Three Ways to Sell Value in B2B Markets

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Three Ways to Sell Value in B2B Markets

Value-based selling can boost margins and competitiveness, but vendors must first advance beyond the prevailing one-size-fits-all approach.

The ability to quantify and communicate value in business-to-business sales is more important than ever before. As customers face pressure to reduce costs while maintaining profitability, and more competitors are digitally enhancing or servitizing their offerings, value-based selling (VBS) has become critical in B2B markets.[1] Yet, when it comes to turning the idea into action, many companies seem to stumble.[2]

A key challenge in VBS is often the confusion and uncertainty about the actual value salespeople are supposed to sell, the outcomes they are supposed to price, and the risks and responsibilities the seller and buyer are supposed to share.[3] While current literature considers VBS as a relatively "one-size-fits-all" approach to sales, it leaves managers clueless about how to apply it in different situations. This is particularly acute in B2B markets, where vendors need different capabilities depending on whether they are selling high-value products, value-intensive services, or performance-based solutions.[4]

Based on our decade-plus of field research with more than 70 firms in a wide range of B2B industries, we suggest that rather than viewing VBS as a single strategy, vendors should choose from three different approaches. Our findings suggest that vendors can adopt either a *product-centric*, *customer process-centric*, or *performance-centric* VBS approach. In this article, we highlight the key characteristics, requirements, and challenges of each approach, and provide guidance on how to choose the right VBS approach depending on circumstances.

The Key Capabilities of Value-Based Selling

VBS is based on demonstrating and documenting the monetary worth of the economic, technical, service, and social benefits a specific customer receives in exchange for the price that customer pays.[5] This is a powerful marketing approach, as ultimately, B2B customers purchase goods and services to reduce their costs or boost their own revenues.

There is general agreement that VBS requires four core capabilities.[6] First, vendors must have a profound understanding of a customer's business model, so that they can move beyond reacting to the customer's articulated needs and identify value drivers that make a substantial impact on a customer's business profits. Second, vendors must build quantified value propositions about the size of the value opportunity compared to the next best alternative, whether that is the customer's current situation or a competitive offering. Third, VBS requires clearly communicating the vendor's ability to deliver promised value, typically via customer references or value guarantees to reduce perceived risk. Finally, vendors must monitor, verify, and document that the estimated and promised value have been realized.

However, many vendors face significant challenges when trying to apply these capabilities in practice. This is because the current understanding of VBS reflects a "one-size-fits-all" mentality and assumes that the VBS works the same way in all situations. But what it lacks is more fine-grained insights into how firms should apply VBS with different types of offerings, customers, or usage situations.

Three Ways to Sell Value in B2B Markets

	Price-centric selling	**Value-based selling**		
		Product-centric view	**Customer process-centric view**	**Performance-centric view**
Value focus	Sell products that meet customer-specified needs Estimated € value-in-use not explicitly expressed	Sell benefits instead of product features Estimated € value-in-use of the offering	Sell process improvements instead of product improvements Estimated € value-in-use of the process improvements	Sell realized performance outcomes instead of potential value Realized € value-in-use in the customer processes
Pricing logic	Cost/competition based	Premium pricing based on estimated value-in-use	Premium pricing based on estimated value-in-use	Premium pricing based on realized value-in-use
Seller role	Providing resources for customer value creation	Providing optimized resources for customer value creation	Facilitating customer's value creation processes	Taking responsibility and bearing the risk for customer's value creation processes
Customer role	Fully responsible for value creation	Responsible for value creation	Co-create value with selling party	Co-create value with selling party
Customer adaptations	None	Minimal product-usage adaptations	Process adaptations	Governance & business process adaptations
Suitable buying approach	Price-focused product-buying	Total cost focus in buying	Long-term business value in buying	Long-term business value in buying
Key requirements	Cost advantage	Product excellence and value communication	Process expertise and value facilitation	Performance optimization and value realization
Key challenge	Commoditization	Product imitation	Continuous improvement and contract renewal	Risk assessment and variable control

In our field research, we have noticed that just deciding to sell value is rarely a sufficient strategy to implement VBS. Instead, successful vendors take a more granular approach and choose a VBS strategy that centers on either product, customer process, or performance (see "Three ways to sell value in B2B markets"). In contrast, vendors with less success in implementing VBS often fall back on a price-centric approach, demonstrating competitive prices and product features rather than the value to the customer's business.

Product-centric VBS is the easiest way for many companies to transition to VBS. This approach still builds on most manufacturers' greatest asset – the product – but shifts the sales pitch from product features to customer benefits. In product-centric VBS, the key idea is that informed by deep customer insights and product expertise, vendors are able to innovate superior offerings that can unlock substantial and measurable cost-reduction or revenue-generation opportunities for customers. As long as the vendor can demonstrate how the estimated business impacts will offset the higher purchasing price compared to the next-best alternatives, it should be able to move into premium pricing. Examples of product-centric VBS offerings are AkzoNobel's paint that enables faster repainting, and SKF's bearings that require less maintenance over their lifetime.

The seller's role is to provide optimized resources for the customer's value creation processes, while the customer remains responsible for the actual value creation. This requires customers to make only limited, product-usage related adaptations, rather than more disruptive process changes or potentially relinquishing some operational control to the supplier. Still, this approach succeeds only if the customer can understand and evaluate offerings based on their total-cost-of-ownership to the whole organization, rather than on immediate price and short-term cost to the purchasing function. Consequently, product-centric VBS requires sellers to identify purchasing managers who are able to understand and prioritize total-cost-of-ownership, or other customer stakeholders (e.g., production, operation, finance) who are interested in organizational bottom line impacts.

Vendors who succeed at product-centric VBS are able to leverage deep customer insights in innovating offerings that can help increase customer revenues or reduce costs in their processes. While this approach is a less drastic departure from traditional price-centric product selling, and is usually relatively easy to implement among the vendor's salesforce, it is still vulnerable to product imitation. Thus, to sustain product-centric VBS, vendors need continuous investments in R&D and customer insights to enhance their offerings' value potential and keep competitors at bay.

Customer process-centric VBS shifts the focus from selling valuable offerings to facilitating valuable improvements in customers' business processes, producing measurable financial benefits. Here, the vendor's role is to educate customers on how to more effectively apply specific resources in their own value creation processes. As with product-centric VBS, as long as vendors can demonstrate how their application expertise can lead to quantified cost savings or productivity gains, they should be able to claim premium prices for their time and resources. Examples of customer process-centric VBS are Kemppi's diagnostics for welding processes, Caterpillar's or Volvo's truck fleet analysis and consultation, and Outotec's smelting and refinery process optimization. All are aimed at increasing process efficiencies, revenues, and/or performance while reducing operating and maintenance costs.

In customer process-centric VBS, value is co-created by seller and customer: the seller actively facilitates value creation through consultative work. Vendors can rarely achieve this without customer inputs such as access to business parameters, application details, or performance data, as well as customers' willingness to commit to process adaptations in areas that vendors pinpoint as ripe for improvement. This approach is appropriate for customers who not only understand the implications of total-cost-of-ownership (beyond individual products) but are also willing to both collaborate with the vendor and enact changes in their wider business processes.

For vendors, the key requirement underlying successful customer process-centric VBS is often accumulated process expertise and a consultative salesforce that has a detailed understanding of the customer's business and usage processes. Since customer process-centric VBS relies on application expertise instead of product innovation, it offers relatively good potential for sustained competitive advantage. A key challenge is that once the customer has learned how to run its processes more efficiently, it becomes imperative — yet increasingly difficult — to find further improvement opportunities to ensure contract renewal.

Performance-centric VBS shifts the selling focus from innovating offerings or delivering process improvements to guaranteeing performance outcomes and realized value-in-use. Here, pricing logic is usually tied to results such as improved productivity, efficiency or availability, or decreased total-cost-of-ownership or total-cost-per-unit. This can sometimes include complex gain-sharing (or pain-sharing) arrangements, where predetermined incentives and penalties are applied if vendors over- or underperform. Customers may find it attractive to tie payments to business outcomes, since it reduces risk and aligns buyers' and sellers' goals. Rolls-Royce's power-by-the-hour agreements for jet and ship engines are a well-known example of this approach; others are Hilti's tool fleet management solutions, Michelin's tire fleet management solutions, and Kemira's total chemical management solutions.

While performance-centric VBS offers potential to deliver the greatest value and highest margins, it is particularly challenging, because vendors not only have to take full responsibility for value creation, but also bear the risks related to value realization. This requires that the seller gains sufficient control for value realization, typically by taking responsibility for selected customer processes. And customers need to be willing to co-create value by giving the seller access to process information and usage data, and agreeing on which responsibilities are critical to value realization. Thus, performance-based VBS is suitable for customers who are willing to outsource some of their (usually non-core) business processes, engage in long-term partnerships, and capable of adapting both processes and governance mechanisms in order to shift some responsibilities to the vendor.

For vendors, successful performance-centric VBS depends on their ability to realize targeted value outcomes, as well as assess and mitigate potential risk. This involves developing and jointly agreeing on relational governance models that define the seller's and buyer's roles and responsibilities for value creation, and how the realized opportunities and emergent risks are shared. A key challenge is to ensure that vendors can understand and control all the key variables that can affect value realization; otherwise, they bear unnecessary risks of guaranteeing outcomes for which they cannot control. Typically, performance-centric VBS is very challenging, and only a few firms have been able to master it. But when successful, it offers strong barriers to entry and lucrative payoffs for both vendors and customers. In many cases, successful firms start with smaller engagements to build customer trust and understanding, and then broaden contracts and increase price levels gradually over time.

Choosing the Right VBS Approach

The three approaches we have discussed describe different ways to sell value in B2B markets. To put our insights into practice, we suggest that vendors pursue the following steps when choosing a suitable VBS approach.

Step 1: Determine your strengths for VBS.

Consider where your unique strengths and key differentiators lie vis-à-vis competitors. Are they in superior technical products, accumulated process expertise and application skills, or ability to manage customer processes for improved performance outcomes? Put differently, can you deliver quantified monetary value by selling better products, better process efficiencies, or guaranteed performance outcomes? Reflect also on whether you have a realistic chance of advancing your strengths into other areas of VBS. Once you have your strengths figured out, you have a better chance of matching them to potential VBS opportunities in your target market.

For example, when competing in a highly commoditized chemicals market, Kemira realized that customers did not always know how to use chemicals correctly, let alone optimally. Instead of continuing to compete on product features, Kemira trained its sales and application managers to look for opportunities to improve the customer's chemical processes. This enabled Kemira to leverage its accumulated chemical applications expertise, and over time, move into selling total chemical management solutions.

Step 2: Identify substantial value creation opportunities in your key target markets.

Analyze the key value drivers in your customers' profit formula. Are they related to costs, revenues, or tied-up capital, or do you see underutilized value opportunities in these areas? Importantly, the three value-based selling approaches offer different potential to impact customer profits: the impact of superior products is usually limited to cost savings, whereas process support can extend to revenue-generation enhancements, and taking over customer processes for guaranteed performance can impact customers' tied-up capital. Once you have identified substantial value creation opportunities in your target markets, you can start charting the right path for implementing the required VBS approach.

For example, when Hilti analyzed how much its customers were spending on purchasing versus owning and maintaining power tools, it quickly realized that tool ownership costs had a much bigger impact on customers' productivity, and shifted its value proposition from selling premium tools to selling Tool Fleet Management Solutions which optimize customers' overall tool ownership costs.

Step 3: Understand what kind of internal adaptations specific VBS approaches require.
Internal resistance is often a major obstacle to VBS, so it is critical to understand what kind of adaptations and change management strategies will be needed to implement different VBS approaches.

Product-centric VBS requires mostly *psychological and cultural adaptations* in salespeople's mindset compared to price-centric selling. While salespeople can still use their product expertise, they need to shift their selling focus from product features to quantifiable benefits, and communicate those to wider target audiences who are usually higher up the customer organization. This can usually be facilitated relatively well by providing sales training, value calculators, and/or new incentive schemes, so that the existing product salesforce can move into product-centric VBS without overwhelming difficulties.

To accomplish this, Peikko, a steel composite beam manufacturer, has retrained its salespeople to focus on easier installations and reduced construction times for its offerings, and to communicate these benefits to stakeholders higher in the value chain, such as investors, architects, and structural designers, who can have a major influence on the customers' buying decisions.

Customer process-centric VBS, on the other hand, requires much deeper *consulting capability adaptations*, in order to advance customers' own value creation processes. While value communication skills are important, they are no longer enough, since salespeople now need a more profound understanding of the customer's business, and the consultative selling skills to detect, discuss and improve the customer's pain points. The reality seems to be that usually only a few product salespeople are able to adopt customer-centric VBS with ease. Hence, to facilitate the adoption of customer-centric VBS, vendors often recruit key individuals directly from their customer industries (to gain customer goal, process, and industry understanding), form sales teams that collectively have the required capabilities, and/or roll out major sales training and service transition programs.

For example, IBM acquired the whole consulting arm of PricewaterhouseCoopers to strengthen its capabilities to sell complex and high-value technology and business services. Alternatively, when

Kone, an elevator and escalator manufacturer, transformed itself into an intelligent building solutions provider, it had to invest in an extensive and firm-wide sales support program, including training programs, value calculators, solution champions, and modular offerings, which provided its existing product salesforce with the tools and skills to tailor solutions to customer needs and sell enhanced building performance and user experiences.

Finally, performance-centric VBS requires major *structural and governance adaptations* beyond the salesforce. For example, when guaranteeing performance outcomes, organizational boundaries become blurred because the vendor needs to be able to manage and optimize customer processes. Consequently, vendors typically assign employees to the customer site or use remote monitoring, to better operate customer processes with or on behalf of the customer.
In addition, vendors often need to set up joint teams with the customer to evaluate and measure performance improvements, and design coordination and incentive structures that ensure seamless collaboration between different functions, both internally and externally. Thus, to facilitate the adoption of performance-centric VBS, vendors need to develop organizational structures that enable boundary-spanning activities, and design clear contracts that stipulate vendor and buyer responsibilities, individual and organizational compensation schemes, and fair value (and risk) sharing.

When Wärtsilä, a provider of marine and energy lifecycle power solutions, made a shift from selling diesel engines to optimizing cruise fleet performance, it had to establish a new pool of engineers who were trained to take over the engine maintenance work previously done by the customer, and use data analytics and IoT software to monitor engine efficiency in real-time. In addition, Wärtsilä had to set up a contract where compensation and risk-sharing were based on realized engine performance, and measure the results regularly with the customers.

Step 4: Identify and prioritize customers who are able and willing to buy value.
Not all customers are responsive to VBS, and even those who are might find buying value over price challenging. Given that VBS is costly to implement, and the cost-to-serve increases when moving towards more complex VBS approaches, vendors need to exercise careful customer segmentation and prioritization to ensure VBS remains profitable. In this regard, vendors should consider target customers' ability and willingness to buy value.

Buying value over products and services requires purchasing expertise, and more so when moving into more advanced forms of VBS. At the minimum, buyers need to be able to understand total-cost-of-ownership and long-term organizational performance implications, as well as potential risks related to value realization. Thus, target customers must have individuals who can claim value for the organization, instead of just immediate savings for the purchasing function through reducing prices. In addition, sellers need to find customers with sufficiently powerful buying center that is able to understand and support the required changes by aligning the organization for value realization. If the customer's existing organizational or buying culture is too rigid or inflexible, it might be too difficult and/or costly to make the changes needed to realize the identified value potential. In these cases, it is equally important that vendors understand which customers are not a good fit for VBS, even though they might look promising on paper.

While the characteristics above are not always easy to determine and may depend on the situation, successful vendors tend to look at the size of the value opportunity and access to senior decision-makers higher in the customer organization. When both are high, vendors have a better chance of convincing customers of the benefits of VBS and facilitating the changes needed for value realization in customer organizations. In contrast, if either is low, customers have less motivation to consider new approaches.

Finally, vendors should not only focus on targeting customers who understand value, but also proactively try to influence buyers' understanding of value. For example, digitalization has given buyers extensive access to information, online tools and digital platforms where they can compare and calculate the value of alternative offerings. Thus, vendors should ensure that they share content on the potential value and total costs of ownership of their offerings, in those channels that buying center members use to search for information on their business problems. For example, firms like Hilti and 3StepIT use value calculators, white papers, and industry case studies in their websites to help customers understand the real (and hidden) costs of owning power tools or IT equipment.

Vendors tend usually to encounter two common pitfalls when approaching and segmenting potential customers. The first is to push overly sophisticated VBS approaches right off the bat. This is not only very expensive and resource-intensive for the vendor, but often requires changes from the customer that are too drastic to be accepted. A more feasible approach is often to start with small improvements that require fewer changes, and then move into a more complex VBS arrangement gradually over time, as both parties learn how it impacts the customer's value creation processes. The second pitfall is to target only those customers who have the financial means to pay a premium for VBS, while overlooking those with less investment power. However, sometimes customers with tight budgets may be particularly receptive to value-based pricing schemes, which, instead of large lump sums, ask little or nothing upfront, and tie future payments to realized cost savings or additional revenues.

Conclusion

While vendors can pursue more than one approach to VBS at the same time, they usually start from product-centric VBS, and transition gradually towards more complex approaches. Since the capabilities and required organizational changes for each VBS approach are cumulative in nature, starting from simpler approaches is not only easier and less resource-intensive, but enhances subsequent efforts to move to more complex VBS approaches. Only by understanding the key requirements for different VBS approaches can vendors eventually turn the idea into action and apply a strategically suitable VBS approach in different situations.

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About the Research

- Since 2010, we have collaborated with more than 70 companies in a wide range of B2B industries. Some are advanced at VBS, while some were just beginning to invest in the approach.
- We relied primarily on inductive research methods, and more than a hundred semi-structured interviews with senior decision-makers to elicit managerial insights into the key strategies, practices, and challenges of VBS.
- We supplemented the field interviews with managerial workshops, roundtables, and some longitudinal observations of the outcomes of specific VBS initiatives.