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Customer Value in Business Markets

An Agenda for Inquiry

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In recent years, there has been a resurgence of interest in the value construct among both practitioners and marketing researchers. The purpose of this article is to introduce the reader to the different articles included in this special issue of Industrial Marketing Management on Customer Value in Business Markets. The issue takes a look at value from three different perspectives: value creation for the customer, value creation for the supplier, and joint buyer–seller value creation. Directions for future customer value research in the area of business marketing are provided. © 2001 Elsevier Science Inc. All rights reserved.

INTRODUCTION

In recent years, there has been a resurgence of interest in the value construct among both practitioners and marketing researchers. This holds especially true in business markets where customers rely on the products and services they buy from their suppliers to improve their own market offering and to increase the overall profitability of their firm. As an example, the mission statement of Exxon Chemical illustrates how business marketers today place customer value at the core of their marketing strategies: "Our mission is to provide quality petrochemical products and services in the most efficient and responsible manner to generate outstanding shareholder and customer value" [1].

Marketing academics have also placed customer value on top of their research agendas. Over the past years, the Marketing Science Institute has consistently included customer value in the list of its research priorities [2]. In the area of business marketing, both the Institute for the Study of Business Markets (ISBM) at the Pennsylvania State University, and the Center for Business and Industrial Marketing (CBIM) at Georgia State University—two major US institutions giving special attention to business-to-business marketing—have integrated customer value research in their research programs [3].

The purpose of this article is to introduce the reader to the different articles included in this special issue of *In-*

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Customer value is a topic of growing interest to managers and researchers in business marketing.

dustrial Marketing Management on *Customer Value in Business Markets* and to provide some directions for future research. I hope that you find the articles as interesting as I have, and that this special issue will serve as an impetus for future inquiry in this field.

ARTICLES IN THE SPECIAL ISSUE

This special issue of *Industrial Marketing Management* takes a look at customer value from three different perspectives (Figure 1). Traditionally, research on value in business markets has been oriented toward the assessment of how suppliers create value for their customers and how customers perceive superior value in a supplier's offering compared to competition (*the buyer's perspective*) [4, 5]. In recent years, both academics and managers have increasingly emphasized the need to consider customers as a key asset of the firm [6]. Attracting, developing and retaining customers—the management of customer equity—can therefore be considered as a second major perspective of customer value (*the seller's perspective*). Finally, many business markets of today are organized as networks. Within these networks, firms jointly create value through relationships, partnering, and alliances [7, 8]. Hence, joint value creation between suppliers and customers can be considered as a third value perspective (*the buyer–seller perspective*).

The perspective of value creation for the customers through the supplier's market offering is examined by the first two articles. In their article "The Initiators of Changes in Customers' Desired Value: Results from a Theory Building Study," Daniel J. Flint and Robert B. Woodruff focus on understanding why customers change what they value from suppliers. The authors present the findings from a qualitative, grounded theory study of changes in customers' desired value in the US automobile industry and develop a theoretical model of the initiators of changes in customers' desired value. The article identifies customer tension as the central phenomenon leading to changes in customers' desired value from a supplier. The authors identify three underlying dimensions of tension: affective strength, perceived extensiveness, and temporal dynamism. They also suggest that there are five environmental change drivers (i.e., changing customer demands, changing demands internal to customers' organizations, competitor moves, changes in supplier demands and performance, and changes in the macro-environment) as well as three current capabilities drivers (i.e., current knowledge levels, performance levels, and control levels) which all create tension at the customer level.

The second article, "Expected Relationship Value: A Construct, a Methodology for Measurement, and a Modeling Technique," by John E. Hogan continues the buyer's perspective and extends the scope of analysis from products and services to understanding how value is created for customers through supplier relationships. The author examines the concept of "expected relationship value" defined as "the perceived net worth of the tangible benefits to be derived over the life of the relationship." To measure customer value creation in the relationship with a supplier, Hogan proposes a quantitative model using a Monte-Carlo simulation to operationalize expected relationship value as a probability distribution of the net present value of current and future relationship outcomes. The author illustrates his methodology by apply-

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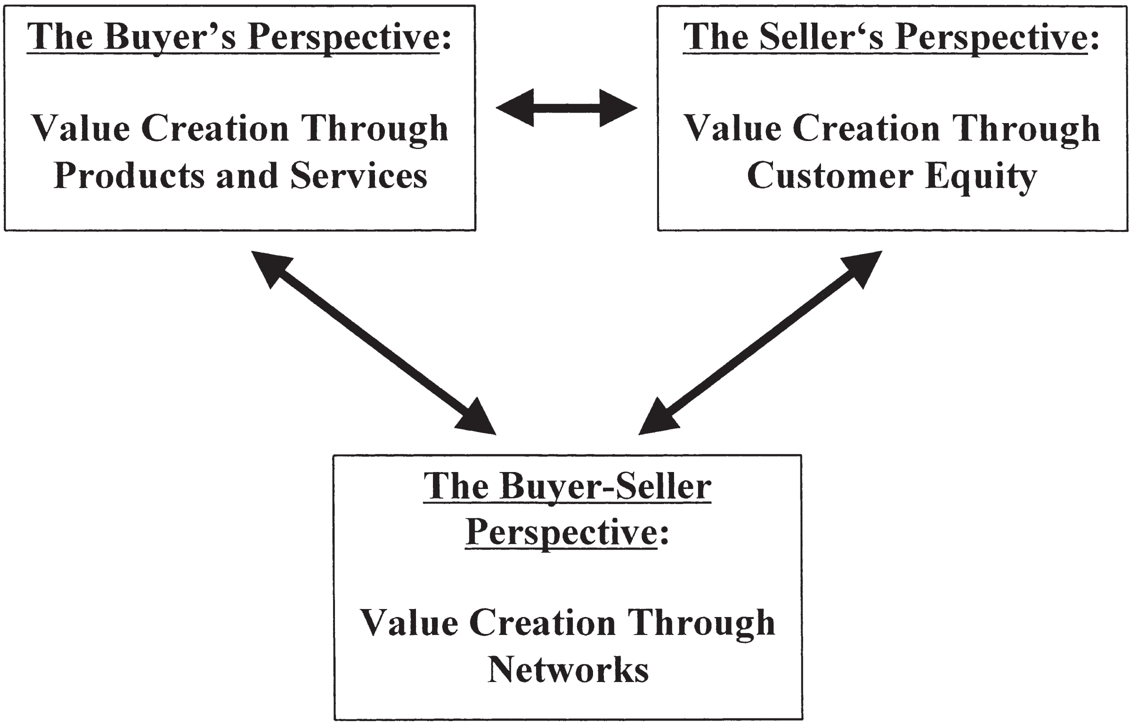

FIGURE 1. **The three perspectives of customer value.**

ing it to a buying firm considering a move from multiple suppliers to a sole source supply arrangement.

The special issue then moves to value creation from the seller's perspective. In the third article "Customer Profitability: Prospective vs. Retrospective Approaches in a Business-to-Business Setting," Fred A. Jacobs, Wesley Johnston, and Natalia Kotchetova examine the literature in the areas of accounting and marketing and discuss major limitations of prevailing "retrospective" models of customer profitability. Based on this discussion, the authors propose a "prospective" approach to customer profitability assessment grounded on a model of information dissemination in an efficient product market. Their model captures not only the profitability of current customers, but also the net present value of future profits from an enlarged customer pool. The article also provides guidelines of how managers should integrate customer profitability measurement in management information systems to improve the allocation of marketing resources.

The next article continues the issue of value creation from the supplier's perspective. In their article "Value Creation in Buyer–Seller Relationships: Theoretical Considerations and Empirical Results from a Supplier's Perspective," Achim Walter, Thomas Ritter, and Hans Georg Gemuenden conceptualize value creation as a set of seven direct and indirect functions of customer relationships based on performed activities and employed resources of a customer firm. The authors present findings from an empirical study indicating that both direct and indirect functions contribute to the value perceived by a supplier. Direct functions of customer relationships include activities and resources of the supplier firm that may create value to the supplier without being dependent upon other (connected) relationships. These direct functions are: the profit function, the volume function, and the safeguard function. Indirect functions of business relationships capture connected effects in the future and/or in other relationships—the wider network. Indirect functions are: the innovation function, the market function, the scout function, and the access function.

The final two articles investigate the third perspective on value creation in business markets: joint value creation through relationships, alliances, and networks (the buyer–seller perspective). In their article "The Future of Competition: Value-Creating Networks," Prabakar Kothandaraman and David T. Wilson develop a rationale for value-creating networks based upon three core building blocks: superior customer value, core competencies, and relationships. Creating superior customer value represents the objective of any value-creating network. The extent of value creation by the network is influenced by the core capabilities of the member firms. Finally, the way the firms in a network combine to create this value is influenced by the nature of the relationships that the firms have between themselves. Thus, the quality of relationships facilitates the creation of value.

One of the main ways to assemble value-creating networks is to develop strong partnerships between firms. The authors propose a classification of firm partnerships and develop a 2×2 matrix of partnering organizations. According to Kothandaraman and Wilson, three dimensions can be used to analyze value-creating networks: scope, depth, and competitive environment. These elements help managers define the firm's position within the network and develop strategies to improve the position over time. This assessment is particularly important within the context of growing business-to-business e-commerce as a potent force in redesigning value-creating networks.

As markets move toward the "information era" the way in which business marketers create and deliver value to their customers is undergoing a fundamental change. In their article "Value Creation in Markets: A Critical Area of Focus for Business-to-Business Markets" Arun Sharma, R. Krishnan and Dhruv Grewal discuss the concept of value migration from the perspective of industries and innovation. They develop a framework highlighting the marketing activities that enhance value creation by business marketers.

Value migration identifies how firms capture growth in revenue, profits, and market valuation from previously dominant firms. This shift is due to the innovative "business designs" of these firms that allows them to capture "value." The authors develop a framework that helps business-to-business marketers to understand value migration and to capture value in their markets. The proposed framework consists of two strategic processes: a management decision process and a value-creation process. The value-creation process is subdivided in three sub-processes: technology delivery, product delivery, and customer delivery. Value-based strategies are outcomes of the value-creation process.

AGENDA FOR FUTURE INQUIRY

Despite the growing body of customer value research in the marketing discipline, more knowledge is needed about the construct and its operationalization, especially in the field of business-to-business marketing. This section aims at developing some guidelines for future inquiry in three domains of customer value research: theory development, measurement techniques, and marketing strategy development and implementation.

From a theoretical point of view, the fundamental question of how to conceptualize value still merits further investigation. For example, most researchers define value as a ratio of benefits received versus burdens endured by the customer. This conceptualization of customer value raises a number of additional questions, especially in a business-to-business context. For example, how to combine monetary and non-monetary benefits and sacrifices? How to distinguish value creation through products and services from the surrounding relationship between a supplier and a customer? What is relationship value and how can it be conceptualized and measured in comparison to product value?

The relationship between customer value and other core marketing concepts represents a second major challenge in the area of theory development. Most researchers agree that customer value is a fundamental construct in marketing theory. However, "only a few articles have studied perceived value as a focal construct" [9]. From a theoretical point of view, it is still not clear how customer value interacts with related marketing variables. What are its antecedents and consequences? How does value relate to constructs such as quality, trust, commitment, satisfaction, and loyalty? For example, researchers have called for an investigation of the relationship between customer value and satisfaction. "Is measuring the satisfaction customers have with a product or service really different from the value they derive from it? If so, what exactly is the distinction? [. . .] Theoretical and empirical research addressing this question is needed to reduce the apparent operational ambiguities surrounding the two constructs and understand their interrelationship" [10]. Initial findings by Eggert and Ulaga [11] suggest that value and satisfaction can be conceptualized and measured as two distinct, yet complementary, constructs. However, more research is needed in this area of value theory development.

In the domain of value measurement, several directions for further research may be identified. Unlike other marketing constructs, customer value is still an empirically under-researched concept. For example, Parasuraman raises the question of "whether it is possible to construct a reliable and valid overall scale of customer value, or whether separate scales [. . .] need to be developed to measure different facets of the construct" [10]. Hence, the development of psychometrically sound measurement scales that capture the multiple facets of the construct represents a major challenge for customer value research.

Further, companies may use multiple sources of customer value information. For example, they conduct value-in-use assessments, survey customer perceptions of value and track past behavior by means of datamining [12]. The integration of these different measurement approaches thus represents a second challenge to market researchers and practitioners alike.

The specificities of organizational buying behavior represent a third challenge to value measurement. In a customer organization, multiple actors are involved in the decision-making process. Hence, a key challenge to value assessment is to capture value perceptions across different members in the buyer's organization. In addition, researchers and managers must understand how customers perceive value across different segments and use situations. Finally, researchers have called for further investigation of how value perceptions of organizational buyers change over time [13, 14].

Most researchers and managers agree that value is a key constituent of marketing strategy development and implementation. It is commonly agreed upon that delivering superior value to customers will lead to superior value of the firm. More research is needed to provide empirical evidence for the positive link between customer value and profitability. Which marketing metrics should be used to assess customer profitability? Are there early warning indicators that help identify changes in customer value perceptions? How to predict and prevent customer defections?

Managerial tools have been developed to assist practitioners in designing and implementing marketing strategies based on customer value [5, 15]. However, more research is needed to investigate how to translate customer orientation and value-based management into marketing action plans. For example, how to design Marketing Information Systems (MIS) that capture multiple sources of information on value perceptions and monitor change over time? How to translate customer value in future market offerings?

Research on customer value is of increasing importance in the marketing discipline. Yet, few researchers have investigated the construct and its operationalization in business-to-business settings. It is hoped that this special issue will contribute to further empirical research on customer value and its relation to other areas in business marketing.

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