Customer Value Assessment Practices in Business Markets

*Joona Keränen, Lappeenranta University of Technology. joona.keranen@lut.fi
Anne Jalkala, Lappeenranta University of Technology, anne.jalkala@lut.fi

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Abstract

The development of holistic frameworks for customer value assessment is one of the most vital areas for business market research. This paper reviews various literature streams in order to identify relevant customer value assessment practices in business markets. Based on the findings, we categorize customer value assessment practices into backward-looking and forward-looking practices, and propose how these practices can be integrated into a holistic framework. The paper contributes to the research on customer value by identifying relevant customer value assessment practices in business markets, and by categorising these into backward-looking and forward-looking practices, this paper makes an initial step towards integrating different value assessment practices into a holistic framework for systematic customer value assessment.

Introduction

Delivering superior customer value is of vital importance to business suppliers, and this is well echoed in the current business marketing literature (e.g. Anderson, Narus, and van Rossum, 2006; Woodruff, 1997). Given the highly competitive nature of business markets, buyers are being increasingly driven by costs, thus making it imperative for suppliers not only to be able to provide superior value, but also to be able to demonstrate and document the value they are providing (Anderson, Narus, and van Rossum, 2006). The understanding of customer value is critical to firm performance (Woodruff, 1997), and the topic has received increased attention in business markets (e.g. Lindgreen and Wynstra, 2005; Ulaga and Eggert, 2006). Customer value management is centered on delivering superior value and getting a fair return for it, both which are capitalized through value assessment (Anderson and Narus 1998).

However, value assessment is a challenging task, and in practice, only few suppliers are able to make credible customer value assessments (Anderson, Narus, and van Rossum, 2006; Wouters, Anderson, and Wynstra, 2005). Traditionally industrial firms have used value assessment practices that work best with non-technical products, but have difficulties with estimating the value of complex and service-intensive offerings (Anderson et al., 1993). In practice, value assessment represents an “Achilles heel” for many industrial firms who combine products and services into hybrid offerings (Ulaga and Reinartz, 2011). The development of holistic frameworks for customer value assessment is viewed as one of the most important areas for future research (Payne and Holt, 2001), but literature lacks understanding about systematic approaches that integrate different value assessment practices into a holistic framework (Payne and Holt, 2001; Sawhney, 2006; Ulaga, 2001). Accordingly, the purpose of this paper is to address this gap and 1) identify relevant customer value assessment practices in business markets, and 2) propose how these practices can be integrated into a holistic framework for systematic customer value assessment.
Value in Business Markets

Suppliers can claim value in business markets in a variety of ways, for example, by enhancing the core offering, providing supplementary services or decreasing operating costs, risk of failure or the purchasing price (Menon, Homburg, and Beutin, 2005; Ulaga and Eggert, 2006). Traditionally value has been considered to be derived from the product itself as a value-in-exchange, but paced with service-dominant logic (Vargo and Lusch, 2004), recent literature has shifted towards emphasizing value-in-use (Vargo and Lusch, 2008; Grönroos 2011). In this view, the role of services becomes central, as they enable the supplier’s continuous involvement in the customer’s operations (Reinartz and Ulaga, 2008), and provide a greater potential for differentiation (Ulaga and Eggert, 2006).

Customer value in business markets can stem from multiple sources, but in general, literature suggests that value is a trade-off between all the relevant benefits and costs delivered by an offering through its lifetime (Ulaga and Eggert, 2006). In addition, value is context-bound subjective perception, determined by customer, not by supplier (Vargo and Lusch, 2008; Woodruff, 1997) and evaluated in relative to competitive offerings (Ulaga and Chacour, 2001). For customer value to be commensurable, literature suggests defining it in monetary terms (Anderson and Wynstra, 2010). Thus, we adopt the Anderson, Jain, and Chintagunta’s (1993) definition of customer value as “the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers’ offerings and prices”. Drawing from Payne and Holt (2001) and Sawhney (2006), customer value assessment practice is defined here as a method, tool or procedure for measuring, estimating, documenting or demonstrating the delivered and potential customer value.

A Review of Value Assessments Practices

The development of holistic frameworks for customer value assessment represents a major challenge for customer value research (e.g. Payne and Holt, 2001; Payne and Frow, 2005; Ulaga 2001), but customer value is also increasingly relevant in other disciplines, including purchasing, service management, strategy, finance, marketing, and accounting (Corsaro and Snehota, 2010; Grönroos, 2011; Wouters, Anderson, and Wynstra, 2005). Hence, we adopted a multidisciplinary approach, reviewing various streams of relevant literature with the aim to identify the most relevant customer value assessment practices in business markets. In the following, we categorize the identified customer value assessment practices into backward-looking practices, which are used to measure the already delivered customer value, and forward-looking practices, which are used to estimate the potential customer value of the supplier’s offering in customer specific setting prior the actual purchase.

Backward-Looking Customer Value Assessment Practices

Based on their empirical study, Ulaga and Chacour (2001) develop a value measurement tool, customer value audit, to help suppliers to measure their delivered customer value. Customer value audit measures customer value based on the difference between the client’s expectations and actual perceptions of performance, and then positions the evaluated performance against competitors in a value map. Although customer value audit helps suppliers to determine their competitive position, it measures only product quality against price, and ignores the total monetary impact to customer’s business.
In their state-of-practice study Anderson, Jain, and Chintagunta (1993) studied the usage of different value assessment practices in the largest industrial firms in U.S. The study found out that focus groups and importance ratings were the most widely used practices, but that neither of these was considered sufficient as a stand-alone practice. The study concluded that industrial firms tend to prefer practices that work best with simple and non-technical products, but have difficulties with estimating the value of complex and service-intensive offerings (Anderson, Jain, and Chintagunta, 1993). Later, Anderson, Narus, and van Rossum (2006) found that leading suppliers can demonstrate the delivered customer value by using value case histories, which illustrate the actual value that the firm has delivered to its reference customers. Previous customer deliveries are a strong indicator of supplier’s performance potential (Möller and Törrönen, 2003), but leveraging value case histories requires supplier’s systematic efforts to document the delivered customer value (Jalkala and Salminen, 2010) and the customer’s willingness to share relevant information about the received benefits.

Finally, there is also a myriad of financial metrics in the accounting literature, typically used to measure investment performance, such as return-on-investment (ROI), net-present value (NPV), discounted cash-flows (DCF), benefit-to-cost ratio and benchmark studies (e.g. Eccles, 1991; Kaplan and Norton, 1992; 2001). Although NPV and DCF in particular deal with future earnings, financial metrics are considered to emphasize past performance (Eccles, 1991). The problem with traditional financial metrics is that they are getting obsolete with complex investments, and they are limited to income-based information, ignoring operational performance, quality, and other non-financial measures (Kaplan and Norton, 1992; 2001).

**Forward-Looking Customer Value Assessment Practices**

Anderson and colleagues (1998; 2006; 2008) report that best-practise suppliers can estimate the potential customer value in advance by using value calculators and customer value models. Value calculators are typically IT-based applications, which demonstrate the likely outcome from the supplier’s offering with the support of customer data, and customer value models are summaries of value word equations, expressing the monetary differences between competing offerings. However, demonstrating value in such way requires detailed understanding of customer’s business and an extensive amount of customer data, and has proven to be difficult and time-consuming in practice (Anderson, Kumar, and Narus, 2008). Another way suppliers can estimate the potential customer value is by conducting pilot programs at customer’s facilities (Anderson and Wynstra, 2010). Pilot programs require intimate cooperation with customers, being often costly and time-consuming, but they allow customers to get “tangible evidence of the value that an offering would deliver in their operations” (Anderson and Wynstra, 2010), and they provide the supplier with firsthand data on the performance of its offering (Anderson, Narus, and van Rossum, 2006). In addition, successful pilot projects can be later used as value case histories, demonstrating the delivered customer value.

A total cost of ownership (TCO) analysis, an application of activity-based costing, is discussed widely in the purchasing and supply management literature, (e.g. Carr and Ittner, 1992; Wouters, Anderson, and Wynstra, 2005). TCO analysis is a strategic cost accounting tool, which aims to systematically estimate all the costs related to purchasing and operating a system over its full life-cycle (Ellram, 1995; Roodhooft, Van den Abbeele, and Peeters, 2006). Depending on the purchase situation, TCO analysis can utilize either monetary-based, more qualitative value-based or mathematical decision model -based approach (Hurkens, Van der Valk, and Wynstra, 2006). While TCO analysis is focused at estimating total costs, it gives no consideration to benefits, thus possibly ignoring a more value-wielding, yet
expensive alternative. Although TCO analysis is applicable to any type of purchase, its usage is limited in practice, due to the complexity of account systems and lack of detailed data (Ellram and Siferd, 1998). Table 1 summarizes the identified value assessment practices.

<table>
<thead>
<tr>
<th>Value Assessment Practice</th>
<th>Literature base (selected authors)</th>
<th>Key weaknesses</th>
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<tbody>
<tr>
<td>Backward-Looking Customer Value Assessment Practices</td>
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<tr>
<td>Customer value audit</td>
<td>Customer value (Ulaga and Chacour, 2001)</td>
<td>Focus on products, measures quality but ignores the total monetary impact to customer’s business.</td>
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<td>State-of-practice study in business markets</td>
<td>Customer value (Anderson, Jain and Chintagunta, 1993)</td>
<td>Indicates preferences and rankings instead of monetary estimates, has difficulties with complex offerings and services elements.</td>
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<td>Value case histories</td>
<td>Customer value (Anderson, Narus, and van Rossum, 2006)</td>
<td>Requires systematic documentation and customer’s willingness to share knowledge.</td>
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<tr>
<td>Financial metrics, e.g. ROI studies</td>
<td>Accounting (Eccles, 1991; Kaplan and Norton, 1992; 2001)</td>
<td>Obsolete with complex investments and limited to income-based information.</td>
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<td>Forward-Looking Customer Value Assessment Practices</td>
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<tr>
<td>Value calculators, customer value models</td>
<td>Customer value (Anderson, Narus, and van Rossum, 2006; Anderson, Kumar and Narus, 2008)</td>
<td>Requires a deep understanding of customer’s business and an extensive amount of customer data.</td>
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<tr>
<td>Pilot programs</td>
<td>Customer value (Anderson and Wynstra, 2010; Anderson, Kumar, and Narus, 2008)</td>
<td>Requires intimate cooperation with customers, and is often costly and time-consuming.</td>
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<td>Total cost of ownership</td>
<td>Purchasing and supply management (Carr and Itiner, 1992; Wouters, Anderson, and Wynstra, 2005)</td>
<td>Considers only costs but ignores benefits, requires complex account systems and detailed customer data.</td>
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Towards a Holistic Framework for Systematic Customer Value Assessment

A number of relevant value assessment practices are present in the current literature, but their practical applications, considering especially technically complex and service-intensive offerings, are limited. With the exception of value case histories, backward-looking practices are designed mainly for individual products, not for complex business offerings, and as such, they have difficulties with accounting the value of services. In addition, they tend to measure subjective preferences which are difficult to translate into monetary estimates. On the other hand, forward-looking practices require a profound understanding of customer’s business and an extensive amount of customer data, and are often difficult and time-consuming to conduct.

Consequently, there is a need for holistic frameworks to assess customer value (e.g. Payne and Holt, 2001; Payne and Frow, 2005; Ulaga, 2001), and as pointed out by Sawhney (2006), and Ulaga and Reinartz (2011), value assessment represent a critical capability for industrial firms providing complex and service-intensive offerings. Accordingly, we propose that suppliers should use both backward-looking and forward-looking value assessment practices systemically in combination to accurately measure and estimate the customer’s potential gains from their offerings (Fig. 1). These practices are strongly recursive and closely interrelated as forward-looking practices estimate the customer’s potential gains from using the supplier’s offering prior the purchase by using documented customer data and knowledge from the previous customer deliveries, and backward-looking practices measure and document the actual value received by the customer after the purchase. By systemically developing and adjusting their forward-looking value assessment practices based on the documented customer data, suppliers can increase the accuracy and credibility of their value estimations. In addition, by documenting and confirming the prior-purchase value estimations with backward-looking value assessment practices, suppliers can demonstrate that their offerings are actually delivering what was promised, thus ensuring an equitable return on the delivered customer value (Anderson, Narus, and van Rossum, 2006).
Conclusions

We have reviewed the existing literature on different value assessment practices in business markets, and based on the review, we have categorized relevant customer value-assessments practices into backward-looking and forward-looking practices. Backward-looking practices include value audits, value case histories and ROI studies from reference customers. Forward-looking practices include pilot programs and IT-based tools that are designed to evaluate the potential cost savings or additional revenue that customers can gain from the supplier’s offering. Consequently, we have proposed that suppliers should use both backward-looking and forward-looking value assessment practices systematically in combination to accurately measure and estimate the customer’s potential gains from their offerings. This study advances the research on customer value in business markets (Anderson, Narus, and van Rossum, 2006; Ulaga and Chacour, 2001) by identifying relevant customer value assessment practices. In addition, by categorising the identified practices into backward-looking and forward-looking practices, this paper makes an initial step towards responding to the calls to integrate different value assessment practices into a holistic framework for systematic customer value assessment (Payne and Frow, 2005; Sawhney, 2006; Ulaga, 2001).

We do not claim that the proposed framework would be comprehensive; rather, it provides a foundation for future work, which will hopefully both test and expand this framework. A natural next step would be to empirically develop this framework further, and then test it with cross-sectional survey research data. Another interesting research avenue would be to explore the key processes and related activities involved in a systematic customer value assessment (c.f. Payne and Frow, 2005). This would provide an initial understanding of the necessary steps to determine the customer value of the supplier’s offering, and it could be used as a roadmap to guide managerial actions. Firms with a superior understanding of the key processes and activities related to systematic customer value assessment can create value propositions that not only promise but also credibly deliver greater customer value than competing offerings, enabling them to potentially reap higher margins and larger customer share.
References


