



Three Ways to Sell Value in B2B Markets

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

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

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

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

The Key Capabilities of VBS

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

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

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

In our field research, we have noticed that just deciding to sell value is rarely a sufficient strategy to implement VBS. Instead, successful vendors take a

more granular approach and choose a VBS strategy that centers on either product, customer process, or performance. (See "The Transition to Selling Value," p. 66.) In contrast, vendors with less success in implementing VBS often fall back on a price-centric approach, demonstrating competitive prices and product features rather than the value to the customer's business.

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

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

Vendors that succeed at product-centric VBS are able to leverage deep customer insights in innovating offerings that can help increase

THE

RESEARCH

Since 2010, the authors have collaborated with more than 70 companies in a wide range of B2B industries. Some were already advanced at value-based selling (VBS), while others were just beginning to invest in the approach.

The authors relied primarily on inductive research methods and more than 100 semistructured interviews with senior decision makers to elicit managerial insights into the key strategies, practices, and challenges of VBS.

They supplemented the field interviews with managerial workshops, roundtables, and some longitudinal observations of the outcomes of specific VBS initiatives.

customer revenues or reduce costs in their processes. While this approach is a less drastic departure from traditional price-centric product selling and is usually relatively easy to implement among the vendor’s sales force, it is still vulnerable to product imitation. Thus, to sustain product-centric VBS, vendors need to make continuous investments in R&D and customer insights to enhance their offerings’ value potential and keep competitors at bay.

Customer process-centric VBS shifts the focus from selling valuable offerings to facilitating valuable improvements in customers’ business processes, producing measurable financial benefits. Here, the vendor’s role is to educate customers on how to more effectively apply specific resources in their own value creation processes. As with product-centric VBS, as long as vendors can

demonstrate how their application expertise can lead to quantified cost savings or productivity gains, they should be able to claim premium prices for their time and resources. Examples of customer process-centric VBS are Kemppi’s diagnostics for welding processes, Caterpillar’s and Volvo’s truck fleet analysis and consultations, and Metso Outotec’s smelting and refinery process optimization. All are aimed at increasing process efficiencies, revenues, and/or performance while reducing operating and maintenance costs.

In customer process-centric VBS, value is cocreated by seller and customer: The seller actively facilitates value creation through consultative work. Vendors can rarely achieve this without customer inputs such as access to business parameters, application details, or performance data, as well as customers’ willingness to commit to process adaptations in areas that vendors pinpoint as ripe for

THE TRANSITION TO SELLING VALUE

Each approach to value-based selling (VBS) requires a significant shift in thinking relative to price-centric selling — and subsequent shifts in mindset as organizations move from the less complex product-centric view to the more ambitious approaches that focus on customer process and performance.

	PRICE-CENTRIC SELLING	VALUE-BASED SELLING		
		PRODUCT-CENTRIC VIEW	CUSTOMER PROCESS-CENTRIC VIEW	PERFORMANCE-CENTRIC VIEW
Sales Focus	Sell products that meet customer-specified needs	Sell benefits instead of product features	Sell process improvements instead of product improvements	Sell realized performance outcomes instead of potential value
Value Focus	Estimated value in use not explicitly expressed	Estimated value in use of the offering	Estimated value in use of the process improvements	Realized value in use in the customer processes
Pricing Logic	Cost-/competition-based	Premium pricing based on estimated value in use	Premium pricing based on estimated value in use	Premium pricing based on realized value in use
Seller Role	Providing resources for customer value creation	Providing optimized resources for customer value creation	Facilitating customer’s value creation processes	Taking responsibility and bearing the risk for customer’s value creation processes
Customer Role	Fully responsible for value creation	Responsible for value creation	Cocreate value with selling party	Cocreate value with selling party
Customer Adaptations	None	Minimal product-usage adaptations	Process adaptations	Governance and business-process adaptations
Suitable Buying Approach	Price-focused product buying	Total cost focus in buying	Long-term business value in buying	Long-term business value in buying
Key Requirements	Cost advantage	Product excellence and value communication	Process expertise and value facilitation	Performance optimization and value realization
Key Challenge	Commoditization	Product imitation	Continuous improvement and contract renewal	Risk assessment and variable control

improvement. This approach is appropriate for customers that not only understand the implications of TCO (beyond individual products) but are also willing to both collaborate with the vendor and enact changes in their wider business processes.

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

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

While performance-centric VBS offers the potential to deliver the greatest value and highest margins, this approach is particularly challenging, because vendors not only have to take full responsibility for value creation but also bear the risks related to value realization. This requires that the seller gains sufficient control for value realization, typically by taking responsibility for selected customer processes.

And customers need to be willing to cocreate value by giving the seller access to process information and usage data and agreeing on which responsibilities are critical to value realization. Thus, performance-based VBS is suitable for customers that are willing to outsource some of their (usually noncore) business processes and engage in long-term partnerships and that are capable of adapting both processes and governance mechanisms in order to shift some responsibilities to the vendor.

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

Choosing the Right VBS Approach

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

STEP 1: Determine your strengths for VBS.

Consider where your unique strengths and key differentiators lie vis-à-vis competitors. Are they in superior technical products, accumulated process expertise and application skills, or the ability to manage customer processes for improved performance outcomes? Put differently, can you deliver quantified monetary value by selling better products, better process efficiencies, or guaranteed performance outcomes? Reflect also on whether



Customer process-centric VBS requires a deeper consulting capability: Salespeople need a profound understanding of the customer's business, and the consultative selling skills to detect, discuss, and improve the customer's pain points.

you have a realistic chance of advancing your strengths into other areas of VBS. Once you have your strengths figured out, you have a better chance of matching them to potential VBS opportunities in your target market.

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

STEP 2: Identify substantial value creation opportunities in your key target markets. Analyze the key value drivers in your customers' profit formulas. Are they related to costs, revenues, or tied-up capital, or do you see underutilized value opportunities in these areas? Importantly, the three VBS approaches offer different potential ways to impact customer profits: The impact of superior products is usually limited to cost savings; process support, however, can extend to revenue-generation enhancements, and taking over customer processes for guaranteed performance can impact customers' tied-up capital. Once you have identified substantial value-creation opportunities in your target markets, you can start charting the right path for implementing the required VBS approach.

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

STEP 3: Understand what kind of internal adaptations specific VBS approaches require.

Internal resistance is often a major obstacle to VBS, so it is critical to understand what kind of adaptations and change-management strategies will be needed to implement different VBS approaches.

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

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

Customer process-centric VBS, on the other hand, requires much deeper *consulting capability adaptations* in order to advance customers' own value creation processes. While value communication skills are important, they are no longer enough: Salespeople now need a more profound understanding of the customer's business, along with the consultative selling skills needed to detect, discuss, and improve the customer's pain points. The reality seems to be that usually only a few product salespeople are able to adopt customer-centric VBS with ease. Hence, to facilitate the adoption of customer-centric VBS, vendors often recruit key

individuals directly from their customer industries (to gain customer goal, process, and industry understanding), form sales teams that collectively have the required capabilities, and/or roll out major sales training and service transition programs.

For example, IBM acquired the whole consulting arm of PricewaterhouseCoopers to strengthen its capabilities to sell complex and high-value technology and business services. Alternatively, when Kone, an elevator and escalator manufacturer, transformed itself into an intelligent building solutions provider, it had to invest in an extensive companywide sales support program, including training programs, value calculators, solution champions, and modular offerings. This investment provided its existing product sales force with the tools and skills to tailor solutions to customer needs and sell enhanced building performance and user experiences.

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

When Wärtsilä, a provider of marine and energy life-cycle power solutions, made a shift from selling diesel engines to optimizing cruise fleet performance, it had to establish a new pool of engineers who were trained to take over the engine maintenance work previously done by the customer. The company also needed to train them to

use data analytics and internet of things (IoT) software to monitor engine efficiency in real time. In addition, Wärtsilä had to set up a contract where compensation and risk sharing were based on realized engine performance, and it had to measure the results regularly with its customers.

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

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

While the characteristics above are not always easy to determine and may depend on the situation, successful vendors tend to look at the size of the value opportunity and access to senior decision makers higher in the customer organization. When access and opportunity are strong, vendors have a better chance of convincing customers of the benefits of VBS and facilitating the changes needed

for value realization in customer organizations. In contrast, if either is insufficient, customers have less motivation to consider new approaches.

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

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

WHILE VENDORS CAN PURSUE more than one approach to VBS at the same time, they usually start from product-centric VBS and gradually transition to more complex approaches. Since the capabilities and required organizational changes for each VBS approach are cumulative in nature, starting from a simpler approach is not only easier and less resource-intensive but enhances subsequent efforts

to move to more complex VBS approaches. Only by understanding the key requirements for different VBS approaches can vendors eventually turn the idea into action and apply a strategically suitable VBS approach in different situations.

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