of customers and the customer portfolio. Therefore, loyalty is the essential driver for customer equity and profitability.

(2) What are their main dimensions and how do they work?
Literature on commitment and loyalty shows that there are six main dimensions. These are retention/churn (staying or terminating the relationship), cross buying (buying more different product categories), share of wallet (spending a larger share), value co-creation (co-producing with the supplier), word-of-mouth (being an ambassador leading to new customers) and price premium (paying higher prices because of a higher perceived value). Al these six dimensions have a positive impact on revenue and/or cost reduction.

(3) Why are some dissatisfied customers loyal?
Various studies show that there are in fact loyal, dissatisfied customers. They are calculative committed to the relationship because it is more expensive to leave than to stay. They are ‘hostages’ that are trapped in the relationship as it is difficult or even impossible to switch. Various switching barriers and high switching costs cause this situation.

(4) What are typical customer loyalty management practices?
Companies use various practices related to customer loyalty. You could think about loyalty programs, predictive models that forecast customer behavior, service recovery to help customers with problems/complaints and regain management to win-back customers after relationship termination.

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Endnotes

Chapter 1

[1] See: Lilien, 2016
[2] See: Wind and Thomas, 2010
[3] See: Lilien, 2016
[4] See: Gummesson, 2004
[5] Quote: Parasuraman and Grewal, 2000, p. 10
[6] Quote: Lilien, 2016, p. 544
[7] Based on categorizations of Jackson et al., 1984 and Parasuraman and Grewal, 2010
[8] See: Storbacka et al., 2013
[9] See: Lilien, 2016
[10] See: Hunt et al., 2006
[11] Quote: Hunt et al., 2006, p. 75
[12] Based on: Hunt and Morgan, 1994; Hunt et al., 2006
[13] See: Brotspies and Weinstein, 2019, p. 165/166
[14] Quote: Henneberg et al., 2013, p. 3
[15] See: Tikkanen and Alajoutsijärvi, 2002
[16] Based on: Tikkanen and Alajoutsijärvi, 2002, p. 32 and 35
[17] For an overview: see Hillman et al., 2009
[18] Quote: Hillman et al., 2009, p. 1-2
[19] See: Drees and Heugens, 2013
[20] Quote: Hunt et al., 2006, p. 77
[21] Quote: Hunt et al., 2006, p. 77
[22] See: Singh and Gaur, 2021
[23] Based on Cannon and Perreault, 1999, p. 442
[24] See: Svensson, 2004
[25] See: Day, 2000
[26] See: Day, 2000, p. 26
[27] Quote: Hunt et al, 2006, p. 77
[28] Quote: Hunt et al, 2006, p 77
[29] Quote: Day, 2000, p. 24
[30] Quote: Day, 2000, p. 24
[31] See: Homburg et al., 2012
[32] See: Johnson and Selnes, 2004
[33] See for example Nollet et al., 2012
[34] See: Wind and Thomas, 2010
[35] See: Wilson, 1995
[36] See: Purmonen et al., 2023
[37] Quote: Lundin and Kindström, 2023, p. 1
[38] See: Heracleous and Wirtz, 2010
[39] See: Van Raaij et al., 2003
[40] See: Grove et al.,2018
[41] See: Rangan and Bowman, 1992
[42] Adapted from Rangan and Bowman, 1992
[43] Quote: Anderson et al., 2009, p. 184
[44] See: Anderson et al., 2009; Rangan and Bowman, 1992
[45] See also: Pfoertsch et al., 2007; Beverland et al., 2007; Cassia and Magno, 2019
[46] See: Lilien, 2016
[47] Quote: Jackson et al., 1984, p. 75
[48] See: Webster and Wind, 1972, p. 17; Rossomme, 2003, p. 183-184
[49] See: Purmonen, 2023, p. 78.
[50] See: Jackson et al., 1984

[51] See: Robinson et al., 1967
[52] See also: Jackson, 1985; Robinson et al., 1967; Rossomme, 2003; Wind and Thomas, 2010
[53] See: Bowman and Narayandas, 2004
[54] See: Rossomme, 2003

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[55] Quote: Shah et al., 2006, p. 115
[56] See: Manning and Bodine, 2012
[57] See for example Storbacka et al., 1994; Zeithaml, 2000
[58] Based on Zeithaml, 2000, p. 74
[59] See: Reichheld, 1996a
[60] See: Hart et al., 1990
[61] See: Peters, 1988; Zeithaml, 2000
[62] See: Blattberg and Deighton, 1996
[63] See: Lanning and Michaels, 1988
[64] Based on Lanning and Michaels, 1988 and 2000; Payne et al., 2020; the third approach is added
[65] See: Skålén et al., 2015
[66] Quote: Skålén et al., 2015, p. 137
[67] For example Lanning and Michaels, 1988; Lanning and Michaels, 2000; Payne et al., 2020, p. 246
[68] Quote: Payne et al., 2020, p. 245
[69] Quote: Payne et al., 2020, p. 245
[70] Quote: Payne et al., 2020, p. 245
[71] For example Ballantyne et al., 2011
[72] See: Vargo and Lusch, 2004 and 2008
[73] See: Ballantyne et al., 2011; Skålén et al., 2015; Vargo and Lush 2004
[74] Quote: Day, 2000, p. 24
[75] Quote: Day, 2000, p. 24
[76] Quote: Wilson, 1995, p. 342
[77] Quote: Reichheld, 2021, p. 1
[78] See for example Hunt et al., 2006; Shanka and Buvik, 2019
[79] See Homans, 1958
[80] See: Contractor and Lorange, 2002
[81] Quote: Blau, 1964; Shanka and Buvik, 2019, p. 58
[82] See for example Shanka and Buvik, 2019
[83] See: Nollet et al., 2012
[84] See: Farquhar and Robson, 2017
[85] See: Nollet et al., 2012
[86] See: Thibault and Kelly, 1959
[87] See: Sinha and DeSarbo, 1998
[88] Quote: Kumar and Reinartz, 2016, p. 36
[89] Quote: Kumar and Reinartz, 2016, p. 60
[90] Based on Wurtz, 2014, p. 76
[91] See: Kumar and Shah, 2009
[92] See: Shah et al., 2006
[93] See: Christensen, 2007; Sheth et al., 2000
[94] See: Lamberti, 2013; Sheth et al., 2000
[95] See: Christensen, 2007
[96] See: Gummesson, 2008
[97] Based on Thomassen, 2012, p. 86
[98] See: Van der Wiele, 1998, p. 28
[99] See: Garvin, 1988
[100] See for example Meyer and Schwager, 2007

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[101] See: Kotler and Armstrong, 1996
[102] Quote: Blattberg and Deighton, 1996, p. 136
[103] See: Gupta et al., 2006
[104] See: Blattberg and Deighton, 1996
[105] See: Van Raaij et al., 2003
[106] See: Cooper and Kaplan, 1991

[107] See: Storbacka, 1997
[108] See: Niraj et al., 2001
[109] Quote: Berger and Nasr, 1998, p. 18
[110] For example Mark et al., 2012
[111] For example Blattberg and Deighton, 1996; Kumar and Shah, 2009
[112] For example Berger and Nasr, 1998
[113] For example Blattberg and Deighton, 1996; Kumar and Shah, 2009
[114] For example Bolton et al., 2004; Kumar, 2018
[115] For example Hüttinger et al., 2012
[116] For example Kumar et al., 2010b
[117] See: Walter et al., 2001
[118] See: Kumar et al., 2010b
[119] See: Kumar et al., 2007
[120] See: Kumar et al., 2010b
[121] See: La Rocca et al., 2012
[122] See for example Hüttinger et al., 2012; La Rocca et al., 2012
[123] See: Nollet et al., 2012
[124] See: Kumar et al., 2007
[125] See: Hogan et al., 2003
[126] See: Mulhern, 1999
[127] See: Mulhern, 1999
[128] Quote: Nobes, 2012, p. 93
[129] For example Sridhar and Corbey, 2015; Van Raaij, 2005
[130] See: Sridhar and Corbey, 2015
[131] Based on Kumar and Shah, 2009; Van Raaij et al., 2003
[132] Quote: Kumar et al., 2008, p. 585
[133] See for example Blattberg et al., 2009; Cheng and Chen, 2009; Hosseini and Shebani, 2015
[134] See: Gupta et al., 2006
[135] See for example Bolton et al., 2004;
[136] See: Bolton et al., 2004
[137] See: Blattberg et al., 2001
[138] See: Bolton et al., 2004
[139] See: Mark et al., 2012, p. 8-10
[140] For example from Reichheld, 1996
[141] Quote: Kotler and Armstrong, 1996
[142] See: Shapiro et al., 1987
[143] Quote: Van Raaij, 2005, p. 373
[144] Quote: Sridhar and Corbey, 2015, p. 266
[145] See: Sridhar and Corbey, 2015
[146] See: Mark et al., 2012
[147] See for example Cooper and Kaplan, 1991
[148] See: Van Raaij et al., 2003
[149] Based on Lambert, 2010, p. 10
[150] See: Shapiro et al., 1987
[151] See for example Shapiro et al., 1987; Van Raaij, 2005
[152] See: Van Raaij, 2005, p. 375
[153] See: Shapiro et al., 1987
[154] See: Ryals, 2005, p. 254
[155] See: Van Raaij, 2005, p. 376
[156] See: Van Raaij et al., 2003
[157] See: Cooper and Kaplan, 1991; Niraj et al., 2001
[158] See: Mulhern, 1999
[159] See: Sridhar and Corbey, 2015; Van Raaij, 2005
[160] See: Van Raaij et al., 2003
[161] See: Sridhar and Corbey, 2015
[162] See: Van Raaij et al., 2003, p. 578
[163] See: Van Raaij, 2005
[164] See for example Storbacka, 1998; Mulhern, 1999; Van Raaij et al., 2003
[165] See: Van Raaij, 2005, p. 376
[166] See: Van Raaij, 2005, p. 378

[167] See: Rangan et al., 1992; Shapiro et al., 1987
[168] Based on Shapiro et al., 1987; Rangan et al. 1992
[169] See: Rangan et al., 1992
[170] See: Rangan et al., 1992, p. 79
[171] See: Kumar and Shah, 2009
[172] See: Sridhar and Corbey, 2015
[173] See: Kumar, 2018
[174] Based on Kumar et al., 2008; Sridhar and Corbey, 2015
[175] See: Kumar et al., 2008
[176] See: Bolton et al., 2004
[177] See: Mulhern, 1999
[178] See: Blattberg et al., 2009
[179] See: Berger and Nasr, 1988
[180] See: Jackson, 1985
[181] See: Blattberg and Deighton, 1996; Gupta et al., 2006; Kumar and Shah, 2009
[182] See for example Stauss and Friege, 1999
[183] See: Blattberg and Deighton, 1996
[184] See: Reinartz et al., 2005
[185] With some exceptions like Hüttinger et al., 2012; Ramsey and Wagner 2009
[186] See: Kumar and Shah, 2009
[187] See: Dhar and Glazer, 2003
[188] See: Van Raaij, 2005
[189] For example Kumar et al., 2007 and 2010b; Sridhar and Corbey, 2015
[190] See: Kumar et al., 2010b, p. 300
[191] See: Kumar et al., 2010b
[192] See: Kumar et al., 2010b
[193] See: Mulhern, 1999; Van Raaij, 2005
[194] See: Kumar et al., 2010b
[195] See: Kumar et al., 2007, p. 140
[196] Based on Kumar et al., 2007
[197] See: Kumar et al., 2007
[198] See: Kumar et al., 2007, p. 144
[199] See: Schmitt et al., 2011
[200] See: Terho and Jalkala, 2017
[201] See: Kumar et al., 2010b
[202] See: Van Raaij, 2005
[203] Quote: Hüttinger et al., 2012, p. 1195
[204] Quote: La Rocca et al., 2012, p. 1242
[205] See: Schiele et al., 2012
[206] See: Hüttinger et al., 2012
[207] See: Hüttinger et al., 2012
[208] See: Hüttinger et al., 2012
[209] See: Gupta et al., 2004
[210] Quote: Rust et al., 2000, p. 4
[211] See: Gupta et al., 2004
[212] Quote: Kumar, 2018, p. 2
[213] Quote: Barnes, 2000, p. 38
[214] See: Gummesson, 1999, p. 140
[215] See: Blattberg and Deighton, 1996, p. 142-143
[216] Quote: Hartfeil, 1996, p. 2
[217] Quote: Blattberg and Deighton, 1996, p. 143
[218] See: Rust et al., 2000
[219] See: Rust et al., 2000
[220] See: Rust et al., 2000; Howell and Soucy, 1990

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[221] Starting with Kotler, 1967; Leavitt, 1967
[222] See: Gale, 1994
[223] See: Flint et al., 2002
[224] Quote: Kumar and Grisaffe, 2004, p. 44

[225] See: Eggert et al., 2018
[226] See: Kumar and Reinartz, 2016; Ulaga and Eggert, 2005
[227] Quote: Anderson et al., 2009, p. 6
[228] Quote: Eggert et al., 2018, p. 80
[229] See: Eggert et al., 2018
[230] See: Arslanagic-Kalajdzic and Zabkar, 2017
[231] See: Ulaga and Eggert, 2005
[232] See: Arslanagic-Kalajdzic and Zabkar, 2017
[233] See: Woodruff, 1997
[234] Quote: Flint and Woodruff, 2001, p. 322
[235] See: Lapierre, 2000
[236] See: Lindgreen and Wynstra, 2005
[237] See: Anderson et al., 2009, p. 73-74
[238] See: Gale, 1994
[239] See: Anderson et al., 2009
[240] See: Eggert et al., 2018
[241] See: Ulaga and Eggert, 2005, p. 87
[242] Quote: Anderson et al., 2009, p. 103
[243] See: Grönroos and Ravald, 2010, p. 5
[244] See: Eggert et al., 2018; Vargo and Lusch, 2004
[245] See: Grönroos and Ravald, 2010
[246] See: Macdonald et al., 2016; see also Bischoff et al., 2023
[247] See: Epp and Price, 2011
[248] See: Macdonald et al., 2016, p. 102-104
[249] See for example Sweeney and Soutar, 2001
[250] Quote: Almquist et al., 2018, p. 75
[251] See for example Almquist et al., 2018; Arslanagic-Kalajdzic and Zabkar, 2017; Candi and Kahn, 2016; Macdonald et al., 2016
[252] Quote: Purmonen et al., 2023, p. 77
[253] See: Candi and Kahn, 2016
[254] See: Almquist et al., 2018, p. 75
[255] See: Woodruff, 1997
[256] See: Ulaga and Chacour, 2001; Woodruff, 1997
[257] See: Ulwick, 2002
[258] See for example Dziopa and Ahern, 2011
[259] See: Kumar and Reinartz, 2016
[260] See: Anderson et al., 2009; Gale, 1994; Kumar and Reinartz, 2016
[261] See: Gale, 1994
[262] See: Sinha and DeSarbo, 1998; Ulaga and Chacour, 2001

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[263] See for example Lambert 2010; Rigby et al., 2002
[264] See for example Kumar and Reinartz, 2016
[265] See: Terho and Halinen, 2012
[266] Quote: Brotspies and Weinstein, 2019, p. 164
[267] See: Brotspies and Weinstein, 2019; Wedel and Kamakura, 2002
[268] See: Plank, 1985, p. 81
[269] See: Brotspies and Weinstein, 2019, p. 165
[270] See: Bonoma and Shapiro, 1983
[271] See: Sharma and Lambert, 1990
[272] See: Boejgaard and Ellegaard, 2010, p. 1291; Griffith and Pol, 1994, p. 39
[273] Quote: Chéron and Kleinschmidt, 1985, p. 101
[274] Quote: Shapiro and Bonoma, 1984, p. 104
[275] See for example Wind and Cardozo, 1974
[276] See: Laughlin and Taylor, 1991
[277] See: Zeithaml et al., 2001
[278] Quote: Zeithaml et al., 2001, p. 119
[279] See for example Freytag and Højberg Clarke, 2001; Sharma and Lambert, 1990
[280] Quote: Bonoma and Shapiro, 1984, p. 258
[281] Quote: Lambert, 2010, p. 12

[282] See: Haenlein et al., 2006
[283] See for example Lambert, 2010
[284] See: Ritter and Anderson, 2014, p. 1007
[285] See: Malthouse and Blattberg, 2005
[286] See: Malthouse and Blattberg, 2005
[287] See: Flint et al., 2002
[288] See: Treacy and Wiersema, 1996
[289] See: Rackham and de Vincentis, 1999, p. 19
[290] See: Day, 2000
[291] See: Axelsson and Wynstra, 2002
[292] See: Anderson and Narus, 1995
[293] See for example Fiocca, 1982; Kumar and Reinartz, 2016; Lambert, 2010; Rigby et al., 2002
[294] See: Cooil et al., 2006
[295] See: Peppers and Rogers, 1999

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[296] See: Reimann et al., 2010
[297] See: Anderson and Narus, 1998
[298] Quote Kumar, 2018, p. 1
[299] See: Zeithaml, 2000
[300] See: Zeithaml, 2000
[301] Quote: McColl et al., 2019, p. 80
[302] Quote: Zeithaml and Bitner, 1996, p. 178
[303] See: Farquhar and Robson, 2017; Haenlein and Kaplan, 2009
[304] See: Gupta and Zeithaml, 2006, p. 730
[305] Quote: Farquhar and Robson, 2017, p. 165
[306] See: Farquhar and Robson, 2017
[307] See: Lanning and Michaels, 1988
[308] Quote: Webster, 2002, p. 61
[309] See for example Anderson et al., 2006; Payne et al., 2017
[310] For example those of Webster, 1994; Payne et al., 2017
[311] Based on e.g., Kowalkowski, 2011; Payne et al., 2017
[312] For example Ballantyne et al., 2011; Kowalkowski, 2011
[313] Quote: Mishra et al., 2020, p. 264
[314] See: Bititci et al., 2004
[315] See: Norman and Ramirez, 1993
[316] See: Menon et al., 2005
[317] Quote: Menon et al., 2005, p. 5
[318] Quote: Menon et al., 2005, p. 5
[319] For example: Lapierre, 2000; Menon et al., 2005
[320] Quote Lapierre, 2000, p. 123
[321] Quote: Lam et al., 2004, p. 295
[322] Quote: Lam et al., 2004, p. 295
[323] Quote: Payne and Frow, 2014, p. 240
[324] Quote: Mishra et al., 2020, p. 265
[325] See: Lindgreen and Wynstra, 2005
[326] See: Norman and Ramirez, 1993
[327] See: Kambil et al., 1996
[328] See: Osterwalder et al., 2014
[329] Quote: Payne et al., 2020, p. 246
[330] See: Christopher and Gattorna, 2005, p. 120
[331] See: Doyle, 2000, p. 110
[332] See: Hüttinger et al., 2012
[333] Quote: Homburg et al., 2008. p. 110
[334] Quote: Homburg et al., 2008, p. 110
[335] See: Zeithaml et al., 2001, p. 118
[336] See: Zeithaml et al., 2001
[337] Quote: Nollet et al., 2012, p. 1186
[338] See: Nollet et al., 2012, p. 1188
[339] See: Homburg et al., 2008

[340] See: Homburg et al., 2008
[341] See: Dhar and Glazer, 2003
[342] See: Johnson and Selnes, 2005
[343] Quote: Homburg et al., 2008, p. 116

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[344] Quote: Leek and Christodoulides, 2011, p. 834
[345] Adapted from: Kotler and Pfoertsch, 2007, p. 358
[346] See: Iglesias et al., 2023
[347] Quote: Rust et al., 2000, p. 80-81
[348] See: Rust et al., 2000, p. 87
[349] Quote: Rust et al., 2000, p. 88
[350] Quote: Cash and Trezona, 2021, p. 41
[351] See: Suchman, 1995, p. 574; Gustafson, and Pomirleanu, 2021, p. 22
[352] Quote: Doyle, 2000, p. 221
[353] See: Rust et al., 2000, p. 83
[354] See: Doyle, 2000, p. 221
[355] See: Doyle, 2000, p. 221
[356] See; Doyle, 2000, p. 226
[357] See: Kahneman, 2012
[358] Quote: Cash and Trezona, 2021, p. 121
[359] See: Cash and Trezona, 2021
[360] Quote: Cash and Trezona, 2021, p. 7
[361] See: Binet and Field, p. 13
[362] See the interesting video on YouTube: https://www.youtube.com/watch?v=mM-T7kp7A1M
[363] See: Menon et al., 2005, p. 8
[364] See: Vargo and Lusch, 2004, p. 2
[365] See: Henneberg et al., 2013
[366] Adapted from Shostack, 1977, p. 77
[367] See: Hunt et al., 2006, p. 81
[368] See: Zeithaml and Bitner, 1996, p. 19
[369] See Jackson et al., 1995, p. 103
[370] See: Doyle, 2000
[371] See: Eggert et al., 2018
[372] See: Treacy and Wiersema, 1996
[373] See: Rangan and Bowman, 1992
[374] See: Treacy and Wiersema, 1996
[375] Quote: Wise and Morrisson, 2000, p. 88
[376] Adapted from Doyle, 2000, p. 88
[377] See: Sheth et al., 2000, p. 56
[378] See: Purmonen et al., 2023
[379] Quote: Delenogare et al., 2018, p. 383
[380] See: Klingenberg et al., 2021
[381] See for example: Wang et al., 2018
[382] See: Kamble et al., 2018
[383] See: Kowalkowski et al., 2017
[384] See: Vandermerwe and Rada, 1988
[385] For a discussion on the organizational enablers see: Fliess and Lexutt, 2019
[386] See: Kuijken et al., 2017; Raddats and Kowalkowski, 2014
[387] These GSB's are also named product-service systems in literature
[388] See: Anderson and Narus, 1995
[389] See: Anderson and Narus, 1995
[390] Quote: Reinartz and Ulaga, 2008, p. 96
[391] Quote: Kamp and Parry, 2017, p. 11
[392] See: Kuijken et al., 2017
[393] See: Kamp and Parry, 2017
[394] See: Kuijken et al., 2017
[395] See: Raddats and Kowalkowski, 2014
[396] See: Kowalkowski et al., 2017
[397] See: Fliess and Lexutt, 2019

[398] See: Reinartz and Ulaga, 2008, p. 91-92
[399] See: Anderson and Narus, 1995
[400] See: Kowalkowski et al., 2017; Kuijken et al., 2017
[401] See: Anderson and Narus, 1998
[402] See: Macdonald et al., 2016; Fliess and Lexutt, 2019
[403] See: Kuijken et al., 2017
[404] See: Anderson and Narus, 1995, p. 76; 1998
[405] See: Reinartz and Ulaga, 2008, p. 93
[406] See: Kowalkowski et al., 2017, p. 8
[407] See: Macdonald et al., 2016; Grove et al., 2018
[408] See: Macdonald et al., 2016
[409] See: Schiele et al., 2012
[410] See: Schiele et al., 2012
[411] See: Raddats and Kowalkowski, 2014
[412] See: Vargo and Lusch, 2004 and 2008
[413] See: Grönroos and Ravald, 2010
[414] See: Grove et al., 2018
[415] See: Eggert et al., 2018
[416] See: Grönroos and Ravald, 2010
[417] See: Macdonald et al., 2016
[418] See: Storbacka et al., 2013
[419] See: Kuijken et al., 2017
[420] See: Grove et al., 2018
[421] See: Storbacka et al., 2013
[422] See: Grove et al., 2018, p. 56
[423] See: Macdonald et al., 2016
[424] See Macdonald et al., 2016
[425] See Kowalkowski et al., 2017
[426] Quote: Storbacka et al., 2013, p. 709

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[427] See for example Vargo and Lusch, 2014; Santenac et al., 2022; Henneman et al., 2013
[428] See: Weigel and Hadwich, 2018, p. 254
[429] See: Henneberg et al., 2013, p. 5
[430] See: Transformed from a model Leutz (1999) has developed for medical and social services
[431] Quote: Zeithaml, 2000, p. 76
[432] See: Storbacka at al., 1994, p. 33
[433] See: Storbacka et al., 1994, p. 34
[434] See for example LaLonde and Zinser, 1976
[435] See for example Tucker, 1983
[436] See for example McGuinn, 2009
[437] These are partly based on Purmonen et al., 2023
[438] Based on Thomassen, 2002, p. 63
[439] See: Malthouse and Blattberg, 2005
[440] See: Grönroos, 2004, p. 99
[441] See: Payne and Frow, 2004, p. 167
[442] See: Payne and Frow, 2004
[443] Quote: Chen and Popovich, 2003, p. 672
[444] See: Chen and Popovich, 2003, p. 672; Peppers and Rogers, 1999
[445] See: Chen and Popovich, 2003, p. 676
[446] Quote: Chen and Popovich, 2003, p. 672
[447] See: Chen and Popovich, 2003; Payne and Frow, 2004; Ata and Toker, 2012
[448] See: Lambert, 2010, p. 6
[449] See: Paulssen and Roulet, 2017
[450] See: Granovetter, 1992; Paulssen and Roulet, 2017
[451] See: Thomassen, 2003, p. 213
[452] See: McKinsey & Company, 2020
[453] See Purmonen et al., 2023, p. 78
[454] See: Lundin and Kindström, 2023
[455] See for example: Belleghem, 2014

[456] Quote: Cannon and Homburg, 2001, p. 29
[457] Quote: Christopher and Gattorna, 2005, p. 119
[458] See: Ata and Toker, 2012
[459] See: Hogan et al., 2002, p. 4
[460] See: Mithas et al., 2005
[461] See: Van Raaij et al., 2003

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[462] See: Ranta et al., 2020
[463] Quote: Mariadoss et al., 2011, p. 1306
[464] See: Mariadoss et al., 2011
[465] Quote of Carter and Rogers, 2008. See Mariadoss, et al., 2011, p. 1306
[466] See for example Freeman, 1984
[467] Quote: Philips, 1997, p. 52
[468] Quote: Frooman, 1999, p. 193
[469] Quote: Fassin, 2012, p. 83
[470] Quote: Freeman, 1984, p. 46
[471] See: Fassin, 2012; Homburg et al., 2013
[472] Quote: Freeman, 1984, p. 69
[473] See: Husted, 1998; Reynolds et al., 2006
[474] See for example Staniskiene et al., 2019
[475] See for example Ranta et al., 2020; Vesal et al., 2021
[476] See for example Ranta et al., 2020
[477] See for example Vesal et al., 2021
[478] See for example Blenkhorn and MacKenzie, 2017
[479] See: Carroll, 1991 and 2016
[480] See for example: Staniskiene et al., 2019; Lee and Lee, 2019; Vesal et al. 2021; Homburg et al., 2013
[481] See: Homburg et al., 2013
[482] See: Rudawska, 2019

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[483] Quote: Coutelle et al., 2020, p. 2
[484] See: Coutelle et al., 2020; Liozu, 2017
[485] Quote: Hinterhuber, 2008, p. 44
[486] See: Reinartz and Ulaga, 2008
[487] See: Hurkens et al., 2006
[488] See: Ravald and Grönroos, 1996
[489] See: Hogan, 2001
[490] See: Ferrin and Plank, 2002
[491] See: Cannon and Homburg, 2001; Menon et al., 2005
[492] First three quotes: Menon et al., 2005, p. 6/7
[493] See: Menon et al., 2005
[494] Macdivitt and Wilkinson (2012) use these terms (p. 18)
[495] See: Cannon and Homburg, 2001, p. 29
[496] Quote: Ingenbleek, 2014 p. 34; Simon 1989, p. 1
[497] Quote: Töytäri et al., 2017, p. 238
[498] Quote: Noble and Gruca, 1999, p. 436
[499] See: Ingenbleek et al., 2003, p. 291
[500] See for example Ingenbleek, 2014; Raja et al., 2020; Wernerfeldt, 1984
[501] Quote: Hallberg, 2017, p. 180
[502] See: Raja et al., 2020
[503] See for example Anderson et al., 2009; Hinterhuber, 1998; Ingenbleek et al., 2003; Kienzler 2018
[504] See: Liozu, 2017
[505] See: Liozu et al., 2012
[506] See: Hinterhuber, 2008, p. 42; Noble and Gruca, 1999, p. 438
[507] See: Ingenbleek et al., 2003
[508] See: Anderson and Narus, 1999; Ingenbleek et al., 2003
[509] See: Macdivitt and Wilkinson, 2012, p. 110.
[510] See: Ingenbleek et al., 2003

[511] See: Ingenbleek et al., 2003; Hinterhuber, 2008; Kienzler, 2018; Liozu, 2017, Raja et al., 2020
[512] See: Kienzler, 2018; Liozu et al., 2012
[513] See: Liozu, 2017
[514] See: Kienzler, 2018
[515] See: Anderson and Narus, 1995
[516] See: Noble and Gruca, 1999; Smith, 2020
[517] Based on Smith, 2020, p. 487/488
[518] See: Noble and Gruca, 1999
[519] See: Noble and Gruca, 1999
[520] See: Smith, 2020
[521] Quote: Smith, 2020, p. 487
[522] See: Dholakia, 2016
[523] Based on Liozu et al., 2012; Nagle and Holden, 2002, p. 74; Smith, 2020
[524] See: Anderson et al., 2009; Kienzler, 2018
[525] Quote: Anderson et al., 2009, p. 113
[526] See: Dholakia, 2016
[527] Quote: Töytäri et al., 2017, p. 238
[528] See: Dholakia, 2016
[529] See: Dhokalia, 2016
[530] Quote: Smith, 2020, p. 482
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