

# Reciprocal Adaptations for Successful Value-Driven Exchange in Business Markets

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## **Abstract**

Customer value-driven exchange (VDE) processes have become increasingly important in B2B markets, but they require reciprocal adaptations. While IMP literature have provided rich insights on adaptations in B2B markets, it considers almost exclusively a product-driven and value-in-exchange perspective. This offers scant insights for exchange processes that focus on value-in-use. Therefore, this study explores reciprocal adaptations required for successful VDE in B2B markets. Based on a discovery-oriented field-study with nine matched supplier-customer dyads in B2B markets, the findings explicate the key adaptations required in the i) actor's organizational, employee, and network resources, ii) actor's selling/purchasing process, and iii) collaborative resource integration process, for the achievement and realization of value-in-use, and how these adaptations are carried out at individual and organizational levels. Overall, this study contributes to several priority areas in the current B2B marketing research, where the adaptations to reciprocal VDE processes and matching value-driven sales and purchasing practices have remained critical, yet poorly understood issues.

**Keywords:** Customer Value; Value-Based Selling; Value-In-Use

**Status:** Work-in-progress

## 1. INTRODUCTION

Customer value-driven exchange strategies are becoming increasingly popular in business markets (Ulaga & Eggert, 2006; Anderson, Narus, & Narayandas, 2009; Hinterhuber & Liozu, 2012). A growing number of industrial suppliers seek to sell value, business impact, or bottom-line results instead of goods and services (Terho et al., 2012; 2017; Keränen & Jalkala, 2014; Töytäri & Rajala, 2015). At the same time, business customers increasingly seek to purchase process improvements, asset efficiency, and competitiveness (Petri & Jacob, 2016; Vitasek, 2017), indicating that both parties are ultimately focused on achieving performance outcomes and value-in-use (Essig et al., 2016; Macdonald, Kleinaltenkamp, & Wilson, 2016). This is apparent in many contemporary business contexts, such as knowledge intensive business services, hybrid offerings, and service and solution businesses (e.g., Tuli, Kohli, & Bharadwaj, 2007; Ulaga & Reinartz, 2011; Aarikka-Stenroos & Jaakkola, 2012; Kowalkowski & Ulaga, 2017).

However, while there is a wide agreement that value-driven exchanges (VDE) are often desired and superior to product or price-based transactions (Ulaga & Eggert, 2006; Anderson, Kumar, & Narus, 2007; Terho et al., 2017; Eggert et al., 2018), current literature indicates that mismatches between suppliers' and customers' value-driven approaches occur frequently, sometimes with grave consequences (Töytäri, Rajala, & Alejandro 2015; Pinnington, Meehan, & Scanlon, 2016; Prior & Marcos-Cuevas, 2016). Indeed, several studies indicate that conducting VDE successfully is highly challenging, as creation and realization of value-in-use depends upon various forms of adaptations across supplier, customer, and joint resources and processes (Aarikka-Stenroos & Jaakkola, 2012; Grönroos & Helle, 2012; Macdonald et al., 2016). Yet, while recent studies have emphasized the critical role of reciprocal adaptations to co-create value-in-use (Vargo & Lusch, 2004; Tuli et al., 2007; Ulaga & Kohli, 2017; Malshe & Friend, 2018), extant literature offers *only little insights on what exactly firms should adapt, and how, to optimize VDE.*

Moreover, although prior IMP and sales literatures have provided rich insights on adaptations in business markets (e.g., Hallén, Johanson, & Nazeem, 1991; Brennan, Turnbull, & Wilson, 2003; Park & Holloway, 2004), they are focused on adaptations at either salesperson or organizational-relationship level and *consider almost exclusively a product-driven and value-in-exchange perspective.* Only recently have studies begun to explore the adaptations required to facilitate specific VDEs (Viio & Grönroos, 2014; 2016). However, insights from these studies are limited to single, organizational-level sales processes, and *do not take into account the related buying and joint processes* (c.f., Payne, Storbacka, & Frow, 2008; Grönroos & Voima, 2013), *or offer a more granular perspective on how the adaptations may unfold at individual and organizational levels.*

Consequently, to address these research gaps, the purpose of this study is to *explore reciprocal adaptations required for a successful VDE in business markets.* More specifically, to generate a holistic understanding of the reciprocal adaptations, we address the following two research questions: (1) Which adaptations are needed in the selling, buying, and joint processes to facilitate VDE? and (2) How are these adaptations carried out at individual and organizational levels? Rather than aiming to generate a complete list of all potential

adaptations, we focus specifically on those that are critical for successful VDE. We answer the research questions by integrating marketing and purchasing literatures to develop theoretical insights into VDE processes in business markets from the selling, buying, and dyadic perspectives, and highlight limitations and unexplored areas in the current literature. Subsequently, we draw empirical insights from a theoretically sampled, discovery-oriented multiple case study (Eisenhardt & Graebner, 2007; Corbin & Strauss, 2015), which involves nine dyadic supplier-customer cases in different industries in business markets.

The empirical study reveals that a VDE requires reciprocal adaptations of prevailing practices that are involved primarily in the sales, purchasing, offering deployment and value-in-use monitoring processes. Furthermore, each of these processes involves distinct adaptations that occur differently at the individual and organizational levels. Based on the emerging findings, this study develops an empirically grounded conceptual framework that explains what kind of reciprocal adaptations are needed to facilitate successful VDE in business markets, where do they occur, and how they are likely to unfold.

Overall, this study contributes to several priority areas in current industrial marketing and purchasing research by (i) integrating contemporary and value-driven marketing and purchasing literatures (Spina et al., 2013; Paesbrugghe et al., 2017), (ii) delineating and unpacking relational and dyadic VDE processes in business markets (Aarikka-Stenroos & Jaakkola, 2012; Terho et al., 2012; 2017), and (iii) explaining what kind of reciprocal adaptations facilitate VDE, and where and how do they usually occur (Macdonald et al., 2016; Ulaga & Kohli, 2017). For sales and purchasing managers, this study offers novel insights on how to design, set, and adjust their strategic value-driven initiatives, business practices, and tactical responses to accommodate a successful and mutually aligned VDE process with business partners.

## **2. VDE PROCESSES IN BUSINESS MARKETS**

In this study, *value-driven exchange* (VDE) refers to a specific type of business exchanges that *explicitly focus on advancing customer organizations' value-in-use related to strategic goals concerning their competitiveness*, as opposed to any customer value emerging thought usage of offerings (cf. Vargo & Lusch 2004; Grönroos & Voima 2013). The adopted perspective differs from product- and price-driven business perspectives (Vargo & Lusch, 2004; Hinterhuber & Snelgrove, 2017), and reflects the contemporary B2B marketing and purchasing theories and business practices, which are increasingly focused on improving the buyer's value-in-use in a mutually beneficial way (cf. Anderson et al., 2009; Monczka et al. 2011; Eggert et al., 2018).

Extant research argues that value-in-use is realized by resource integration through collaborative activities between the seller and the buyer (Aarikka-Stenroos & Jaakkola, 2012), which requires various forms of adaptations from both the customer and supplier organizations for optimal results (Macdonald et al., 2016; Tuli et al., 2007). Such adaptations can be defined as *“behavioral or organizational modifications at the individual, group or corporate level, carried out by one organization, which are designed to meet the specific needs of one other*

*organization*” (Brennan et al., 2003, pp. 1639). However, in line with this definition, and as argued in the introduction, extant literature has considered the adaptations to VDE in business markets primarily from one organization’s perspective, which currently is the seller organization, and only at the organizational sales process level (Viio & Grönroos, 2014; 2016). Consequently, to generate a more holistic and nuanced understanding of the VDE processes and related adaptations in the seller and buyer organizations across multiple levels, we review the extant literature from the seller’s (marketing & sales literature), the buyer’s (value-focused purchasing literature), as well as dyadic (value co-creation literature) perspectives, and synthesize key insights into a tentative theoretical framework.

## **2.1 VDE in Marketing & Sales Literature**

Customer value-based marketing has been one of the dominant views in the B2B marketing discipline for almost two decades (Anderson & Narus 1998; Eggert et al., 2018). Its core idea is that suppliers should focus on supporting their customers’ business to realize quantifiable cost reductions or increased revenue generation effects to be able to sell higher-value, higher priced offerings (Anderson, Narus, & Van Rossum, 2006). In the contemporary B2B space, the relevance of this approach is especially prominent, considering the ongoing shift towards services and value-in-use (Vargo & Lusch, 2004; Kowalkowski & Ulaga, 2017). Broadly viewed, the customer value-based marketing paradigm has focused on understanding, creating and delivering value through investments into customer value-research (Anderson & Narus 1998). In recent years, the focus in this area has moved towards operationalizing the concept at customer-facing level through value-based selling. Several studies have provided insights about the core activities (eg. Terho et al. 2012), and organizational capabilities involved in value-based selling (e.g. Storbacka 2011; Töytäri & Rajala, 2015; Ulaga & Reinartz, 2011), as well as how organizations can effectively implement it in practice (eg. Terho et al., 2017).

Overall, current research frameworks indicate that firms’ VBS process involves four central elements – understanding customers’ business, creating quantifiable value propositions, communicating value potential, as well as realizing and verifying value (see Table 1). These rest usually on the following premises: first, value is not embedded in products, but is realized through usage and determined by customers (Grönroos, 2011; Vargo & Lusch, 2004, 2008). Hence, suppliers need to develop a deep understanding of the customer’s broader business processes, application context, available resources, and individual as well as collective goals (Macdonald et al., 2016) to be able to proactively identify and innovate opportunities for value creation (Terho et al., 2012). Second, to express how the potential value-in-use might be realized jointly with the customer resources (Ballantyne et al., 2012), and how it would impact the customer’s business processes compared to alternatives (Anderson et al., 2006), suppliers need to craft value propositions that quantify the impact to customer’s different decision makers and bottom-line (Terho et al., 2012; Hinterhuber, 2017).

Third, given that value-in-use is realized only during consumption, customers are likely to experience uncertainty and value ambiguity about the expected value-in-use (Anderson & Wynstra 2010). Hence, suppliers need to reduce customer perceived risk by communicating transparently how the potential value-in-use is going to be realized, and/or how the supplier

will guarantee or share the risk of potential outcomes (Ulaga & Reinartz, 2011; Terho et al., 2012). Fourth, as expert partners, suppliers usually need to help customers to realize, maintain, and verify value-in-use, which in turn allows them to optimize subsequent supplier and customer value creation processes (Storbacka, 2011; Keränen & Jalkala, 2013). Overall then, in the context of VDE, the sellers' value-based selling processes can be seen as *means to guide resource integration for value-in-use through constant monitoring and optimization efforts* (c.f. Macdonald et al., 2016).

**Table 1:** Key elements of value-based selling process

Authors	Understand customer's business	Create value proposition	Communicate value potential	Realize and verify value
Storbacka (2011)	Value research	Value propositions	Value quantification	Value verification
Töytäri et al. (2011)	Understand customer business	Positioning own offering + Set mutual targets	Quantify impact	Negotiate offer and deliver + Verify and document impact
Haas et al., (2011)	Identify key relational processes	Identify and activate relevant actors	Facilitate interactions	Disclose actors perceptions of value
Terho et al. (2012)	Understand customer business model	Crafting the value proposition	Value Communication	
Keränen & Jalkala (2013)	Value potential identification	Baseline assessment, mutual goals	Performance evaluation	Long-term value realization
Panagopoulos et al. (2017)	Understand, probe, and define a solution that creates value to customer needs	Assemble and modify the best possible combination of goods/services that fits customer requirements	Monitor and optimize the value derived from the solution	Verify value realized, diagnose new needs, and propose new value creating solutions

However, while majority of the research in this area includes the notion of adapting the selling process closely to each customer's business processes since value-in-use is by definition customer specific (Vargo & Lusch, 2004; Macdonald et al., 2016), they do this either broadly or implicitly. For example, while most of the studies do note that in VBS, the sales process needs to begin earlier (Storbacka, 2011), be deeper (Terho et al., 2012), or last longer (Keränen & Jalkala, 2013), they do not explore in detail how or where should these adaptations occur, or what kind of reciprocal impact they may have on the corresponding customer processes. In addition, the few studies that do consider sales process adaptations in VDE explicitly (Viio & Grönroos, 2014; 2016) note only that these adaptations are likely to be strategic and involve a high degree of reciprocal customer adaptations, but again, do not explain how or where these adaptations occur.

## 2.2 VDE in Purchasing & Supply Chain Management (PSCM) Literature

In contrast to the relatively established B2B marketing and sales research that considers how suppliers can facilitate VDE and sell value-in-use, the purchasing and supply chain management (PSCM) literature has only recently begun to consider how customers can facilitate VDE and purchase value-in-use (Wouters, Anderson & Wynstra, 2005; Pinnington et

al., 2016; Meehan, Menzies, & Michaelides, 2017). Although this literature lacks specific insights on the key elements of value-driven buying processes, recent studies have emphasized the importance of moving from the traditional offering-oriented transactions to a more value-focused purchasing and supply management (Monczka et al., 2011; Kähkönen & Lintukangas, 2012; Grewal et al., 2015). This is particularly prevalent in purchasing situations that are complex in nature or carry strategic importance for the buying firms (e.g. Caldwell et al., 2009; Selviaridis et al., 2013; Petri & Jacob, 2016). Against this background, the emerging value related PSCM-literature indicates some key differences between VDE and generic purchasing processes that are usually reactive, non-integrative, linear, and focused on short-term gains and cost reductions (Car & Pearson, 2002), particularly in terms of specification development, supplier selection, contract execution, and evaluation (e.g. Van Weele, 2010).

For example, due to the complex nature of offerings (Grewal et al., 2015), the buying firms' internal value dissonance (Pinnington et al., 2016), and the high customer-supplier information asymmetries (Anderson & Wynstra, 2005) involved in strategic purchases, it is usually much more challenging to develop and present specifications upfront to the potential suppliers (Gelderman et al., 2015; Nair et al., 2015). Hence, in VDE, the suppliers' role in developing the specifications, and understanding the customer's and even the customer's customers' needs, is heightened (Monczka et al., 2011). Moreover, the specifications are adapted continuously during the exchange through a cyclical process of defining and redefining the value (Selviaridis et al., 2013).

In traditional purchasing, suppliers are usually selected on the basis of competitive pricing or cost reductions (Schneider & Wallenburg, 2013), while in VDE, the supplier selection is influenced by the supplier's ability to support the customer's long-term value realization and competitiveness (Monczka et al., 2011; Nair et al., 2015). Similarly, in the execution phase, traditional purchasing tends to emphasize arms-length interactions, while VDE emphasizes close customer-supplier interactions that are necessary to make various alterations throughout the process (Gelderman et al., 2015). In addition, in VDE, customers tend to have less control in application and integration of resources (Caldwell et al., 2009). During evaluation, traditional purchasing tends to employ upfront specifications as criteria for final value outcomes (Gelderman et al., 2015), while in VDE, the performance and value outcomes cannot be usually predetermined precisely (Anderson & Wynstra, 2010). Thus, both the buyer and supplier tend to assume a more flexible and adaptive stance for the evaluation.

Viewed collectively, the PSCM-literature indicates that in VDE, it is difficult for the buyer to understand and pre-specify requirements and maintain a linear purchasing process, at least without the help of a supplier (Selviaridis et al., 2013; Pinnington et al., 2016). Instead, it seems that a range of adaptations are necessary throughout the process (Chen et al., 2004), which are not limited only to inter-organizational joint processes but include also adaptations to the buying centre structure and buying process (Subramaniam & Shaw, 2004; Munnukka & Järvi, 2008). Despite these insights, adaptations to specific VDEs have received much less attention in PSCM-literature compared to marketing and sales research and are (implicitly) indicative of expectations that it is the selling organization which should adapt their processes to buyer's processes (Viio & Grönroos, 2016).

### 2.3 A Dyadic Perspective to VDE

As value creation is increasingly viewed as a collaborative process where value emerges through the integration of resources between actors (Payne et al., 2008; Grönroos, 2011; Vargo & Lusch, 2016), a dyadic perspective to VDE is emerging in contemporary marketing literature. This process can be conceptualized as joint problem solving where both sellers' and buyers' need to invest their resources to activities of *defining customer needs*, *designing the solution*, and *implementing it* (Tuli et al., 2007; Storbacka, 2011; Aarikka-Stenroos & Jaakkola, 2012). Resources are controlled by actors, but they need to be integrated to become valuable (Håkansson et al., 2009). This integration occurs at three interrelated levels: actor, relationship, and network level, where resources are integrated into a larger resource constellation (Jaakkola & Hakanen, 2013). Hence the key resources affecting, and being affected by the integration process include: (1) *organizational competences*; i.e. an actor's organizational capabilities relating to processes, knowledge, and physical assets contributing to customer benefits; (2) *employee competences*, i.e. the availability, skills and professionalism of personnel contributing to customer benefits; and (3) *sourcing network competences*, i.e. capabilities of customer's/supplier's organization and personnel to leverage their knowledge of and relationships with other firms for the benefit of the customer (Macdonald et al., 2016).

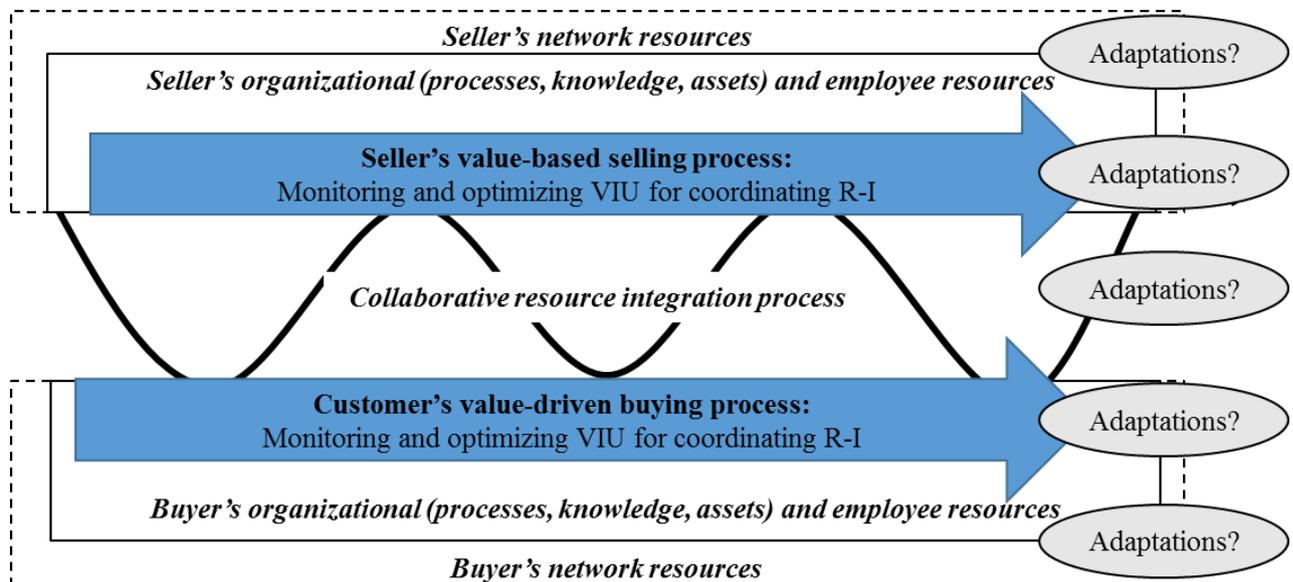
According to the dyadic view, reciprocal adaptations are needed because value-in-use depends not only on the quality of supplier offering but on the degree to which it matches the buyer firm's organizational, individual, and relevant network actors' resources and practices (Grönroos, 2011). Most studies have focused on adaptations conducted by sellers, such as the need to adapt the offering and align internal functions and processes to better match to the premises of the buyer organization (e.g. Tuli et al., 2007) or to manage non-receptive customers (Malshe & Friend, 2018). As a rare exception, a dyadic study by Selvidiaris et al. (2013) demonstrated that both sellers and buyers adapt their role and knowledge sharing routines in the resource integration process according to the level of buyer competence and supplier buyer specific experience.

### 2.4 Tentative Conceptual Framework

As depicted in Figure 1, this study views VDE as a process of resource integration involving organizational, employee and individual resources residing in the seller's as well as buyer's domain (Aarikka-Stenroos & Jaakkola, 2012; Macdonald et al., 2016). Sales focused research highlights that the value-based sales process comprises the processes of identifying and communicating value propositions that resonate with the customer's needs, coproducing the offering, and verifying the resulting value-in-use (e.g. Terho et al., 2012). As Figure 1 depicts, we argue that the role of the sales process is to coordinate resource integration by means of monitoring and optimizing value-in-use (cf. Macdonald et al., 2016). Respectively, in VDE, buyers cannot develop precise up-front specifications or alone control the purchasing process but they need to involve the seller in joint problem formulation and identification of value opportunities (Aarikka-Stenroos & Jaakkola, 2012). As the literature review shows, extant research explicates how buyers seek to specify their requirements, and request for tender, select, and evaluate suppliers, essentially representing the buyers' activities for coordinating the exchange process towards achievement of value-in-use. As the literature review shows,

extant research explicates how buyers seek to specify their requirements, and request for tender, select, and evaluate suppliers, essentially representing the buyers' activities for coordinating the exchange process towards achievement of value-in-use.

Hence, each exchange process is somewhat unique and involves adaptations of prevailing practices in terms of the sales and purchasing processes as well as offering deployment. While extant research offers insight into value driven sales and purchasing practices, the matching of these processes has remained a black box. In essence, we conceptualize the key processes of VDE – sales, purchasing, and collaborative processes – as mechanisms of *organizing and governing the actors' resource integration processes*, and argue that achievement of value-in-use potentially requires *adaptations on three levels: i) in the actor's organizational, employee, and network resources, ii) in the actor's selling/purchasing process, and iii) in the collaborative resource integration process*. Figure 1 illustrates the tentative conceptual framework for this study that will be used to guide the empirical data analysis.



**Figure 1:** Tentative framework on VDE processes and adaptation requirements

### 3. METHODOLOGY

To identify alternative VDE processes in business markets and analyze the adaptations they involve, we adopted a qualitative, discovery-oriented multiple case study approach (Eisenhardt, 1989; Corbin & Strauss, 2015). An exploratory research strategy allows us to elicit empirical insights from an under-researched area and develop a more granular understanding of the emerging phenomenon (Lincoln & Guba, 1985; Eisenhardt & Graebner, 2007). In addition, case studies are particularly suitable to situations which involve complex processes, social interactions, and interorganizational dynamics that unfold over time (Plakoyiannaki & Saren, 2006; Quintens & Matthysens, 2010), and multiple case study design allows us to compare emerging insights between multiple empirical contexts, thus strengthening theorization and generalizability (Yin, 2014). Our unit of analysis is a dyadic exchange process between a seller and a buyer, which is a central construct in the value co-creation research in business markets (Aarikka-Stenroos & Jaakkola, 2012; Grönroos & Voima, 2013).

### 3.1 Case Selection

With a goal of selecting cases that would be particularly revelatory and information-rich in terms of adaptations in VDE, we used theoretical and purposive sampling logic (Eisenhardt & Graebner, 2007; Patton, 2015) to identify matching supplier-customer dyads that involved VDE processes. We did this by asking “best practice” value-based selling firms in different industries (e.g., Terho et al., 2012; Keränen & Jalkala, 2014) to identify buyer organizations who had purchased value-driven offerings. Subsequently, we asked the identified buyer organizations to identify other selling organizations, who had either (i) sold them, or (ii) been approached by the buyer to purchase value-driven offerings.

Given that current VDE-literature is focused on unilateral adaptations (Viio & Grönroos, 2014; 2016), we focused exclusively on matching dyads, where we had access to both the seller and buyer involved in same VDE, to be able to identify and analyze reciprocal and joint adaptations. We increased the diversity and variation of the sample by focusing on VDE processes that were initiated by different actors (by suppliers, customers, or jointly). This allowed us to reveal a range of situations where different actors had to make reciprocal adaptations, and subsequently, capture holistic insights and extend merging theories on how, why, and where adaptations in VDE occur. Overall, our multiple case analysis includes nine matching supplier-customer dyads that involve VDE in business markets. This is in line with the principles of replication and comparative case analysis (Eisenhardt, 1989; Corbin & Strauss, 2015), and improves the analytical generalizability and transferability of findings, supporting emergent theory building from empirical data and field observations (Eisenhardt & Graebner, 2007; Yin, 2014).

## 4. EXPECTED FINDINGS, PRELIMINARY IMPLICATIONS, AND CONCLUSIONS

*(Data collection ongoing, findings to be presented at the conference)*

This work-in-progress paper has outlined potential complexities that hamper successful execution of VDE, specifically focusing on how sellers and buyers adapt their business processes to seize opportunities from value-based business initiatives and to enable their successful deployment. This study is motivated by the observation that while VDE strategies are considered as the state-of-the-art means of competing in contemporary business markets (e.g. Ulaga & Eggert, 2006; Anderson et al., 2009; Terho et al., 2017), achieving and realizing value-in-use requires versatile adaptations in resource integration practices across supplier and customer organizations (Macdonald et al., 2016) that currently remain poorly understood.

This study argues that the key processes of value-driven sales and purchasing processes – *function as mechanisms of organizing and governing the actors’ collaborative resource integration processes*. We expect that the results will explicate what adaptations are required in i) the actor’s organizational, employee, and network resources, ii) the actor’s selling/purchasing process, and iii) the collaborative resource integration process, for the achievement and realization of value-in-use. These results contribute to extant literature on B2B marketing where the matching of value-driven sales and purchasing practices has remained a black box (c.f., Paesbrugge et al., 2017).

More specifically, this study is expected to contribute to the literature streams on value-based selling and strategic purchasing by offering a dyadic perspective that generates insights on the adaptations required from both the customer and the supplier organizations to realize and optimize value-in-use (Aarikka-Stenroos & Jaakkola, 2012; Terho et al., 2017). Our study extends the extant research on business adaptations by moving the focus from long-term relational adaptations (e.g., Brennan et al., 2003) to adaptation needed to realize value-in-use in specific purchasing situations (c.f., Macdonald et al., 2016; Ulaga & Kohli, 2017) using more processual perspective. We focus on three types of required adaptations in different levels and domains, and show how these adaptations are carried out, ultimately extending emerging theories by explaining how the various adaptations facilitate resource integration for value-in-use. Thereby this study brings together previously dispersed sales and purchasing perspectives and expands previous research on adaptations by offering a more nuanced and holistic insights on how the adaptations may unfold at individual and organizational levels.

For managers involved in VDE, this study outlines the key adaptations that they need to carry out inside their own organization, in their interactions with the opposite side of the dyad, and with their network resources, to facilitate achieving optimal value-in-use. Based on our findings, we expect to provide specific suggestions to both customer and supplier organizations on how to carry out the adaptations successfully.

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