A value proposition (VP) is a statement that translates the features (design attributes) of supplier offering into monetary impact on customer business value, for instance: "feature X translates into energy saving of 1000 kWh and energy costs of €225 per year" or "feature Y translates into maintenance time reduction by 200 hours and, consequently, maintenance cost of €6000 per year".
VP is a device that: (1) enhances knowledge transfer between actors that collaborate in value creation, (2) overcomes the weaknesses of vague promises like "cost reductions" or "increased efficiency" (Anderson et al., 2006), and traditional concepts like "perceived customer benefits" and "product quality" in explaining b2b relations, (3) creates an alternative for developing and selling the components at prices allowable (by customer) and enables negotiation of differentiated (high) prices for differentiating impact on customer business value. If Vf and Pf represent value and price of a market offering of a focal firm, Vf and Pa represent value and price of the next-best alternative, it is assumed that the buyer's incentive to purchase the focal offer \( = (Vf - Va) - (Pf - Pa) \) (Anderson et al., 2007). VP is crafted iteratively by actors collaborating in value creation processes on both supplier and customer side. The goal of the paper is: (1) to conceptualize the VP concept built on the unequivocal concept of eight financial value drivers, (2) to reinterpret some of the research results in value-based selling, innovation commercialization and new product development and (3) to suggest areas for future research on the use of VP in b2b relations.

The structure of the remainder of this paper is as follows: the first part presents how the VP is used in three streams of research: (1) value-based selling, (2) innovation commercialization and (3) NPD processes. The second part presents the model of b2b supplier-customer relation in which value proposition (VP) is conceptualized with use of eight financial value drivers. Reinterpretation of current research results and future research avenues are presented in the third part.

**VP in b2b value-based selling. How to communicate the current offer's impact on customer business value and get the differentiated price?**

Terho et al., (2012), and Töytäri et al. 2011 use the VP concept to explain the sales process in b2b settings. The managerial question here is how to change the selling process from selling the offer's functionalities into selling its impact on customer business value to get the appropriately high price (to show the price as investment for the customer's business).

Terho et al. (2012) conceptualized the VP, crafted and communicated by the salesperson, as the supplier's offer's impact on the customer's business value expressed in monetary terms (not in functional terms only), compared with the next-best alternative for the customer (the VP is understood as a managerial accounting device that enables knowledge transfer between salespeople and the customer). The salesperson crafts the VP based on identified value drivers for adding substantial value to the customer's business. Because customers are sometimes unaware of, or unable to explain their value increase potential, understanding customer needs (as they are articulated by customer) is not enough to craft the value proposition. Understanding the customer's business model is required (Johnson, Christensen, and Kagarmann, 2008) as well. Value-based (value proposition) selling converges upon finding and offering the best long-term solution for the customer's business, which shifts the focus of purchasing from looking for the lowest price to making business investment decisions. The concept of VP in the selling process (the value-based selling) describes the salespersons behavior not covered in other sales approaches (in consultative selling, relationship selling, adaptive selling, and customer-oriented selling) in sales research.

Töytäri et al. (2011) identified in their qualitative research the following value drivers that were used in crafting of value propositions in real b2b selling processes: (1) maintenance and energy cost savings (2) decreased materials costs (3) risks reduction (4) asset value (5) overall equipment effectiveness, but the authors don't assign the identified drivers to the categories of financial value drivers. They argue that: (1) there is a mismatch between the traditional salesman skill set and the skills required to demonstrate how the vendor’s offering precisely impacts the customers’ key performance indicators, (2) investment in sales support (i.e. knowledge about the customer business models) is needed, (3) the value-based sales force is difficult to train and maintain (Kaario et al., 2003; Anderson et al., 2007), (4) initiation of institutional ties between both the customer and vendor organizations that facilitate value co-creation is required. They suggest also that value-base selling is appropriate when the customer is willing to collaborate (open books' approach on both supplier's and customer's sides) and the value of the relationship is high (Kaario et al., 2003). If both measures are low, traditional selling techniques should be used. The supplier may choose between product and solution sales, evaluated case-by-case. The offering is most attractive for value-based selling when the real value of the offering is either underestimated or unknown. This holds especially for innovative offerings, the value of which is difficult to perceive for the customer. The VP is not applicable in
selling situations when the customer wants to buy predefined specifications (which are to be found in purchasing based on legally regulated tendering procedures) instead of impact on their value. Terho et al. (2012) suggest that the questions concerning contingency factors (for which situations, customers, products is the value proposition selling suitable, for which is not) as the fruitful avenues for future research.

Value proposition in b2b technology innovation commercialization. How to use the VP to increase knowledge transfer between innovators and potential customers?

Wouters and Kirchberger (2015) use the VP concept to explain innovation commercialization processes. The authors conceptualize VP as a managerial accounting device that enables knowledge transfer between innovators ('in the lab') and their potential customers ('in the market'). Knowledge transfer can give insights to both sides and change their decisions: (1) the customer insight enables changing the purchasing decision from alternative solutions to the offer in question (2) the supplier insight enables changing the offer developed from technology in question.

The authors conceptualized the VP as a distinct form of management accounting calculations that enhances interorganizational collaboration and knowledge transfer between a new technology-based firm (that possesses technology) and customers (that expect value impact), that is required for successful technology commercialization. The VP used in this context not only represents the current products as it does in value-based selling context (Terho et al., 2012; Töytäri et al., 2011), but also, more importantly, can provoke insights that enable creation of new offers in a technology-based firm. Differential impact on customers' business value may create technological challenges for product features/design attributes changes that the technology-based firm may not have considered before. VP becomes important if it helps the supplier to learn about possible changes in features/design attributes (motivated by possible/target differential value impacts). VP is not about how accurate value calculations are, but to what extent they produce insights that affect how products and services are shaped. VP in such context requires interactive collaboration between a new technology-based firm and potential customers.

Value proposition in b2b new product development (NPD). How to use the VP to increase the knowledge transfer between supplier's and customer's NPD actors?

Wouters et al. (2009) and Wynstra et al. (2012) use the VP to explain the supplier's component offering influence on effectiveness of customer's NPD projects in situations when the component is to be developed (the component is 'not off supplier's the shelf'). The authors found that customers, when using VP to select alternative supplier's component offer, influence positively the effectiveness of their NPD projects. VP is defined as a form of supplier's output monitoring and control that creates transparent information (and knowledge transfer) about how supplier contributes to customer's NPD effectiveness. The use of VP in the supplier's component offers evaluation: (1) reduces uncertainty of the buyer's NPD projects (2) enhances the customer NPD development time, and final product advantage. The authors argue that because the VP quantifies
only the differences between alternative offers it's simpler in use in comparison with TCO and life cycle costing — the techniques that require bigger amount of information to generate the knowledge transfer between suppliers and customers’ NPD projects.

The authors suggest that because their research was concentrated on NPD projects (with at least a medium level of technological innovation), future research could investigate: (1) how different levels of innovation within an NPD project affect the use of VP and (2) the antecedents and consequences of using VP at a more detailed level (the level of individual components) of unit of analysis than an NPD project.

Summarizing the use of the VP concept in three above mentioned research contexts can be as follows. Firstly, VP is defined as translation of differentiating features of the offer into monetary quantified impact on customer’s business value. Secondly, VP enhances knowledge transfer between the supplier and the customer (interfirm communication and collaboration, managing knowledge across interfirm boundaries). Thirdly, their research units are firms (suppliers, customers) and customers’ NPD projects. Fourth, the research revealed some value drivers used in real business cases but the authors neither define value nor systematize the value drivers in their research. Fifthly, the particular investigations concerned separate value creation processes (sales, innovation commercialization and NPD) — they didn’t concern the way the processes influenced one another. Lastly, the research omitted the motivation of particular actors collaborating in the value creation processes to transfer their knowledge from one to another.

**B2b value proposition concept built on financial value drivers — another conceptualization and perspectives for research**

Figure 1 presents a conceptualization of b2b value proposition built on eight financial value drivers (Rappaport, 1986):

1. **Sales increase.** Additional sales increase (ceteris paribus) value. However, when additional sales revenue is accompanied by price reductions, gross profit and, consequently, operating profit margin and finally value can decrease. When additional sales revenue is accompanied by bigger additional accounts receivable or inventory, the value can decrease.

2. **Operating profit margin.** Bigger operating profit margin increases (ceteris paribus) value. When additional operating profit is accompanied by additional financial costs of accounts receivable or inventory (the elements of cost of capital), the value can decrease.

3. **Tax rate.** Reduction of tax paid increases (ceteris paribus) value.

4. **Effectiveness of working capital investment.** Working capital equals current assets (cash, accounts receivable and inventory) minus accounts payable. The effectiveness of working capital investment can be measured as a relation between operating profit, cash frozen in accounts receivable, and inventory (the bigger the relation, the better) or determined by the time of outflows and inflows of cash (the shorter time between cash payments for buying parts and materials, and cash inflows from sales, the better).

5. **Effectiveness of fixed asset investment.** The improvement of relation of operating profit to cash frozen in fixed assets increases (ceteris paribus) value.

6. **Cost of capital.** Smaller cash paid by company to debtors (interest rate) and the owners (return) for their capital increases (ceteris paribus) value.

7. **Value creation period.** The longer a business can generate cash on the expected level (ceteris paribus), the bigger value.

8. **Launching an additional business unit (new product, additional source of value) increases (ceteris paribus) value.** Every business requires a share of new products because older products lose their ability to generate cash as the time of the business opportunity they use, passes.

In the model (figure 1), VP is conceptualized as a device that enhances knowledge transfer between

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actors participating in the value creation processes. Firstly, VP is defined as translating the differentiating feature (design attribute) of an offering into monetary impact on customer’s business value in value-based selling. The statement: "our differentiating feature/design attribute...reduces the dimensions of our machine to: length...m and width...m, and enables our customer to reduce rent spending to ... in one year in comparison with his current, larger machine" is an example of VP in value-based selling context (in which it represents existing/current product offered by supplier). Such statement is crafted by a salesperson (supported by the product manager who has launched the product in question) and communicated in sales presentations. It enables knowledge transfer (about the impact of the offer on customer business value) between the supplier’s salespeople and the purchase decision makers on the customer's side. Secondly, VP is understood as translating, reversely, the target monetary impact on customer business value into the target differentiating feature/design attribute in supplier's NPD process. The statement: "to enable our customer's business to reduce rent spending to ...€ per year in comparison with his current, large machine, the target dimensions of our new machine are: length ...meters and width ...meters, that are possible to get when the feature/design attribute is..." is an example of value proposition in NPD. Such a statement is crafted by the product manager (supported by salespeople that supply relevant information about customers) and R&D workers.

From the point of view of financial value drivers' concept, one can formulate three comments about the example statements translating length and width into rent spending. Firstly, they tell the story about the offer’s impact on customer’s business operating profit margin (by reducing one of operating costs), so about one of eight financial value drivers. Potentially, VP can be crafted with the use of the other/remaining seven value drivers. The use of broader scope of value drivers in crafting one value proposition is not required in particular business case but it increases the potential of all actors participating in value creation processes (i.e. selling, NPD and innovation commercialization). Secondly, the part of VP: "smaller size of the machine, length...m, width...m" is a quantified non-financial value driver, which coincides with "reduction of rent spending" (operating cost) but is not its cause. The "product differentiating feature/design attribute" is the real cause of the impact on the customer's both non-financial and financial value drivers. Potentially, VP can be crafted with the use of the other/remaining seven value drivers. The use of broader scope of value drivers in crafting one value proposition is not required in particular business case but it increases the potential of all actors participating in value creation processes (i.e. selling, NPD and innovation commercialization). Secondly, the part of VP: "smaller size of the machine, length...m, width...m" is a quantified non-financial value driver, which coincides with "reduction of rent spending" (operating cost) but is not its cause. The "product differentiating feature/design attribute" is the real cause of the impact on the customer's both non-financial and financial value driver (s). VP translates the offer's feature (as a cause) into quantified non-financial and financial effects. Thirdly, the differential impact of the offer on the customer's business value justifies its higher price that is presented as an investment for the customer. The supplier avoids price competition this way.

In the model (figure 1): (1) salespeople participate in exploration for new value
propositions in NPD by influencing the content of the R&D briefs for new products to be launched; (2) product manager launches new products and trains salespeople in how to craft VP in sales presentations to target customers. The use of VP in NPD and the use of VP in selling influence one another. Both intraorganizational and interorganizational collaboration between actors creating value is of equal importance.

The actors that collaborate in crafting the VP need to: (1) understand the value drivers concept to craft value propositions successfully and (2) be motivated basing on value drivers in their companies, which means: (1a) the more value drivers in the construction of particular KPIs the better (for instance: operating profit minus costs of accounts receivable is better candidate for KPI for salespeople than operating profit only because it represents more financial value drivers), (1b) KPIs of superiors should contain KPIs of subordinates (Kleczek, 2014).

Value proposition is not applicable in situations in which particular actors on supplier or customer side are motivated by KPIs that are loosely linked or not linked to their company’s NPV. The looser are the purchase decision makers linked by their motivation KPIs with NPV of their company, the less they are sensitive to value propositions. The looser are the salespeople linked by their motivation KPIs with NPV of their company, the less they are willing to craft the value propositions. The looser are the particular actors linked by their motivation KPIs with NPV of their company, the less they are willing to collaborate in crafting of value propositions.

Crafting VP in value creation process (in selling, innovation commercialization, NPD) requires from the actors involved understanding relations between customer goals/models and financial value drivers, not the customer goals only. When problems or goals are established without analysis of their impact on eight financial value drivers, there is a danger they are inadequate for value creation. VP can change the customer business goals or business model. Apart from it, VP can concern the measures that have universal positive impact on business value (for instance increase the speed of business operations, decrease of defection rates, shorten time to market or downtime, decrease smaller wattage or mileage), irrelevantly to any particular business strategy or goal.

Table 1 presents a how VP is used in three research streams presented above in the paper and in the model (figure 1). The comparison creates bases for discussion about reconceptualization of VP (presented in the model), reinterpretation of current research results and reformulation of question for future research.

Reconceptualization of VP built on financial value drivers concept

The authors of the three research streams presented above in the paper, conceptualize the VP as a device for enhancing interorganizational (supplier-customer) knowledge transfer. The model (figure 1) emphasizes that the VP is the device that can enable both inter- and intraorganizational (product manager-salespeople-R&D workers) knowledge transfer. The authors don’t suggest any theory of value drivers. The model builds on: (1) theory of eight financial value drivers, (2) the concept of non-financial value drivers, (3) features of the offering are the real causes of change of both non-financial and financial value drivers. Additionally the model suggests that VP is effective, when used together with motivation system that aligns interests of all actors participating in value creation processes.

Reinterpretation of current research results

From the point of view of the model (figure 1) one can say that several value drivers have been identified in particular investigations in the three research contexts presented above in the paper. Some of them are financial value drivers (sales increase). Others are elements of financial value drivers (decrease of energy, maintenance and material costs influence positively operating profit margin; decreases of asset value influence positively the effectiveness of investment in working capital or fixed assets depending on what are the assets in question). Others are non-financial value drivers (risk reduction, lower emission, and product development time. The actors that collaborated in value creation processes in the analyzed cases, contributed to one or a limited number of financial or non-financial value drivers. The reinterpretation of the current research results from the point of view of financial value drivers concept is as follows: the research revealed some scope of financial value drivers used in real business cases: some value drivers were used in crafting VPs, some were not. For some research results it was not clear, which financial value driver was in question — for instance: (1) “cost reduction” can mean operating cost or cost of capital, (2) “asset value” can mean an increase (decrease) of effectiveness of fixed asset investment, when relation of sales to fixed assets increases (decreases) or increase (decrease) of working capital investment, when relation of sales to cash frozen in inventory and accounts receivable increases (decreases).
Questions for future research. What do we know and what we would like to know about VP use and its effects?

Current research (reported in the paper) identified some value drivers used in crafted VP in real business cases. Future research could devote more attention to the questions: (1) what the identified drivers are from the point of view of eight value drivers concept (2) what is the scope of financial value drivers used in particular case and group of cases (3) why some value drivers are used in VP when the other are not? (4) is it possible to use additional value drivers to craft particular VP?

Current VP research suggests positive relation between the use of VP and performance, but it concentrates on identification of names of particular value drivers used both in VP and in effects of their use: "sales increase", "cost reduction", "project development time reduction". Future research could devote more attention to quantification of the effects (how big is the sales increase? how big is the cost reduction? how big is...
the project development time rate increase? what is the time lapse between the use of VP and its effects in performance? how long time do the effects last?, to organization (how many people, from how many departments and companies, collaborate in crafting of particular VP?) and spending (how much does it cost to introduce VP as an instrument of actors collaboration?) required to craft the VP.

Current research concerns the question of how VP enables interorganizational communication and collaboration. Future research could be devoted also on how the VP influences on intraorganizational collaboration (salespeople — product manager — R&D?). He and Wong (2004) found that exploration for new knowledge and exploitation of current knowledge require different structures, processes, capabilities, and cultures, they are typically done in separate organizational units, so one can ask the question of how are the value creation processes (NPD = exploration for new products, selling = exploitation of knowledge about products) interlinked? does the use of VP in NPD increase the use of VP in selling? are the suggestions of salespeople used in product manager's briefs for R&D or not? how many actors from different company's departments and from the outside of the company participate in NPD process and in sales process? are they the same people?

Current VP research omits how the motivation systems of particular actors are linked with the value drivers of their companies. Future research could devote more attention to the question of how motivation system of particular actors influence their behavior and performance: does the increase of the number of value drivers in motivation KPIs increase the actors' contribution to the company's value? does the inclusion of subordinates KPIs into superior's KPI increases their contribution to company's value? how particular actors are motivated/rewarded for their exploration (contribution to innovations) and exploitation (selling) activities? what are the differences in motivation-for internal (in the company, for instance motivation of salespeople, R&D workers, product manager for contribution to NPD) vs. external (outside of the company) actors collaborating in crafting of VP?

References


