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CLOSER TO A WIN-WIN SITUATION? CHANGES IN THE SALESPERSON-CUSTOMER RELATIONSHIP WHEN IMPLEMENTING VALUE SELLING

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ABSTRACT

Value selling is often presented to be the most profitable and competitive sales practice in business markets. This paper argues that the relevant theory does not consider the consequences of introducing value selling for the relationship between the individual salesperson and buyer. This is problematic since the literature assigns most responsibilities within value selling to the salesperson. The purpose of this paper is to understand how implementing value selling changes the salesperson-customer relationships. In a case study of two manufacturing firms and their implementation of value selling two changes have been identified. Firstly, value selling results in enhanced customer relationships, due to the salesperson's improved understanding of the customer's situation. Secondly, it leads to a stronger power position for the salesperson because of a decreased focus on prices and increased focus on value in the discussions with the customer.

INTRODUCTION

Sales researchers seem to agree about the idea that business sales is not about selling products, services or product bundles anymore, but about selling value. Whether it has been framed as consultative selling (Hanan, 2004; Liu et al., 2001), solution selling (Bonney & Williams, 2009; Bosworth, 2002; Eades, 2004; Sharma et al., 2008) or value selling (Kaario et al., 2004; Rose, 1991; Terho et al., 2012) the notion is the same: The sales force should create monetary value for the customer. The intention behind selling value is not only to maintain the customer whose expectations go beyond product delivery (Geiger & Guenzi, 2009; Rose, 1991), but also to capture more value for the own company through a value-based price (Anderson et al., 2007; Hinterhuber, 2008). A value selling practice is often advocated as the most profitable one compared to more traditionally selling practices (Cannon & Morgan, 1990; Hinterhuber, 2008; Rackham & DeVincentis, 1999).

Most of the literature designated to this topic provides help for practitioners on how to implement value selling. One part of the literature discusses how value selling should be done by the individual salesperson, which includes the necessary steps and skills (Hanan, 2004; Kaario et al., 2004; Rackham & DeVincentis, 1999; Rose, 1991; Terho et al., 2012). The other part provides insights for management on how to implement value selling in the sales force, that is the necessary tools and systems that need to be in place and the training as well as motivation of the sales force (Anderson et al., 2007; Hinterhuber, 2008; Kaario et al., 2004). The relevant discussions deal primarily with the struggle that companies face with the implementation, especially with regard to the value capture. It has been suggested that problems with implementation are due to a lack of top management support and mismanagement of the sales

force (Hinterhuber, 2008).

Based on best practice examples (e.g. IBM) the literature argues that value selling, when implemented successfully, is profitable for businesses. Even though increased profitability is the main benefit and the ultimate goal of a company, one could expect other benefits of implementing value selling for the company and the salespeople, for example relationship effects (Terho et al., 2012). To the best of our knowledge, there is no study that investigates the customer relationship in the light of value selling. Hence, the introducing of value selling on the relationship between the individual salesperson and buyer are currently still neglected. This is problematic since the literature assigns most responsibilities within value selling to the salesperson.

In order to expand our understanding of the consequences for the supplier company to implement value selling, the purpose of this paper is to understand possible effects on the salesperson-customer relationships. These insights will not only contribute to expand the academic discussion on value selling, but also give a broader perspective on the benefits of value selling for businesses beyond the pure profitability argument. Finally, it will provide managers with important knowledge for the challenge to create a value selling sales force.

After the review of and positioning within the relevant literature, we present our qualitative case study of two case companies that have successfully implemented value selling. Based on our empirical findings from in-depth interviews with salespeople and managers, we detect the salespeople's perceived changes in the customer relationship.

THEORETICAL FRAMEWORK Effects of value selling

Based on best-practice examples, value selling is considered a successful way for those manufacturing companies that struggle to differentiate based on their products to increase their margins (Anderson et al., 2007; Cannon & Morgan, 1990; Hanan, 2004; Hinterhuber, 2008; Kaario et al., 2004; Rackham & DeVincentis, 1999). The idea of value selling is that the salesperson identifies and implements improvements for the customers that increase the customer's profitability. Hence, the aim of value selling is to create positive effects for the customer with regards to attainment of business goals, market and financial performance. Based on these effects, salespeople can expect increased sales at higher profit and the supplier company is expected to capture more value and increase profitability through higher prices and therewith improve the own profitability. Even though increased profitability is the main benefit and the ultimate goal of a company, one could expect other benefits of implementing value selling for the company and the salespeople. Some suggested relationship benefits are customer satisfaction, loyalty, share of wallet, reduced price sensitivity and a stronger relationship (Terho et al., 2012). The other effects of value selling for the supplier company are hardly discussed.

The value selling process

Within value selling literature, the customer value is monetary, achieved either as increased benefits or decreased costs. Hence, *'value in business markets is the worth in monetary terms of the technical, economic, service, and social (net) benefits a customer firm receives in exchange for the price it pays for a market offering.'* (Anderson et al., 2007:24). The price is therefore not a part of the customer value, but it is what he/she pays in exchange for an offering. A change in price does not change the customer value, that is the set of benefits of an offering, but the customer's willingness to purchase (Anderson et al., 2007).

Value selling is usually discussed in three steps, understanding of the customer's business, crafting the value proposition or communicating value and the value capture (Anderson et al., 2007; Kaario et al., 2004; Terho et al., 2012). *Understanding the customer's business* means to know the goals and strategies of the customer, the customer's production processes and even to understand the customer's customer (Hanan, 2004; Rackham & DeVincentis, 1999; Rose, 1991). Gaining this knowledge is considered the most crucial precondition to be able to do value selling and it is not easy to always get the information, as it requires involvement of the customer. Hence, to be able to do value selling the buyer needs to be willing to partner and see value in the relationship (Kaario et al., 2004).

In order to *communicate value*, the salesperson needs to quantify the value created for the customer. This requires customer information and salesperson experience and can be enriched by market studies or information systems (Kaario et al., 2004; Terho et al., 2012). The value proposition is formulated by comparing the product with the customer's next best alternative and identifying the most significant point of difference in terms of customer value (Anderson et al., 2007). This approach to value communication is considered crucial in order to achieve the credibility and persuasiveness that is necessary to capture value (Anderson et al., 2007; Terho et al., 2012).

Finally, there are different options to *capture the value*. A price premium, hence a better profit margin, is however the most common way for businesses that do value selling to get a fair return on their efforts (Anderson et al., 2007). The idea is to get a price that is in relation to a market offering's value, hence a value-based price (Anderson et al., 2007): *'In perceived value pricing, the vendor assesses the value of the product to each customer and charges a price based*

upon the customer's perceived value of the attributes of the product offering that each receives.' (Kortge & Okonkwo, 1993:133). It can be value delivered to a predefined segment of customers (Hinterhuber, 2008; Morris & Calantone, 1990) or to each individual customer (Cannon & Morgan, 1990; Monroe, 2003). What is important is that it is measurable. A suggested method to calculate the price is the economic value of the product to the customer (EVC) (Forbis & Mehta, 1981). According to EVC, the maximum amount the customer is assumed to be willing to pay is, thus, equivalent to the price of the alternative product plus or minus the aggregated difference in value provided by the differentiating features of the focal product, such as difference in productivity, cost for maintenance or product life-time productivity. Taking into consideration the customer's incentive to purchase the new offering rather than staying with the current alternative, the price should be lower than the total customer value created. In short, Price (offering) < Price (alternative) + Δ Value (offering, alternative) (Anderson et al., 2007:153).

The implementation of value selling

Many companies still face a major challenge in implementing value selling (Hinterhuber, 2008). The literature identifies several crucial aspects that the management needs to consider when implementing value selling successfully. These are training, support systems, culture and motivation.

At the beginning of value selling implementation, the company usually introduces processes and systems that will be followed by trainings with success stories and role-playing exercises. Putting a sales process into place aims to turn a tacit process into explicit knowledge and make the change in the working processes visible. One example of such a value selling process is a) understand the customer business process, b) innovate process enhancement, c)

quantify business impacts, d) deliver & implement, e) verify business impacts (Kaario et al., 2004). An important part of the training is to convince the salespeople of the fact that with value selling they are able to sell more, increase the closing rate and diminish the price discussions (Anderson et al., 2007).

The culture of a company is an evident factor that influences the success of value selling implementation. Anderson et al. (2007) propose that a salesperson's title strongly forms the image of the salesperson that the customer gets and the salesperson holds about him/herself. Hence, if the salesperson should become a value creator, the traditional rather negative image of the extroverted, pushy salesperson that tries to sell anything needs to be changed (Avlonitis & Panagopoulos, 2010). As it is discussed in branding literature, the work of champions or in this case, sales councils promoting the idea of value selling, can have strong influence in forming the culture.

Finally, motivation of the sales force has received much research attention (Plouffe et al., 2008), also because the salesperson is different from other employees due to his/her boundary-spanning and isolated position. Empirical studies comparing behavior versus outcome control systems have shown that behavioral control encourages more intrinsic motivation (Baldauf et al., 2001; Cravens et al., 1993; Oliver & Anderson, 1994), long-term customer relationships (Slater & Olson, 2000), understanding of customers' needs (Cravens et al., 1993; Slater & Olson, 2000) and achieving high customer satisfaction (Cravens et al., 1993). In general, it seems that a combined behavior and outcome-based control system is positively related to sales growth and profitability (Babakus et al., 1996; Baldauf et al., 2001; Cravens et al., 1993). Whether outcome or behavior-based control is more suited for value selling is however not clear. With regard to

the outcome-based control system there is agreement between researchers that the sales representatives should be rewarded based on gross profit margin, not just revenue (Hinterhuber, 2004, 2008; Marn et al., 2004; Nagle & Hogan, 2006; Vogel et al., 2002). The problem is otherwise that the salespersons will focus purely on the number of orders and order volume, instead of profitability, and give too many discounts (Joseph, 2001; Mishra & Prasad, 2005). This is linked to the discussion whether the salesperson should have the pricing authority or whether it should be centralized. This discussion is to date still inconclusive, as the argument for delegating pricing to the salespeople because of their knowledge advantage (Frenzen et al., 2010; Lal, 1986; Richards et al., 2005; Weinberg, 1975) and potential motivation effects (Dolan & Simon, 1996) stands against the fear of an inconsistent image to the customer and too many discounts (Joseph, 2001; Mishra & Prasad, 2005).

The review of the literature on value selling and value-based pricing shows that the current insights assume the improved profitability of the supplier company and address mostly company internal aspects with regard to how value selling should be conducted and organized. As a consequence, it hardly discusses any other effects of value selling, for example with regard to the individual salesperson's work and his/her relationship with the customer. This is in line with the overall lack of qualitative, explorative research on the salesperson's individual level (Plouffe et al., 2008; Williams & Plouffe, 2007).

METHOD

In order to address the question how the implementation of value selling changes salesperson-customer relationships, we have conducted a case study (Eisenhardt & Graebner, 2007; Yin, 2009). Case studies are in particular relevant when the purpose is to explain *how* a

defined action is linked to one or many operational outcomes (Yin, 2009). The decision to study B2B manufacturing firms within mature industries was made due to the relevance and importance of value selling in these particular industrial settings. Companies that act within mature markets are often faced with the challenge of commoditization and, consequently, an increasing pressure to reduce price. They are often urged to strive for differentiation through other means than product differentiation, such as customer relations. We decided to study Gamma and Delta since they were able to successfully implement value selling between 2008 and 2011. Here, successful means that according to the management, the new value selling practice has resulted in an improved ability to appropriate the customer value created at both Gamma and Delta. As seen in Table 1, both companies offer standardized and semi-customized products, meaning that modules are used to a large extent but product design and material composition varies between customers. Both firms price their product in the high-end segment and differentiate themselves relative to the competitors based on customer service, product design and a wide product portfolio. The main difference between Gamma and Delta is the bargaining power of the customers (see Table 1). In the case of Gamma, the bargaining power of the customers is relatively high, since the competitors offer similar products and the cost for changing to a competitor is low. For that reason, the pressure on Gamma to reduce prices is very high. In the case of Delta, the bargaining power of the customers is relatively lower since the customers have to make substantial, costly changes in their production facilities if changing to a competitor. However, the high switching costs for customers if changing to a competitor were something that the firm realized as a result of the implementation of the value selling practice. In other words, prior to the change of selling practice, Delta believed that the customers had much higher bargaining power. For that reason, Delta had for years assumed that the pressure from

competitors to reduce prices was high.

Table 1 Overview of the two case companies

	Gamma	Delta
Industry	Construction and infrastructure	The transportation and military sector
Geographical coverage	International, focused on the European market	National, focused on the North American market
Turnover	Euro 29 million (2009)	Euro 45 million (2009)
Number of employees	200	240
Price segment	High end	High end
Market position	Market leader in Europe	Market leader in North America
Product portfolio	1 900 articles (65% semi-customized)	1 500 articles (80% semi-customized)
Competitors' characteristics	Smaller firms that compete within relatively smaller geographical regions, offering relatively small product portfolios	Smaller firms that offer relatively smaller product portfolios
Customer base	A mix of larger firms purchasing for relatively larger amounts and smaller players	Mainly smaller firms
Number of customers	700	1000
Customers' bargaining power	Relatively high since the market is mature and the cost for changing to a competitor is low.	Relatively weak since the cost of changing to a competitor is high.
Product differentiation (relative competitors)	Achieved based on technical service, R&D, the ability to offer a wider product portfolio and the quality of the material	Achieved based on technical service, R&D, the ability to offer a more product portfolio and the quality of the material
Barriers to entry	Low, due to the high intensity level of the market	Relatively high due to technical competence that is required

The project of implementing value selling at Gamma was studied longitudinally. We made our first visit to the head office of Gamma in January 2009, shortly after the project had been initiated, and interviewed the sales manager and sales representatives. A follow-up visit, with more interviews, was made in January 2012. In between our visits we had phone interviews with the Sales Manager regarding the progress of the project. The implementation process of Delta was studied in retrospective. Our first interview with the Sales Manager was made in October 2010, shortly after the project was formally finished, and the sales representatives and management consultant involved in the project were interviewed throughout 2011. The advantages with the combination of longitudinal studies and retrospective studies is that it provides the researcher with complementary data, since retrospective cases allow the research to identify the sequential pattern of the change process ex-post, whereas the longitudinal study allows the researcher to observe when these patterns occur over time (Leonard-Barton, 1990).

The data has been collected through interviews and documents (e.g. reports related to the value selling implementation project, presentation material for internal use, internal training material and external consultancy reports). Fourteen individuals were interviewed, eight at Gamma and six at Delta. The respondents held such positions as sales manager, sales representative and external management consultant (hired by Delta during the project of implementing the value selling). The interview questions covered the project of implementing value selling, procedures for defining and communicating the customer value, customer

relationship management, value-based pricing and the competitive situation (see Appendix). Each interview lasted between one and three hours and was recorded and transcribed.

Data analysis

The transcribed interviews and the relevant data from the documents were first structured chronologically, according to the projects of implementing value selling at each firm. In the following, the case descriptions were structured according to prior constructs (Eisenhardt, 1989:536) such as procedures for defining customer value, communicating customer value and capturing value. From the analysis of the changes perceived by the individual salesperson in the relationship, two major themes have emerged, *enhanced relationship* and *stronger power position.* Our empirical findings are only based on two cases and therefore the findings cannot be statistically generalized. Nevertheless, analytical generalization can be drawn from a small number of cases (Yin, 2009).

IMPLEMENTING VALUE SELLING AT GAMMA AND DELTA

This section describes the projects of implementing value selling at Gamma and Delta.

Gamma

In October 2008, a new Sales Manager with an academic and professional background in sales and marketing joined the company. The first thing he observed was that even though nearly all of the salespersons had several decades of experience they had in his eyes a weak understanding of what Gamma's products offer to the customers. He said: *"All companies say: 'We have know-how'. But, especially in our case: 'What does know-how mean? In which specific area, which specific know-how, and what does it mean for a customer, how can we*

benefit from that?' This is what we had to figure out."

The sales representatives relied on their experience and gut feeling in the negotiations with the customer, resulting in prices that were set based on customer history rather than delivered customer value. When asked how they were able to decide which profit margin to add for a given customer, one of the salespersons, who has been with the company for 35 years, answered: "From my point of view, we didn't have the feeling for which price was OK. Sometimes it worked and sometimes it did not work". In the situation of a customer asking for a customized product, the sales representatives asked the product designers to deliver a suggested solution. Based on their suggestions, the sales representatives added a gross profit margin (estimated on a combination of a target margin and the salesperson's gut feeling) to the cost of the product. If the customer asked for lower prices, the salespeople either lowered the price or contacted the product designers for a product with a lower cost of production. According to the sales representatives, the result of this practice was that the discussions with the customers mainly evolved around the price and not the product design, nor the choice of material. The Sales Manager considered the sales representatives skills for defining, quantifying and communicating the products' customer value as weak and he said: "I guarantee you, [in the price discussions with the customers] many sales people would say: 'I know the price is too high, so what is the price you need?'" For that reason, he made the decision to implement a new value selling practice. Table 2 summarizes the project of implementing value selling at Gamma that is elaborated in the following.

Table 2 The project of implementing value selling at Gamma

Understanding the customer's business and communicating the value

	Before	**Actions taken during the project of implementing value selling**	**After**
Selling practice (i.e. defining and com-municating value)	The individual sales representatives' relied on their experience and gut feeling in the discussions with the customers	Sales representatives provided with training in how to identify and communicate the customer value to the customers Management consultant hired Reorganization with the purpose of coordinating the interface to the larger customers and improve customer service Sales representatives' responsibility increased to covering the entire product portfolio instead of only a limited range. Top management focus on pricing Layoffs	Sales representatives provided with concrete selling arguments which they are required to use in the discussions with the customers Cross-functional team of indoor sales rep, designer and technicians sitting desk-to-desk facilitates the customer service
Pricing practice (i.e. capturing value)	Prices based on historical prices and customer history Cost of product plus mark-up Pricing authority delegated to the individual sales representative	Sales representatives provided with training in value-based pricing techniques New CRM system enabling customer-profitability analysis, product-profitability analysis, revenue leakage analysis and improved cost control New price lists regarding the standardized item Sales representatives' authority to give discounts restricted	Value-based pricing Customer-profitability analysis Product-profitability analysis A centralized pricing practice towards the larger customers Guidelines regarding minimum gross profit margin Sales representatives rewarded

In order to overcome the sales representatives' weak skills for communicating the products' customer value and matching it according to individual customer needs, they were, together with an external management consultant, gathered for workshops with the purpose of clarifying the value Gamma's products offer to the customers. The consultant used real cases (i.e. Gamma's products and customers) when explaining the concept of value selling. The workshops resulted in ten selling arguments that the salespersons were told to use when communicating the value, such as "products with long product life cycle" and "low cost of maintenance". The ten selling arguments did not only have the purpose of creating a common idea of the customer value Gamma can provide, but also to provide the salespersons with selling arguments. The sales representatives were also told to use different selling arguments depending on different customers. The Sales Manager explained: *"Customers are not equal, customers are different so you need different arguments for different customers, this is very important to understand. A door manufacturer has different requirements than a customer dealing with hoses for the car industry.*"

As a consequence of the implemented value selling practice, each salesperson is responsible for selling all of the articles, instead of only a limited number of articles. Additionally, the salespersons are responsible for estimating a price for the customized product inquiries (before, this was done by the product designers). The intention was to secure that the prices were estimated primarily based on the value for the customer, not cost of product. Additionally, the ambitions were to shorten response time to the customer and reduce the workload of the product designer. For these reasons, the sales representatives were provided with four training sessions, in order for them to have technical knowledge about all of the articles.

Moreover, the management decided to relocate all indoor salespersons and product designers to the same market office, in order to centralize the interface towards the larger customers and, thus, provide better customer service. Thus, as a result of the reorganization, the employees are instead grouped into teams consisting of both designers and indoor salespersons.

Capture the value

Besides workshops, the company has arranged training sessions, where salespeople have been trained to quantify the customer value and how to provide the right selling argument for the customer. New IT tools, which allow for customer and product profitability analysis, have been implemented in order to facilitate that prices are set according to customer value.

Additionally, in order to promote higher gross profit margin achievement, the Sales Manager decided to change the reward system for the salespersons. He implemented new procedures for calculating each individual sales representative's gross profit margin achievement, in order to be able to set the bonus according to their individual contribution.

Moreover, restrictions regarding minimum gross profit margin were imposed and the sales representatives' authority to allow discounts was restricted. Lastly, new pricelists were introduced regarding the standardized products with the intention to centralize the price setting for these products and secure that the customer value is captured and not lost in discounts. **Delta**

During the autumn of 2009, the decision to implement value selling at Delta was made by management due to the following three reasons: 1) the products were due to their semi-customized characteristic considered as suitable for value selling, 2) the unit had struggled with squeezed profit margins for years, due to an increased maturity level of the market and a perceived high pressure from customers to reduce prices, 3) the Sales Manager had experience in value selling from previous employers. The following two sections elaborate the project of implementing value selling, see Table 3

	Before	**Actions taken during the project of implementing value selling**	**After**
Selling practice (i.e. defining and com-municating value)	The individual sales-representatives relied on their experience and gut feeling in the discussions with the customers.	Sales representatives provided with training in and how to identify and communicate the customer value to the customers Management consultants hired Top-management focus on pricing	The sales representatives are: -Identifying and quantifying the customer value for Delta's products and the competitors' products -Performing weighted customer buying criteria -Constructing their selling arguments accordingly.
Pricing practice (i.e. capturing value)	Prices based on historical prices and customer history Cost of product plus mark-up Pricing authority for all products delegated to the individual sales representative Sales representatives rewarded on gross profit margin achievement	Sales representatives provided with training in value-based pricing techniques. New IT tool allowing better customer and product profitability analysis. Price lists for standardized products up-dated through the means of weighted customer-value analysis and revenue leakage analysis in collaboration with the sales representatives	Value-based pricing Customers' value map position analysis Customer-profitability analysis Product-profitability Revenue leakage analysis Identify and analyze competitor's prices. Price lists regarding the standardized products Pricing authority for the customized products delegated to the individual sales representative Sales representatives rewarded on gross profit margin achievement

Table 3 The project of implementing value selling at Delta

Understanding the customer's business and communicating the value

The salespersons at Delta are, similar to the ones at Gamma, all very experienced after working many years in the business. Moreover, the high maturity level of the industry has resulted in a stable customer base, resulting in long-term customer relationships. For these reasons, the sales representatives had, already previous to the project of implementing value selling, good knowledge about the products and needs of the customers. Yet, even though the salespersons believed that no changes were needed in terms of the selling practice, the management had identified that their skills for matching prices with customer value were weak. The pricing practice was very similar to the one that Gamma practiced prior to the implementation of the value selling practice. In other words, both customized and standardized products were priced according to cost-plus profit margin logic. When the customers asked for lower prices, the salespersons either reduced the price or asked the designer to suggest a product at a lower cost. For that reason, the price was the main focus in the discussions with the customers. Just like the case with Gamma, the sales representatives were not able to sufficiently analyze the products' customer value. In order to change the sales representatives' working practices, the management decided to hire consultants who performed workshops in value selling together with the sales representatives.

The key challenge, according to the consultants, was to get the employees to understand the concept of value selling and change their way of thinking about pricing and, thus, value capture. Changing the individual salespersons' habits of relying on their gut feeling when setting

prices was by far the greatest challenge, the consultants said. In order to overcome this, the consultants had workshops with the managers and the salespersons in which they used real cases when explaining the concept of setting prices according to customer value. For that reason, the consultants made phone interviews with the customers in order to get the information needed for the value selling exercises.

The employees at Delta assumed that the customers would provide the consultants with little or no information, besides complaining that the products are too expensive. The consultants stressed that when making the customer calls, they informed the customers that they did a customer survey on behalf of Delta. Yet, they did not explicitly tell the customer that they were analyzing the price levels relative to the competitors. When asking the customers open questions about Delta's products and their strengths and weaknesses in relation to the competitors' products, the customers gave detailed information. When commenting on the information the consultants were able to get from the customers, one of the salespersons said: *"One of the great things that came out of this was that the customers were not put off by this [the consultants contacting them on phone], but that they were actually open. They told flat out that we were 15 percent lower in price than the competitors. I was absolutely shocked. These are customers that I have talked to for years and they would never tell me anything like this."*

Capture the value

In order to improve the sales representatives' ability to more efficiently capture value by setting prices according to customer value, the consultants trained them in how to analyze weighted-customer-value compared to the next-best alternative and customers' value map position analysis. Through their relationships, the sales representatives gather required data regarding

competing products with the customers. The salespersons were told to use these value-based pricing techniques when setting prices and explaining the price setting logic to the customers, instead of relying on their experience and gut feeling. Hence, the sales representatives' previous autonomy to freely decide how to set prices and communicate the customer value has been restricted.

Parallel to the training session with the employees, an IT tool that allows for price analysis was implemented. The customer value is estimated and quantified in Excel sheets linked to the IT tool. Once the new IT tool is incorporated into the CRM system, it will be able to provide all the information needed when making the customer propositions, for example customer purchasing criteria and customer perceived value. Moreover, the plan is to systemize the data about the competitors as well, which are currently saved in the IT tool below the different individual customers.

The new IT tools for product-profitability analysis enable the Sales Manager to provide his salespersons with price floors and price ceilings. Hence, he is able to avoid sales below break-even and prevent the situation of a customer being over-priced and, as a result, upset, which in turn might result in bad reputation. The price ceiling is calculated according to product cost, customer history and the competitors' prices. Lastly, the Sales Manager decided, just like the management at Gamma and for the same reasons, to introduce price lists for the standardized products.

PERCEIVED CHANGES IN THE SALESPERSON-BUYER RELATIONSHIP

According to the management at both Gamma and Delta, the sales representatives were initially skeptical when introduced to the new value selling practice. They believed that it was a waste of

time and argued that they had nothing to gain from it since they were already able to set prices according to customer value by using their gut feeling and experience. Nevertheless, once the projects had been finished, the salespersons at both Gamma and Delta were mainly positive towards the new selling practice. They describe how the new selling practice has resulted in enhanced customer relationships and a stronger power position for the salesperson in negotiations with the customers.

Enhanced customer relationships

The salespersons at both Gamma and Delta argue that their improved skills for defining and communicating the customer value have enhanced the relationships with the customers. They have gained a deeper insight into the customers' needs and the customer meetings are more centered on the products' customer value, rather than price and discounts. The fact that both Delta and Gamma offer semi-customized products implies that the sales representative would have had good customer relationships already prior to the changed value selling practices. However, prior to the changes, the sales representatives handed over the customer inquiries to the product designers who delivered suggested product solutions. The sales representatives then calculated the prices by adding a gross profit margin (estimated on a combination of target margin and his/her gut feeling) to the cost of the product. In other words, the sales representatives did not analyze the products' customer value.

As a consequence of the new value selling practice, the sales representatives are more interested in their customers' production chain and are more often gathering information about the customers' end products before getting into customer meetings. This information enables them to better pinpoint the product's value to the customers. For example, one important buying

criterion for the customer's customer might be the end-product's fuel consumption. Assuming that the products results in a lower consumption relative to the competing products, the sales representatives quantify the reduction in fuel consumption relative to the customer's next best alternative. For the same reasons, the salespersons are more concerned with gathering information about the competitors' products, in order to understand the customers' options and how the customer value of the products differs. This new practice resulted in Delta realizing that the customers have to make substantial, costly changes in their production facilities if deciding to change to a competitor. Hence, the sales representatives' perceived ability to understand the customer and the customer's business have improved.

The new practice of systematically identifying customer value and set the price accordingly enhances the customer relationships, since it enables the sales representatives to better understand the product's value, usefulness and drawbacks to each individual customer. The salespersons experience that customers often provide them with real figures about the value the product in question provides. One of the sales representatives at Delta said: *"You are going to get the most value when you are first launching the product or with a customer you don't have a history with. But all of this [the new value selling] is good even with an existing customer. For example, when you go in to your fifth price negotiation in two years and justify why you need two or three cents more by showing them [the customer] the value that they are getting.*"

Management at both Gamma and Delta had foreseen that the long-term customer relationships with the customers would make it possible to quantify the added value for the customers and, thus, enable a more efficient value appropriation. However, the enhanced relationships between the salespersons and the customers, as a consequence of the sales

representatives gaining a deeper insight to the customers' business, were a positive surprise to them.

At Delta, which compared to Gamma handles larger but fewer orders in terms of price, the case is often that the sales representative makes a quantification of the value-adding features according to his/her estimation prior to the customer meeting. He/she then shows the figures to the customers and the customers correct the figures that are incorrect. The result is that the quantification of the value-adding features in dollars matches the real customer savings. One of the salespersons at Delta said: "*I do not use the cost-plus mentality anymore [when deciding the prices]. I try to look at the next best alternative [i.e. the second-best product that the customer could get from a competitor]. So I really do not follow what my margin is because I see it as independent. I do not spend as much time looking at the margin or profitability as I did before. […] The tool [the value selling practice] really has given us an ability to come in and justify why our pricing is as it is.*"

Similarly, a salesperson at Gamma, who has been with the company for nearly 20 years, expressed that the new value selling practice has resulted in a change in mindset among the sales representatives. She explained: *"In the past, all focus was on the prices, now it is about selling added value".*

Additionally, management at both Gamma and Delta decided to introduce price lists for the standardized products, in order to secure that the prices matched the products' customer value. In the eyes of the salespersons it has not only reduced the workload, since they no longer have to spend time calculating prices and negotiating discounts for these particular products, but it has also enhanced the relationships with the customers. An enhanced relationship with the customer

is here considered as the improved understanding of the customer and the customer's business as perceived by the customer. Previously, when the salespersons had a larger authority to price the standardized products, the discussions with the customers were more focused on prices and discounts and less on value.

Stronger power position

According to the salespersons at both Gamma and Delta, the new selling arguments have improved their negotiations skills and given them stronger arguments for the customer meetings. Thus, the sales representatives are more confident when entering a meeting with a customer due to the training they have received. Even though the salespersons at both Gamma and Delta had many years of experience and, according to them, a fairly good gut feeling about the customer value, the new value selling practice has encouraged them to try to capture even more of the created value. Hence, they are no longer relying purely on their experiences in negotiation but are instead prior to the customer meeting defining and quantifying the customer value in order to convince the customer of the created value. In the situation that a customer should still ask for a lower price, the salesperson offers a different product with a lower value and, thus, lower price, instead of immediately getting into a price discussion. Overall, the practice of value selling seems to have brought the salesperson into a stronger power position in the negotiation with the customer.

Value selling gives the salesperson new confidence as it enables him/her to rationalize the unique customer value, for example a lower total cost of ownership, pay-back time or return on investment. One salesperson at Delta described the new value selling practice as *"a different way of presenting information to the customer than just going straight into a customer and saying:*

'We have recognized that our [product] is a better one, so we are going to raise our price'. But using the value-based pricing helps you explain to the customer the rational for the way the pricing is structured." According to the Sales Manager at Gamma, self-confidence is an important part of value selling: "*It* [the value selling practice] *is about making the salesperson convinced of what Gamma stands for and what the added value is. The salespeople need the self-confidence in order to know what Gamma has to offer for the customers, they need to be proud of working for Gamma and stand behind the values of what they are selling.*"

The Sales Manager at Delta expressed the importance of practicing value selling on those customers that tend to be more price sensitive and, thus, provide relatively smaller profit margins: *"It* [value selling] *is more important for something where you are not making incredible margins on, because those one or two percent extra will make the difference whether the business can support itself or not. The more data that you can bring into hard negotiations, the better off you are*." One of the sales representatives at Delta explained the increase in average price: *"I think what it [the value selling practice] has done for us is that it has allowed us to really push it [the profit margins] to the limit. If we were at, let's say 15, 18 percent margin on [a product category], I think that we push it now to 25 percent.*"

The bonus system of rewarding the salesperson on gross profit margin further enhances the salesperson's focus on profit margin rather than volume, to the extent that the sales representatives are prepared to purposely lose a customer that is not profitable. According to the salespeople, almost no customers have been lost as a consequence of the increased prices. One of the salespersons at Delta expressed: *"I would say that I probably lost one customer, which I'm OK with. But I think there is some fear in our group, and I share it, that if we raise our prices too*

much, we might invite competition into the market place." However, some of the salespeople ask to raise prices even further, even if it might be at the cost of losing the customer in question. Hence, the bonus system of rewarding the salespersons on gross profit margin achievement has made the salespeople notice the unprofitable customers.

The decision by the management at both Gamma and Delta to centralize the price setting of the standardized products, in terms of using list prices for these products and restricting the salesperson's authority to grant discounts, has strengthened the salesperson's position in the negotiations with the customers. The sales representatives argue that their restricted autonomy to decide prices and allow discounts has reduced the pressure from the customers to lower prices. The new practice has, according to the salespeople, resulted in less focus on the price during the discussions with the customers and more on the different products and their potential for improving the customer's business. When the customers are now asking for lower prices, the sales representatives are instead giving them different offerings that provide lower value at lower prices. According to the sales representatives, some customers are expressing that they consider fixed prices to be more convenient. One of the salespeople, who have been with the company for 35 years, described the difference in the discussions with the customer: "*[Before the value selling practice] there was no discussion about different products. It was just about pricing. Today I tell them: 'We are the market leader, this is our complete portfolio, this is our prices and you decide which is the right one. It is up to you what do you want?'*"

DISCUSSION AND MANAGERIAL IMPLICATIONS

The discussion on consequences of implementing value selling at Gamma and Delta for the salesperson-customer relationship enriches the understanding of value selling effects for the

supplier company, by pointing out two major changes in this relationship perceived by the salesperson. These are enhanced customer relationships, as in a better understanding of the customer and the customer's business, and stronger power positions. Even though these benefits could be seen as evident steps on the way to increased supplier profitability, this paper has considered the exploration of different effects of value selling, also on the level of the salesperson as crucial. Further, the insights provide some intriguing managerial implications for the creation of a value selling sales force.

Theory proposes that enhanced customer relationships are necessary in order to successfully implement value selling as it requires involvement and work from the customer's side (Anderson et al., 2007; Kaario et al., 2004). Both Gamma and Delta already had long-term customer relationships prior to the implementation of value selling. Yet, the new value selling practice required the sales representatives to put extra efforts into understanding the customers' situation. They had to gather even more information about the customers' next best alternatives, i.e. competitors' products, the key buying criteria of the customers' customers and the end products in order to effectively identify and quantify the customer value. This detailed information search requires the salesperson to establish different contacts at the customer company and it encourages more cooperation as well as trust between the salesperson and customer. The transparency of the salesperson towards the customer in the value capture process supports the trust building since created value and costs are calculated together, openly discussed and compared to alternative products. These insights indicate that value selling does not only require some form of cooperation between customer and salesperson but encourages this cooperation to develop into a partnership aiming to create value. Hence, it contributes to the

discussions about aspects, such as dependency or increased contact frequency, which are said to enhance business relationships, and adds the influence of increased information exchange (Ford, 1984; Grönroos, 1981; Turnbull et al., 1996).

The other outcome suggests that implementation of value selling brings the sales representatives into a stronger power position in negotiations with customers. This indicates that value selling might be a powerful approach when negotiating with price sensitive customers. Hence, contrary to the assumption that value selling requires value buyers (Anderson et al., 2007; Kaario et al., 2004), findings indicate that value selling cannot only be used to change the customer's focus from price to value, but also to dismantle the customer's price haggling arguments by presenting objective, fact-based numbers of saved costs or increased benefits. Hence, one could argue that the salesperson leaves his/her position as the 'underdog' in the price negotiation and that relationships might approach an actual win-win situation.

This paper provides two major managerial implications. Firstly, since the paper has shown that value selling can enhance customer relationships through increased information exchange, it could be considered as a strategy for companies that want to achieve long-term relationships with their customers. Even though it will require more effort and patience than a low price strategy, new established companies or companies entering a new market could use this approach to establish their position in the market. Secondly, the paper shows that the delegation of value-based pricing to the individual salesperson is not a necessary condition for implementing value selling successfully. On the contrary, if salespeople have the authority to grant discounts they might feel more pressure from the customer to divide the discount between them. Hence, restricting the pricing authority of the salesperson in the presented cases has not only relieved the

salesperson from the discount pressure, but at the same time shifted the focus to the value argumentation. Hence, in the salesperson's eyes customer-orientation is not to achieve the best, i.e. lowest price for the customer, but to create the highest customer value.

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APPENDIX: INTERVIEW GUIDE

<table>
<tr><th>Practice for defining and communicating value (in order to map the practice before and after the project of implementing the value selling practice)</th><th>The project of implementing the value selling practice</th></tr>
<tr><td>• Customer relationship management
o Character of customer relations
o Customers' buying criteria and determinants of purchasing decision
o Delivered customer value
o Customer feedback
o Procedures for gathering and coordinating information about the customers
o Handling larger (international) customers
o Different pricing practices depending on different customers and/or sales regions
o The role of the customer's customer
• Competitors
o Competitive situation
o Information about competitors and competitors' products
o Procedures for gathering and coordinating information about the competitors
• Information about the products among sales representatives and sales managers

• Communication between management and lower-level

• Communication between different departments/functions/divisions regarding pricing

• Sales force management (e.g. incentive programs)</td><td rowspan="3">• Why was the decision made to launch the pricing project?
• How was the project carried out?
o Who was responsible?
o How was it carried out?
• What was the outcome from the project?
o Changes in terms of:
o The practice for defining the customer value
o The practice for communicating the customer value
o Customer relationship management
o Sales force management
o The pricing practice
o Prices and/or other financial figures?
o Have there been any reactions from the customers, competitors and/or suppliers?</td></tr>
<tr><td>Practice for capturing value (in order to map the pricing practice before and after the project)</td></tr>
<tr><td>• Procedures and techniques for calculating and deciding on prices (e.g. customer segmentation, customer and product profitability, identifying customers' buying criteria)
• Handling price changes
• Management involvement on pricing decisions
• Discount policy
• Formal/informal guidelines for price setting
• Data used when calculating prices (e.g. customer history, target margin, competitors' prices)
• Training provided to price setters
• Information management</td></tr>
</table>