

WIP-paper
When the lowest price is not sufficient:
Conditions defining value-oriented buying

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INTRODUCTION

Business markets are facing a major shift towards service logic where selling firms' key focus moves from selling of goods and services towards supporting customers' business and their profitability (Grönroos & Voima, 2013; Vargo & Lusch, 2004). The current situation can be a great opportunity for the buyer, but the potential in the markets will be underutilized with the traditional goods-logic mindset. Accordingly, the developments in the area of supply and key supplier relationship management have highlighted the strategic role buying for firms' competitiveness (Miocevic & Crnjak-Karanovic, 2012). While much of contemporary buying continues to be driven by prices and costs, leading business firms are increasingly deploying buying approaches aiming at facilitating their own value creation practices and ultimately business performance.

However, the extant academic research on organizational buying practices remains rather narrow in relation to customer value concept. The strategic purchasing literature has mainly examined value from a total costs of ownership perspective. Although reduction in total costs of ownership are valuable for the buyer this represents a narrow perspective on value. For example, while cost reduction can be a major factor in outsourcing it can still have other types of major impacts on customers' business for example through its impact on firm's ability to create value for its end customers through improved service.

Further most knowledge on strategic and value-creating of buying comes from the supply chain management (SCM), which has concentrated on managing long-term supplier relationships (Van Weele, 2005). In turn, the knowledge focusing specifically on firms' contemporary buying practices related to complex, high-value offerings remains much more limited. The key insights on organizational buying behavior (OBB) seem still to be based on the classical work done in 1970s. While industrial marketing literature has noted that that buying firms employ different purchasing orientations its notions remain general and mostly conceptual without empirical evidence. As such, the customer perspective related to "buying value" remains still at its infancy. This notion is highlighted by the fact that the contemporary customer buying behavior has been raised up as a key research priority by the Institute for the Studies on the Business Marketing (ISBM) in 2014.

As such, only little fragmented knowledge exists about the firms practices related to buying value about the buyer related drivers, boundaries and contingencies of value thinking. Two research questions are put forth: 1) What is value-oriented buying? 2) What are the drivers and contingencies of value-oriented buying?

The study builds on literature on OBB, SCM, industrial marketing and service-dominant logic (SDL). Details of the qualitative methods are further elaborated after the theoretical view. In the results chapter, value-oriented selling is conceptualized along with the description of the drivers and contingencies of the phenomenon. The paper ends with a discussion about the impact of results in theory and practice.

CUSTOMER VALUE IN BUYING LITERATURE

Business markets are witnessing a major change from goods-dominant logic into SDL (Vargo & Lusch, 2004). It states that customer value is not embedded in offerings that are output of firms' manufacturing processes but realizes in customers' specific usage situations, i.e. value-

in-use (Vargo & Lusch, 2004; Vargo & Lusch, 2008; Woodruff, 1997). Although value is created in the customer firm's use processes, the customer firm's value creation can be facilitated by seller's value co-creation efforts. Hence, a firm is stated to purchase a service to facilitate its value creation, referring to the application of intangible resources, such as knowledge and skills, for the benefit of another (Vargo & Lusch, 2008). Ultimately the customer value-in-use translates into monetary and non-monetary value elements for a customer. In business markets the monetary elements of the customer value, that is, cost reduction and revenue generation opportunities represent key aspect in buying (Anderson, Narus, & Narayandas, 2009; Grönroos, 2011). As managers buy for economic rather than emotional reasons, customer perceived value should be the critical dimension in business markets (Eggert & Ulaga, 2002). Interestingly, the extant literature on buying has taken a rather narrow perspective to customer value.

Organization buying behavior research was most active from 1960's and 1970's when numerous classical buying models were created (Choffray & Lilien, 1978; Robinson, Faris, & Wind, 1967; Sheth, 1973; Webster Jr & Wind, 1972). OBB research saw buying as the firm's problem-solving process (Webster Jr & Wind, 1972). Accordingly, studies focused heavily on the buyer's processes and outside forces as stimuli to buyer's action. In the heart of the buying behavior models are the needs analyses and executing requests for quotations. The key decision-making criteria includes price, the ability to make according to specifications, quality, delivery time and after-sale service (Johnston & Lewin, 1996). As such, the models construe that the key role of buying are price and cost savings. They are based on the idea that the suppliers' input is secondary or futile for effective buying. Customer internal problem-solving view as an approach to buying describes buying in the 20th century when corporations still held a strong idea about self-sufficiency.

In contrast, the more recent SCM research sees that buying has a strategic value-creating role for the firms. SCM discusses about purchasing and defines it as "managing the company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities is secured at the most favorable conditions" (Van Weele, 2005). The importance of value-in-use perspective has been increasing with a transitioning focus from product supply and total cost of ownership to services supply and long-term revenue generation (Ellram, Tate, & Billington, 2007). Yet, the supply chain research focuses heavily to the development of long-term supply relationships in value-chain context and therefore can contribute only to a limited degree on other types of buying, for example capital goods or other types of complex offerings.

Similarly, the industrial marketing literature has made conceptual notions that the buying firms can apply very different purchasing orientations (Anderson et al., 2009). The three purchasing orientations differ in their objectives as follows. At simplest, the buyer searches for to the best price-quality relationship. More demanding but also more potent orientations aim for the best total cost of ownership and enhancing the buyer's revenue generation ability. The latter orientations are particularly visible in performance-based contracting where the supplier and the buyer agree mutually on targeted performance outcomes (Gustafsson et al., 2010).

However, overall the extant buying literature lacks insights and empirical support concerning the customer related drivers, inhibitors and contingencies related to buying value. Arguably, the logic of buying a co-created service is very different from the logic of buying goods or services. The role of rigid buying process and pre-determined technical specifications is reduced and the role of interaction with the supplier is emphasized. Adopting SDL in buying means critical evaluation between the supplier's resources and their impact to the buyer's business. As a result, the view to supplier markets changes from existing markets

to fluid markets which the buyers can affect and develop for their purposes (Storbacka & Nenonen, 2011). SDL broadens the horizons of buyers to new value creation opportunities with the suppliers. The change of the buyer's logic is bound to positively affect the feasibility perception of many hybrid offerings (Ulaga & Reinartz, 2011), solutions (Storbacka, 2011; Tuli, Kohli, & Bharadwaj, 2007) and complex services (Grönroos, 2011). SDL perspective emphasizes resource integration between the market actors. Looking from the buyer perspective, the key objective is to sustain and improve their value creation ability. Furthermore, the buying situation is an open system so it is affected by the context.

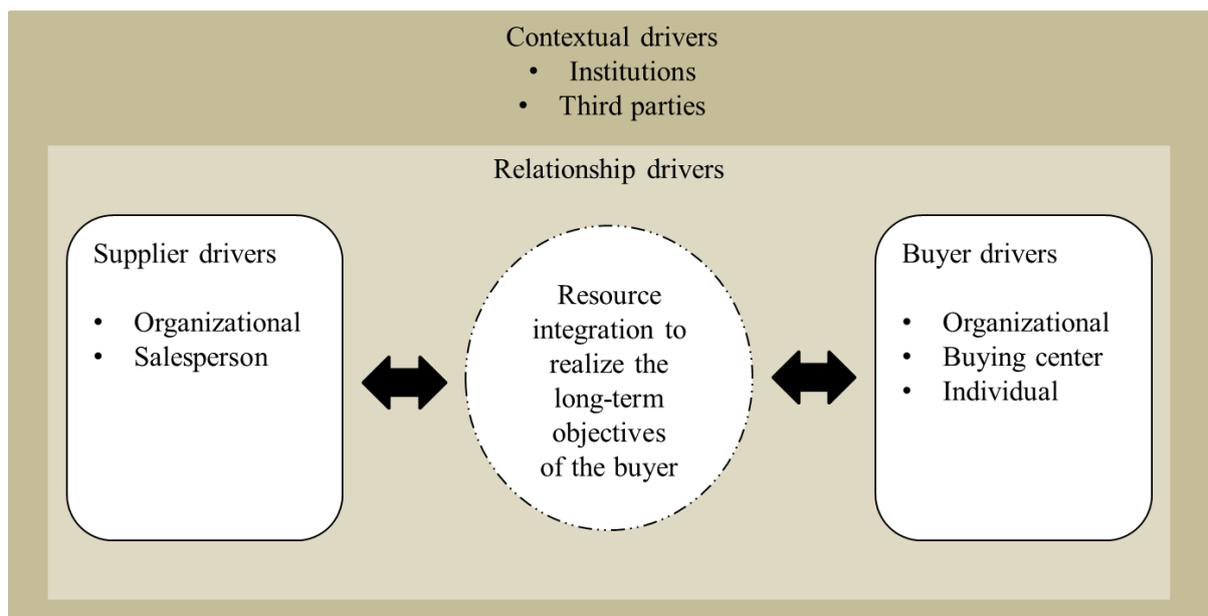


Figure 1: Driver categories of value-oriented buying

There are many levels of participation in a customer firm: organizational, buying center and individual (Webster Jr & Wind, 1972). Buying center includes everyone in the buying organization who participates to the buying task. From the supplier side, it is expected that both organizational and salesperson level variables affect to the customer's value orientation in a buying situation, see figure 1 for details.

METHODOLOGY

To research value-oriented buying, ten managers from different firms were interviewed, see table 1. The title of the managers varied and most of them did not belong to a purchasing unit. However, they had been members of a buying center which concentrated on realizing the long-term objectives of the firm. The interviewees were selected using multi-level approach. Firstly, four categories of selling companies were defined. These were project-based tangible good supplier, project-based intangible good supplier, relationship-based tangible good supplier and relationship-based intangible good supplier. This was done to confirm that the phenomenon under study exists in different market settings. The suppliers were selected with purposive sampling, i.e. looking for suppliers who have value-based/solution selling elements in their marketing. Secondly, the suppliers were requested to recommend their buyers who are value-oriented. Thirdly, the buyer firm's contact person received from the supplier was interviewed. The interviews were semi-structured and they lasted 60-90 minutes. They consisted of open questions within five themes: the role of buying in the firm, value-oriented buying, supplier's role in buying, contextual factors and value confirmation.

Table 1: Interviewed managers

Firm	Job title	Industry
Alpha	Senior business manager	Electricity
Beta	Chief executive officer	Media broadcasting
Gamma	Maintenance manager	Paper manufacturing
Delta	Finance manager	Payment services
Epsilon	Maintenance manager	Wood processing
Zeta	Service manager	HVAC wholesaling
Eta	Factory service manager	Forestry machine mf.
Theta	Purchasing manager	Public sector
Iota	Chief information officer	Health care
Kappa	Finance manager	Food

Discovery-oriented theories-in-use approach (Tuli et al., 2007; Zaltman, LeMasters, & Heffring, 1982) was adopted for building the insight of value-oriented buying. NVivo software was used to facilitate the coding, analysis and interpretation of the transcribed audio-tapes. The coding was done with grounded theory approach which involves open, axial and selective coding (Flint, Woodruff, & Gardial, 2002; Strauss & Corbin 1998). First, all quotes that were relevant in the definition of value-oriented buying were collected and analyzed. Afterwards, the drivers and contingencies of value-oriented buying were extracted from the data.

TOWARDS A CONCEPTUALIZATION OF VALUE-ORIENTED BUYING

The data gave rich insights concerning the firms' value orientation in buying. Based on the key common themes recurring in interviews we define value-oriented buying as *strategic buying approach that focuses on the integration of resources with suppliers for supporting the buying firm's own value creation ability and business performance.*

The strategic nature of the purchase is a central aspect of value-oriented buying. Although most purchases improve business performance, they might not be relevant for the firm's long-term competitiveness (Kraljic, 1983). Buyer has limited amount of resources and over-utilizing these resources to trivial purchases goes against the spirit of value orientation.

There is a lot of good [offerings] in the market. You could say that prioritization, the concentration of certain things that are most profitable, is the key factor [in our buying]. (Gamma)

Buying a computer is just a one-off purchase. If it goes wrong, you can get a new one with money. But if we start a strategic co-operation [with the supplier] and it fails, then we might lose thousands of customers or some other asset which cannot be replaced by money. (Alpha)

Value-oriented buying requires co-operation internally and between the buyer and the supplier (Aarikka-Stenroos & Jaakkola, 2012). By integrating information, skills and other resources, the buyer achieves improvements to the offering.

[Buying value] is much harder. A lot of professionalism is required from us and the supplier. A lot of time is spent to workshops where we talk about the need and think of a solution to it. And it rarely is enough to have two guys there, often there is a

dozen people thinking the solution. And it is much more time-consuming than just comparing five price tags with each other. (Beta)

According to data, value-oriented buying was practiced especially with outsourcing and process, product and service development. These buying situations had most potential in increasing the buyers' value creation abilities. The value creation ability was often linked to the buyer's improved ability to serve their own customers.

[We purchase value] especially when we want to develop our processes. When we increase capacity or improve the quality of the end product etc. (Gamma)

We are thinking value creation to our customers. And then we speak about product development, improvement etc. It is not just R&D but also the purchasing which participates to innovation. For example product B, we have filed for patents globally. Before the markets were about the low price. Who makes with cheapest costs was the winner. But the impact on the customer's process was forgotten. Now we can improve our customer's process by 10%. Even if [our supply chain] is not the cheapest, it has a clear extra value and the market situation has considerably changed. (Kappa)

Although the concept of value includes non-monetary elements, the buying firms have a strong inclination toward monetary benefits, i.e. reducing costs and/or increasing revenue generating potential.

It helps if supplier can clearly demonstrate [the value]. Measurability is sometimes difficult, it is difficult to monetarily measure, but everything is measured monetarily in the end. What is the "value" of the added value? If we are speaking of a solution which increases the speed of something, then theoretical calculations about the savings of that speed – or some other efficiency improvement – always helps [the decision]. (Beta)

I think it is strategic buying when we don't talk about prices much but both parties want to develop it to a certain direction. Of course, when we are buying we need to think of our own customer and their buying preferences all the time. (Zeta)

Buyer firm related factors driving value-oriented buying

Buyers involved in value-oriented buying were articulate about value. They were able to tell about their objectives beyond quality and compatibility to technical specifications. The buyers stated that they were ready to disclose their value drivers in negotiations openly if they believed that the disclosed information would help improve the offering.

Interviews reveal that although the buying decisions are made by individuals, they are rarely made alone. A buying center emerges for the purposes of the buying situation. Respondents reflected that a relevant aspect for the buying center is to understand what contributes to firm's performance. This understanding can be increased by having business managers in the buying center instead of (or in addition to) purchasing professionals. However, this experience and vision is not sufficient. Also openness of the buying center becomes critical. Openness facilitates both internal interaction and resource integration with the supplier.

It was discovered in the interviews that many organizational variables are related to the buying center's activities. Even though the biggest benefits come from strategic purchases, the firms strive to protect their core competences and are not ready to outsource them to outside actors. Also, the financial conditions of the firm may hinder value-oriented buying. If the financing is in short supply, firm might not start buying tasks aiming for long-term business performance or if they are started, the buying center may have pressures to make the selection based on price. Additionally, growth expectations of the firm relate to value-oriented buying. The buying center may evaluate the benefits higher when it expects that there will be a bigger organization or more customers to enjoy those benefits.

Even if we know how something works, it is futile for us to produce it ourselves unless it is our core competence. We try to keep core competences to ourselves but there is no problem of buying [other offerings] if we discover that a supplier can produce it to us cheaper and better. (Delta)

Moreover, organization affects directly to individuals for example through the reward systems. If reward systems give credit from the price reductions achieved, it is more unlikely that the buyer pursues long-term objectives.

Our reward systems are based to our vision, to making that vision happen, not what kind of solutions we get. Of course they are related. If we cannot find an actor who can help us with our vision, then we skip the buying. There are no reward systems for buying, only to end result [for our business]. (Beta)

We are rewarded for saving money. We are not rewarded for changing the processes and buying value. It's a big controversy. Value creation might take many years and produce both savings and value. But we are measured in financial quarters about discounts. I am so badly reward oriented that I cannot act like that, I need to get the see and improve the whole game. But I know that those people who are reward oriented are discount centered. (Gamma)

Seller, relationship and contextual drivers of value-oriented buying

Buyer's perception of the supplier is a major factor in the buyer's value orientation. According to data, customer's value orientation is increased by supplier's good reputation, senior manager availability, professionalism and expressed interest to work with the buyer. Additionally, supplier's willingness to share the risks of the buying task, for example contractually, will make the decision more value-based.

Good communication ability is required, discussing and meeting. [Supplier] should illustrate the issues, so that we get text and graphs which are concrete and easy to understand even if it has not yet been implemented. (Delta)

The buyer needs a feeling that supplier has a person who is really interested in the issue and wants to develop it, and you can see it if they have interest. (Epsilon)

They played with an open hand, came to meet us and tell about them. And first parts were really cheap or free if they do not work. If the problem persists, it does not cost. Well, we had nothing to lose when we knew that continuing as we had led to problems. First construction did not work but we got forward and found a second solution. We needed more expensive parts from them but [service interval] changed from two weeks to half-year. (Eta)

Data supports that the risk and uncertainty inherent in buying situations decreased the buyer's readiness to adopt value-oriented buying. Buyers were willing to take some risk and face some uncertainty but a high probability of a risk with substantial negative effects was considered unacceptable. In addition to buying risk, the effect of a successful purchase on the business risk is a major factor in customer's willingness to engage in resource integration.

It is the general 80-20 rule, 80% [of the value] need to be credibly confirmed and 20 percent can be more uncertain. 80% of the value also bring credibility to that last 20%. [...] There is also the risk that when you outsource something, you can be stuck with that supplier. You need to define the interface well or you are stuck with the supplier if something goes wrong. (Alpha)

It was also discovered that prior relationship between the buyer and the supplier increases the buyer's trust to achieving long-term objectives. Buyers mentioned familiarity and prior successes as important for them. Long-term suppliers have more access to map the buyer's future needs. However, prior relationship does not seem to have intrinsic value. Rather the continuation of the relationship is dependent on the service that the supplier is able to offer. Moreover, in large-scale purchases, the competence evaluations are emphasized instead of the relationship factors.

It is important to us that the supplier is familiar and we have prior success with them. We would rather use them than someone we don't know. If we use a new supplier, we will map their background information in detail. We do not want to waste our resources to purchases that lead nowhere. (Delta)

Interaction should not be an intrinsic value. We meet when we have agenda to develop and evaluate our service. For example, we meet four times a year in senior level because this relationship is so important... if there is no good agenda, if they don't produce added value – it is not worth it. (Kappa)

Contextual variables include third party relationships and institutionalized practices. An example of third-party relationship is the dynamic competitive environment of the buyer. In this case, it has more pressures to accomplish business development via purchasing. Furthermore, third parties can give word-of-mouth recommendations which increase the trust to the supplier's offering. Institutionalized practices or the lack of them also affect to buyer's behavior. Lack of standards in the environment makes the buyer's focus more from pre-determined specifications to innovative solutions. On the other hand, the lack of standards can lead to a lot of additional work without major improvement in the value of the offering. And if the buyer is a public actor, it will have to comply with purchasing law which adds restrictions that hamper value-oriented buying. In purchasing law, the request for quotation cannot be changed after it has been submitted even if discussions with suppliers would lead to a more superior offering for the public actor.

DISCUSSION

Theoretical contribution

This paper integrates OBB and SDL research, inductively builds the concept of value-oriented buying, discusses its drivers, inhibitors and contingencies and lays a foundation for future research of the subject. Value is a central term for marketing but it has been

overlooked in OBB literature. The importance of studying value orientation in OBB was mentioned by (Reid & Plank, 2000) in their literature review but it has not been elaborated by prior literature. Value-oriented buying is conceptualized as a *strategic buying approach that focuses on the integration of resources with suppliers for supporting the buying firm's own value creation ability and business performance*. The concept of value-oriented buying broadens the view proposed by strategic purchasing which remains focused on the improvement of technical quality of products and cost optimization (Carr & Smeltzer, 1997). Value-oriented buying approach can reveal new opportunities in the supplier markets for increasing the buyer's business performance. This construct is becoming more important as the supplier markets continue their maturation and the buyers learn more intricate methods of collaborating with suppliers.

Derived from the results, it seems that value-oriented buying breaks into three activities which aim to maximize value-in-use: finding a capable supplier that can be trusted, co-operating with the suppliers to improve the offering and striving to reduce the buying and business risks. Performing these activities requires the buying center to possess relevant business knowledge, long-term perspective and readiness to open internal and external dialogue. These qualities form the threshold for value-oriented buying. For the purchasing orientations (Anderson et al., 2009) of the industrial marketing literature, these qualities mark the preconditions for moving to more advanced purchasing orientations.

Managerial contribution

The managerial findings are divided into two perspectives. Firstly, how firms can improve the value orientation in their buying centers. Secondly, how value-based selling firms can increase their buyers' receptiveness to their selling points.

Value-oriented buying requires more resources so it should be limited to some buying tasks. The interviewees perceived it beneficial especially on outsourcing and process, product and service development. The firms who have not yet tapped the potential of purchasing on developing their business should consider if there was the potential in some supplier co-operations which internal forces currently prevent. Forming the buying center more purposefully to specific tasks could aid in finding new innovations. For those firms who currently value-oriented buying, this paper has outlined the underlying drivers for analyzing and developing the existing practices.

For the value-based selling firms, this paper emphasizes the importance of trust-generating practices to complement their value assessment tools. This finding is consistent with the existing research (Anderson & Wynstra, 2010). These practices increase the willingness of the customer to make the decision based on value-in-use and decrease their price-focus. This translates into purchase orders and enhanced value capture for the selling firm.

Limitations and future research directions

The paper has several limitations. Currently, as a work-in-progress paper, there are ten interviews and saturation has not yet been reached. It reduces the reliability of the results, but on the other hand, it is also an opportunity to make the data rich and yield more results with additional interviews. Additionally, the work-in-progress paper has page limitation which prevents more profound discussion of the subject. Moreover, all the common limitations of a qualitative work apply to this paper. Although these results have been gathered from various

industries, the results are not generalizable to business-to-business markets. Nonetheless, the subject matter and the findings are scientifically and managerially interesting and they deserve more research. Future research could include a dyadic supplier-buyer quantitative study in order to build a theoretical model to confirm the drivers and contingencies of value-oriented buying.

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