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Organizational and institutional barriers to value-based pricing in industrial relationships



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ABSTRACT

In their effort to differentiate themselves from cost-driven rivals, many industrial companies are beginning to serve their customers through value-based offerings. Such companies often engage actively in collaborative value creation with their customers. To capture a fair share of the value created, they need to adopt a value-based pricing approach. Therefore, value-driven competition necessitates value-based pricing (VBP). The present study explores the barriers to exercising value-based pricing and suggests ways to overcome those obstacles in putting value-based pricing into action in B2B sales. The study is implemented as an exploratory multi-case study applying an abductive research methodology. Our cases show that industrial sellers try to understand and influence their customers' desired value perception, influence customer-perceived value (CPV), and improve their bargaining position as means to overcome these barriers to improved value capture. Hence, our findings deepen the current understanding of value-based pricing in industrial buyer–seller relationships. In doing so, it contributes to the literature on customer value, organizational capabilities, business models, and sales management in previously unexplored areas. Moreover, the study provides guidance to business practitioners willing to develop value-based pricing as part of their business model.

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1. Introduction

Research on business-to-business (B2B) marketing stresses the importance of pricing for every firm's profitability and long-term survival (Lancioni, 2005). Hinterhuber and Liozu (2012) emphasize that price setting requires discipline and should be congruent with other aspects of a firm's marketing strategy. Commoditization of offerings in mature markets and pronounced buyer power might drive price setters toward competition-based pricing or cost-based pricing (Farjoun, 2002; Ingenbleek, Debruyne, Frambach, & Verhallen, 2003), and lead to below-target profitability (Nagle & Holden, 2002). Hence, many industrial firms strive to renew their business models by increasing the number of value-adding activities in their offering portfolios. This renewal fundamentally affects their customer approach and emphasizes customer-perceived value (CPV) as the basis of their business strategies. Previous research suggests that while CPV is generally acknowledged as a necessary basis for business strategy, alone it is not sufficient for capturing value (Bowman & Ambrosini, 2000). Moreover, Blois and Ramirez (2006, 1027) argued that "although firms exist to help customers and organizations to create value, they only do so in order to capture part of that value for themselves."

As more firms adopt value-based business strategies, there is a call for a better understanding of the constituents of a pricing approach to support value capture (Monroe, 2002). Value-based pricing (VBP) is a potentially powerful tool to capture a fair share of the value created (Hinterhuber, 2004, 2008b). Previous research generally holds value-based pricing as a superior method for profit maximization (e.g., Monroe, 2002), and competitive advantage (Dutta, Zbaracki, & Bergen, 2003). However, there seem to be major obstacles in putting value-based pricing into action in business markets. Hinterhuber (2008a) reports that in many surveys of pricing approaches across industries, value-based pricing accounts on average for only 17% of the investigated pricing approaches. Among the reasons why VBP is employed so infrequently is that it features complicated customer specificity, which creates obstacles for marketers. VBP has been described as a sophisticated but complicated approach to pricing in business markets (e.g., Forbis & Mehta, 1981). It uses customer-perceived value as a pricing reference (while cost-based pricing refers to supplier cost, and competition- or market-based approaches link pricing to market prices). CPV-based pricing calls for understanding the sources, dimensions, and outcomes of value. In addition, using CPV as the reference necessitates the assessment of customer value and communication about it with customers. Hence, the following questions are posed: What are the barriers to value-based pricing in B2B relationships? How can suppliers overcome those barriers?

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The purpose of the present study is to explore the barriers to exercising VBP in industrial buyer–supplier relationships, and suggest ways by which sellers can potentially overcome the barriers to adopting VBP for improved value capture. Through an empirical inquiry consisting of a multiple case study approach we analyze companies that have pursued VBP as part of their marketing strategy. Our study is linked to the academic discourse of buyer–seller relationships and builds on the notion that business relationships should be of value to all participants. Wilson and Jantrania (1994, 63) point out that a major issue in the life of a relationship pertains to how value is shared between partners, submitting that “the greater the value created, the greater the issues in sharing the value.”

The remainder of this paper is structured as follows. The next section provides a conceptualization of customer-perceived value, value exchange, and value-based pricing to deepen the current understanding of the constituents of customer-perceived value as the basis for value-based pricing. Section 3 describes the research process and the methods used to gather data. The analysis reported in Section 4 follows the abductive research method of a systematic integration of empirical and theoretical knowledge (Dubois & Gadde, 2002) by presenting the findings with links to the relevant literature. The final section discusses the implications for research and practice, synthesizing factors that may impede the use of VBP and behaviors that facilitate it. In addition, we discuss the limitations of the study and suggest some opportunities for future research.

2. Customer-perceived value, value exchange, and value-based pricing

2.1. Conceptualization of customer-perceived value

In the literature, the creation of customer value is linked with achieving high business performance (Blois & Ramirez, 2006; Gosselin & Bauwen, 2006), long-term success, and survival (Eggert, Ulaga, & Schultz, 2006). Value has a number of attributes. *Value is subjectively evaluated.* It is perceived distinctly by customers (Ramirez, 1999; Vargo & Lusch, 2004). *Value is context-specific.* Customers judge the value in their specific use context (Kowalkowski, 2011), based on the customer's specific business situation, guided by institutional constraints (Zucker, 1987), and behavioral influences (Cyert & March, 1992). *The perception of value is dynamic.* The customer's perception of value may change over time in terms of both the relative importance and the business impact of different facets of value (Flint, Woodruff, & Gardial, 2002). *Value is multi-faceted.* The literature suggests different taxonomies of value, emphasizing, for example, the economic, strategic, and behavioral dimensions (Wilson & Jantrania, 1994); economic, technical, service, and social (Anderson, Jain, & Chintagunta, 1993), or product, service, know-how, time-to-market, and social (Ulaga & Eggert, 2005). The source of value can be a product, a relationship, or the network in which the relationship is embedded, or all of these (Lindgreen & Wynstra, 2005). These attributes of value influence the value perceived by the customer and, hence, influence value-based pricing.

Anderson et al. (1993) define value in business markets as the perceived worth in monetary units of the set of economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices. While, in addition to product-related value, this definition recognizes some elements of relationship-related value, Ulaga and Eggert (2005) defined customer value in business relationships as the trade-off among product, service, know-how, time-to-market, and social benefits, as well as price and process costs in a supplier relationship, as perceived by key decision makers in the customer's organization and taking into consideration the available alternative supplier relationships. Drawing on the above definitions, we define customer value as a four-dimensional construct:

Customer-perceived value is the difference between perceived benefits received and perceived sacrifices made by a customer. Both benefits and sacrifices are multi-dimensional concepts, combining operational, strategic, social, and symbolic dimensions of value.

The conceptual framework identifies four *dimensions* of customer value: strategic, operational, social, and symbolic. Of note, economic indicators are not among the dimensions of customer value. Instead, economic measures focus on the outcome of customer value-based approaches in terms of operational performance or future-oriented catalysts of change (March & Sutton, 1997). The economic *outcome* is affected by a change in one or more of the following economic performance indicators: an increase in revenue, a higher profit margin (by a decrease in lifecycle cost of operation), a reduced risk of the expected economic outcomes (by improved stability of the operation), or a more efficient use of resources (such as better return on capital invested or more efficient use or process inputs) (e.g., Vitasek et al., 2012).

2.1.1. Operational value

The *operational dimension* of value pertains to the operational performance of a company, and affects processes within the organization and at the organizational boundaries, toward customers and partners. Operational value results in lower operational costs or higher output value, or both.

Operational value is manifested as improved processes, improved process integration, and higher offering value. Processes are improved by better capabilities, resource efficiency, and process input improvements. Suppliers contribute directly to operational value with improved products and components featuring fitness for purpose, conformance, performance, and reliability (Ulaga & Eggert, 2005), product features, and ease of handling (Ritter & Walter, 2012). Relationship-related contributions affect operational performance through knowledge, process development, process outsourcing, process integration, cooperation efficiency, and risk avoidance (Hunter, Kasouf, Celuch, & Curry, 2004). Suppliers may also significantly increase the value of the customer's own offering (Brandenburger & Nalebuff, 1996). Achieving operational benefits incurs adaptation sacrifices, including process changes, competence development, installation, and integration (Ravald & Grönroos, 1996). Operational sacrifices are determined by the total cost of ownership (Anderson, Wouters, & Rossum, 2010; Ferrin & Plank, 2002). Relationship-incurred operational sacrifices include the risk of not actually receiving the benefits due to delays, failures, false promises, and other factors relating to future realization of the value. Relationships also incur governance and relationship management costs.

2.1.2. Strategic value

The *strategic dimension* of value pertains to organizational change and survival. Strategic value involves leveraging existing capabilities or developing new capabilities through learning, know-how (Ulaga & Eggert, 2005), and innovation. Developing new capabilities and absorbing them from the external environment both support innovation for the future. Organizational learning in inter-organizational relationships may have long-haul and strategic benefits through the acquisition of skills and capabilities that improve environmental adaptation (March, 1991). Relationship-related strategic sacrifices include the erosion of own capabilities (Ritter & Walter, 2012), inability to adopt inputs (Cohen & Levinthal, 1990), unhealthy dependency (Williamson, 1991), lock-in, and a potential leaking of proprietary knowledge and intellectual property rights, with rising costs and lost competitive advantage as a result.

2.1.3. Social value

Participation in a supplier relationship or network can influence the external status of a customer in a wider business network by inclusion in a high-image network, prestigious community or strategic alliance (Kothandaraman & Wilson, 2001) bringing, for example, improved legitimacy (Suchman, 1995). The potential benefits include lower cost

of new customer acquisition and improved retention of existing customers by improved market access (Ritter & Walter, 2012), as well as reference value. The wider network-related social and structural bonds (e.g., Wilson & Jantrania, 1994) support learning and innovation by providing access to information (Ritter & Walter, 2012). At the relationship level, social bonds and trust and cultural fitness (Wilson & Jantrania, 1994) reduce cooperation and relationship-governance costs. Flexibility and solidarity (Lapierre, 2000) soften the impact of market dynamics. Managing a network, or choosing an ecosystem brings an opportunity cost and reputational risk, and the wrong choice can pose a threat to survival

2.1.4. Symbolic value

Goods, business relationships and networks can create symbolic value. Symbolic value is manifested as the internal motivation pride, and job satisfaction. It may even contribute to increased productivity, improved retention, and overall workforce performance (Ritter & Walter, 2012). Research in the sociology of culture suggests that goods and relationships carry a symbolic value to the extent that they provide users with an outlet to express individual identity, and a possibility to signal social status (Ravasi & Rindova, 2008). Part of such symbolic value is social, but it also has a contingency aspect and can be seen to carry an emotional charge.

2.2. Value exchange

In business markets, firms exchange value during relational processes by receiving benefits and making sacrifices. The primary motivation to exchange comes from trading *perceived use value* against *exchange value* (Bowman & Ambrosini, 2000). The customer receives benefits from the supplier and makes supplier-related sacrifices (including exchange value) during the relationship, both benefits and sacrifices consisting of the different dimensions of value. Both parties must perceive the benefits received as exceeding the sacrifices made (Khalifa, 2004). Both the customer and the supplier also receive benefits and sacrifices, which are not directly related to the exchange, including network-related and indirect relationship benefits and sacrifices. Influential stakeholders on both sides subjectively evaluate the different dimensions of value for their value capture potential, by weighing benefits against sacrifices, assessing the risks, and deciding for or against the exchange. All of the customer-perceived value dimensions inform and influence the decision-making.

2.3. Value-based pricing

The available range to determine the price between the supplier cost and the buyer-perceived value (Forbis & Mehta, 1981; Kortge & Okonkwo, 1993) is illustrated in Fig. 1. The customer's willingness to pay (e.g., Brandenburger & Stuart, 1996) is limited by the perceived net benefits: "Benefits are net benefits, where any costs that the customer firm incurs in obtaining the sought benefits, apart from purchase price, are included" (Anderson & Wynstra, 2010, 31). The customer-perceived value is the difference between the perceived net benefits and price paid. Correspondingly, suppliers make no profit by selling below their cost.¹ Hence, price is determined within the range (Kortge & Okonkwo, 1993) indicated, and the price determines how value created is shared between the parties.

Literature identifies three main pricing approaches: cost-based, competition-based, and value-based pricing (Hinterhuber, 2008a), which use supplier costs, prevailing market prices, or customer value as the pricing reference, respectively. Hinterhuber (2008b, 42) defines value-based pricing based on the value that a product or service delivers

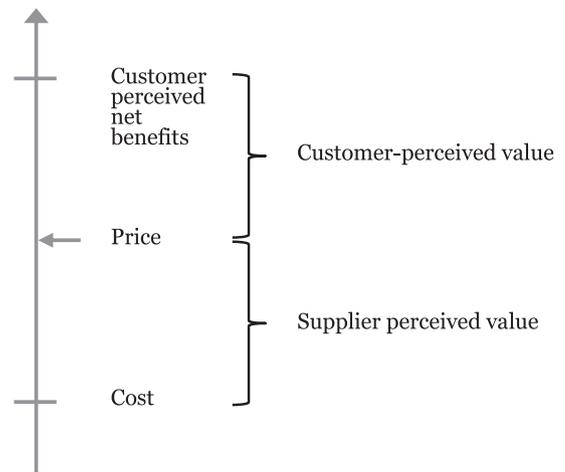


Fig. 1. Price in relation with customer-perceived value and supplier cost.

to a predefined segment of customers as the main factor for setting prices. As a pricing reference, customer-perceived value is a moving target. The context-specific and dynamic nature of value leads into different evaluation of value in different business situations, and at different times. The customer's perception of value is denoted as customer-desired value (Flint et al., 2002), which describes the customer's value perception and scope, what are the desired end-states of value, and which value dimensions are included in the customer perception of value. Those perceptions are subjective, differing and difficult to predict. Hence, value-based pricing can be difficult to implement: Previous research identifies value assessment, communication, segmentation, sales force management, and top management support as some of the obstacles to implementing value-based pricing (Hinterhuber, 2008a).

3. Methodology

While research of value in B2B marketing is extensive, empirical research on the implementation of value-based pricing is still rather nascent (Liozu & Hinterhuber, 2013), calling for an exploratory approach. We also followed the recommendations of Eisenhardt (1989) and Yin (2009) and the examples of existing exploratory cases (such as Storbacka, 2011) in using multiple cases. Based on the rationale that our multiple firms are in various stages of the value-based business and service transformation, the cases allow for a more comprehensive analysis to support our aim of developing a holistic view of influence factors and to compare the approaches and processes of distinct firms. In addition, the multi-case approach opens diverse insights beyond the limited contexts of single firms in single industries and broadens the generalizability of the findings. The research process follows that of abductive research (Dubois & Gadde, 2002), pursuing a systematic combination of theoretical knowledge and insights gained from our empirical inquiry.

3.1. Case selection and data collection

The five focal companies in this study are prominent firms with global operations in multiple industries. A key criterion for each firm's participation was that it was undergoing a transformation in its strategic focus away from a goods-dominant to a service-dominant logic (Gebauer, 2008). The firms engaged in a large-scale research program in which we studied the future of industrial services as well as the future of sales management. A summary of the participating firms is provided in Table 1.

¹ Brandenburger and Stuart (1996) provide a more detailed discussion related to the supplier cost. They label the cost as "opportunity cost" and provide a mechanism for determining the opportunity cost.

Table 1
Case description (sales and staff numbers 2012).

| Firm | Industry | Value-based sales and pricing initiative | Sales €Mil. | Staff |
|---------|--|--|----------------|--------|
| Alpha | Global mineral processing company | Enterprise-wide transformation to value-based businesses with investment in competence development in value-based selling and pricing. | 2087 | 4805 |
| Beta | Leading paper industry technology and service provider | Comprehensive initiative focusing on value quantification, value sales, value pricing competence. | 7504 | 30,212 |
| Gamma | Lifts and escalators | Global development and training programs on value selling skills and tools for the sales organization. | 6277 | 39,851 |
| Delta | Bearings, lubrication systems, and services | On-going value selling program (10 yrs) as a central part of long-term value-based business development investments, with emphasis on total cost of ownership methodologies. | 7494 | 44,168 |
| Epsilon | Power plants | On-going development of value-based sales quantification mechanisms. | 4700 | 18,900 |

In each of the companies, service accounts for an increasing share of sales and profits, but in varying degrees. Both the articulated aim to transform their business toward value-based strategies and the increasing importance of value-based pricing approach provide a strong rationale for the selection of these firms. Each firm screened and enlisted key informants with the background and experience to inform the firm's service transformation. To provide a broader understanding of the investigated phenomenon, companies were selected at various stages of the transformation. The variety of firms was believed to ensure a richer understanding, from multiple lenses, of the forces, effects, and process changes required, and provide us with a rich set of contexts to study new and evolving issues in the value-based pricing capabilities of industrial organizations. The selected cases cover a broad range of activities and the linkages between those activities from the nascent transformation toward value-based business to more advanced integration of value-based business strategies and value-based pricing.

Data collection and analysis took place over a 16-month period in 2012–2013. The research was conducted in five stages. We began the study by performing an extensive bibliographic review of multiple topics in the customer value literature across pricing, marketing, strategy, organizational buying, and sales domains. The *second stage* comprised five initial interviews with participants from two companies (Alpha and Beta). During the *third stage*, empirical insights from the other three companies were collected along with follow-up interviews with Alpha and Beta representatives to assess the validity and connections of these additional insights. A multi-method and multi-respondent data collection procedure was used to acquire primary data and secondary archival data (e.g., corporate documents, sales materials, value calculators, and templates). Purposive sampling and semi-structured interview strategies were used (Eisenhardt, 1989; Yin, 2009), lasting between 60 and 120 min, and adapting interview contents based on previous interviews. The number of people interviewed from each participating company ranged from 2 to 20 with a total of 47 informants interviewed in the study. All interviewees were provided anonymity. The interviews were conducted with members of various levels of the case organizations, including senior executives, salespeople, functional specialists, factory managers, product managers, value program managers, country managers, pricing managers, category managers, and industry experts. Consistent with the abductive research strategy, our focus in the interviews was directed toward uncovering new insights not evident in earlier interviews or empirical findings. The interviewed industry experts were consultants and former managers, currently active in industry organizations and research. Most initial interviews were conducted in face-to-face, with follow-ups by telephone and e-mail. With limited exceptions, interviews were recorded and transcribed verbatim. Researchers took copious field notes that were included in the analysis. We continued with the interviews in each company until we reached a point of saturation where redundant information began to appear frequently (Corbin & Strauss, 2007).

In addition to semi-structured interviews with the case organizations, the data collection included a *fourth stage* of special interest

group workshops attended by Alpha, Beta, Gamma, and Delta. Insights gained from the workshops were used to verify the relevance of the interview themes. During the benchmarking workshops, the company representatives presented and discussed themes related to (1) distinctive value propositions, (2) value-based procurement, (3) value quantification tools, (4) value implementation, (5) quantification of intangible value, and (6) value-based pricing. The workshops were conducted between late 2012 and mid-2013, lasting 4 h each and resulting in a significant volume of field notes, presentation materials, and documentation for the present research. During the *fifth stage* key findings related to value-based pricing alone were discussed with pricing experts from Beta, Gamma, and Epsilon to verify and fine-tune the findings.

3.2. Data analysis

Data analysis was conducted throughout the data collection by manually converting the data to discrete but connected blocks and openly coding the contents. Although the boundaries between the phenomenon and its context are not always evident in a case study, we followed Gummesson's (2000) guidelines to derive general conclusions from a limited number of observations. The early and ongoing analyses allowed the researchers to track emerging themes more easily and to find patterns in those themes. This analysis also enabled us to establish an analytical framework, which was modified as new information was added. New themes and contradictions were useful in exploring the nuances of respondents' contingency factors and their company's evolution in developing their value-based business models in the distinct contexts. As multiple sources of data and respondent data were included, findings were compared among the researchers and against prior knowledge. Finally, the analysis included follow-up discussions to verify and calibrate the findings.

Several strategies were used to assess the reliability and validity of the findings. Following established procedures in the literature (e.g., Yin, 2009) and similar empirical studies (for example, Flint et al., 2002; Storbacka, 2011), we applied a multi-case replication logic to incorporate multiple experts and key informants to participate in a review of the data and analysis. In so doing, we maintained strong triangulation. The multiple inputs also assisted us in determining saturation in synthesizing the findings, as multiple insights are generally considered more reliable than the observations of a single researcher.

We paid special attention to ensuring that the reported observations accurately represent the data. At the same time, we considered validity in terms of how well the findings fit the relevant concerns in the substantive area under investigation. We took care to keep the validity of data in mind when selecting the cases to generate a complete picture of the area of interest. After the initial analyses, we consulted the informants to confirm the extent to which the descriptions truly represented their views of the reality. In this respect, the interviewees were offered preliminary findings and asked to comment on them and verify the accuracy of the interpretations. Many industry representatives from different professions, such as consultants, sales executives and managing directors reviewed and verified the results.

Several iterations of research team review meetings were held as the data were analyzed and synthesized before arriving at the reported findings. In this process, the findings were reviewed, discussed, and triangulated multiple times with the key informants and experts. We made our best effort to reduce researcher bias when interpreting the findings. To this end, three researchers conducted separate analyses and co-researchers then independently reviewed the analyses and findings. In addition, several representatives of the case organizations and experts in the field audited the results in the later stage of the process. This process preserved the integrity of the analysis by mitigating the risk of interpretations being influenced by misinformation or evasion by participants. The interviews were professional and anonymous, and the informants were selected to ensure knowledge and experience.

Transferability of findings is always an issue in empirical research. It culminates in the extent to which findings from one study in one context will apply to other contexts. Our sample of informants covered multiple positions, management levels, and business units within focal companies investigated in this research. The interviews were performed in different industries, including the areas of information and communication technology and medical technology. Moreover, the extent to which the findings are unique to time and place influences the stability and consistency of explanations. The cases selected for this study represent multiple phases of the value-focusing business strategy transformation processes. In the analysis process, we focused on those cross-company findings that were highly consistent among firms whose value-based pricing was at a similar stage of maturity.

Finally, because the generalizability of findings is a major concern in qualitative research (e.g., Lukka & Kasanen, 1995) we pursued multiple aspects of the phenomenon. In so doing, we selected five separate case studies from different industries and at different stages of development. The interviews lasted, on average, more than an hour and included open-ended questions to capture insights from a broader perspective. The interviewees were chosen to represent a variety of perspectives on the topic. In regard to controlling these issues, the informants were invited to comment on the theoretical suggestions.

4. Empirical findings

Based on the prevailing knowledge on value-based pricing and on the analysis of our empirical cases, we identify and analyze three institutional barriers to implementing value-based pricing. The first barrier involves the need for understanding and influencing the customer's desired value. The second barrier is described as the problem of quantifying and communicating value in buyer–seller relationships to influence customer-perceived value. The third barrier to value-based pricing features challenges in value capture.

We structure our investigation of how supplier's seek to establish the customer-perceived net benefits as a pricing reference by analyzing how our case companies (1) identify and influence the customer-desired value, (2) influence customer-perceived value, and (3) capture a share of the value created in the exchange. In each of these categories, our study identifies a number of impediments to the application of value-based pricing. In the following sections, we analyze the influences and antecedents to value-based pricing from a supplier perspective by presenting the impediments, challenges and pre-requisites. We illustrate the findings by reporting examples from the case companies, and link the essential findings with the literature.

4.1. Understanding and influencing customer-desired value

4.1.1. Barriers to understanding and influencing customer-desired value

Over time, industrial companies have built governance structures, belief systems, associated rules and norms, which guide and constrain attention, decision criteria, buying, and procurement. These institutionalized logics were established under different market conditions and may not serve the interests of value maximization in networked,

relational exchange. To illustrate this point, the case companies repeatedly expressed frustration with the conflicting notions of value between the buyer and the seller:

After presenting to a group of senior industrial buyers, a senior executive commented, “their conception of total-cost-of-ownership includes item price and delivery cost”.

[Delta]

The desired value is determined by stakeholders (Johnston & Bonoma, 1981) with multiple and conflicting goals and ambitions (Cyert & March, 1992) and varying levels of power (Eisenhardt & Zbaracki, 1992). Their career history, cognition, and past experience influence their desired value perceptions with their attention limited by local search behavior (March, 1991) and selective attention. Decision makers learn through imitation and benchmarking (Cohen & Levinthal, 1990; March & Sutton, 1997; March, 1991), tending to generate shared attention within an industry. Their behavior and receptivity are guided and limited by social and institutional norms and rules (Zucker, 1987) and legitimated beliefs (e.g., Suchman, 1995).

While value-based business relationships appear to provide a win/win model for arranging exchange, there is a strong industrial culture favoring aggressive buying with a focus on the initial transaction price. This culture is deeply rooted in procurement institutions, rules, norms, and organizational inertia that resist the adoption of value-based practices.

“This is a conservative industry. People in factories are generally focusing on daily production, and are reluctant to change anything that works. We also observe how different the ways of running a factory are at different continents, and we do not see those practices converging”.

[Beta]

The identified reasons for deviating from desired value perceptions include: (1) Buyer's desired value perceptions are determined by the somewhat outdated industrial beliefs, building on transactional supplier relations and commoditized goods exchange; (2) the organizational governance process that allocates incentives for buyers produces sub-optimal goals; (3) there is a goal conflict between individual decision-makers and the organization. Adding to the challenge, the prevailing industrial procurement processes (4) engage with suppliers late in the buying process, leaving no room or receptivity to influence the customer's value perceptions.

4.1.1.1. No access to influence. Influencing desired value perceptions is often imperative for the successful application of VBP. Our data shows that industrial buyers sometimes choose among alternatives based on the initial purchase price, which is unlikely to favor suppliers that focus on optimizing more holistic measures of business performance. Influencing requires access to power. Relationship maturity and a partnering approach to the supplier relationship management (Kraljic, 1983) facilitate access to influence. Supplier category management may prevent access from companies that are deemed non-strategic commodity suppliers.

4.1.1.2. Limited receptivity. Customer managers are more accustomed to price than they are to value, leading to comparative ignorance about value relative to price (Anderson & Wynstra, 2010; Fox & Tversky, 1995). Monroe (2002) argues that customers value a reduction in sacrifices more highly than an increase in benefits. Evidence from industrial procurement suggests that procurement knowledge on value-based concepts, such as the total-cost-of-ownership, is limited (Ferrin & Plank, 2002), and buyers may have difficulties absorbing the message (Cohen & Levinthal, 1990). In addition, industrial imitation tends to generate shared attention within an industry and directs stakeholder interest to salient issues, making it harder for the seller to create interest

if the seller's value proposition does not resonate with the current topics on the management agenda.

4.1.1.3. Goal conflict. In terms of how organizational incentives are defined and distributed within the organizational governance model, the individual decision-maker goals and incentives may not increase the value created. "Each functional area does what is best for it, but not necessarily what is best for the firm as a whole" (Anderson & Wynstra, 2010, 25). Procurement may be rewarded for price savings, which actually hurt the overall business performance through increasing total cost of ownership. Sub-optimal incentives encourage local rationality.

"We have this one case from 2009 when our procurement made a deal to purchase inexpensive sealings. Our technicians then ended up travelling around the world to replace those after a while"

[Delta]

"I have been let to understand that procurement managers have bonus plans that reward reducing direct procurement costs including consumables, spare parts, and energy. The savings achieved are often not favorable long-term".

[Beta]

Consistent with Lindgreen and Wynstra (2005), we find that buyers might sometimes be reluctant to choose the offer with the highest delivered value for a number of reasons. First, the buyer might operate under instructions to buy at the lowest purchase price and is prevented from making a choice based on perceived value. Second, the buyer might want to maximize the short-term personal benefits and thus will not appreciate long-haul value. Third, the buyer may enjoy a long-term relationship with a particular supplier, which may have led to lock-in effects and high switching costs if the supplier is changed. This implies that the buyer must be convinced of the long-haul benefits provided by the supplier to be successful in selling. Fourth, even if it is evident that the seller's value offer would be beneficial for an organization, the goal alignment between individual goals and incentives, together with the organizational goals, determine the desirability of the event for the individual actors. Drawing on the behavioral theory of the firm (Cyert & March, 1992), rational, efficiency maximizing organizational goals may not be aligned with the individual goals and aspirations of the organizational actors. "The goals of a business firm are a series of more-or-less independent constraints imposed on the organization through a process of bargaining among potential coalition members and elaborated over time in response to short-run pressures" (Cyert & March, 1992, 50). Alignment of conflicting goals is especially relevant in the organizational setting studied in this article: "Selling solutions is a complex exercise that involves the consideration of conflicting requirements of multiple stakeholders in a customer organization" (Tuli, Kohli, & Bharadwaj, 2007, 14).

4.1.1.4. Too late to influence. Influencing the definition and scope of the evaluation criteria requires access to influential buyers at the early stages of their buying process (e.g., Eades, 2004), before the evaluation criteria are set and the evaluation stage of the buying process commences (cf., Adamson, Dixon, & Toman, 2012; Rackham & DeVincentis, 1999). However, in the mature industrial business markets, sales-based influencing is often reactive. Customers determine their change needs, compile solution requirements, and then contact potential suppliers with ready-made specifications and decision criteria, with an embedded value conception. The late engagement in the buying process leaves very little room to influence the value conceptions. In the final stages of the buying process, buyers resort to increasingly competitive (and adversarial) procurement practices, making different decision alternatives comparable by decomposing solutions to comparable elements, applying bidding contests and reverse auctions to bargain, often with a strong focus on the initial investment cost (Hunter et al., 2004).

4.1.2. Identified solutions for understanding, influencing, and aligning value perceptions

4.1.2.1. Methods to understand customer-desired value. Customer value audits (Ulaga & Chacour, 2001), customer value analysis (Miles, 1972), and customer value research (Anderson, Kumar, & Narus, 2007; Bettencourt & Ulwick, 2008) all represent approaches that reveal how the business processes are run, and how value could be created by improving business performance. Anderson et al. (2007) and Bettencourt and Ulwick (2008) describe techniques for performing value analysis. The case companies spend time with their customers to build awareness of their value preferences.

"Having identified key stakeholder groups, we set out to analyze the individual stakeholder processes, building an intranet resource of stakeholder processes, and describing stakeholder goals and challenges to guide segment specific value proposition development. Two years ago we did an exercise to describe the processes, and I personally did (describe the) builder and architect ... different steps in the process and challenges".

[Gamma]

"We are trying to holistically understand our customer's processes, the different flows of material and money, to understand how our products affect their business performance in different economic cycles".

[Alpha]

4.1.2.2. Influencing customer-desired value at the early stages of a buying process. Influencing value perceptions requires proactive marketing and selling before and during the early stages of the customer's investment and buying processes (e.g., Berghman, Matthysens, & Vandenbempt, 2006). Our findings about the importance of early engagement with a buying process are largely consistent with the notion of Terho, Haas, Eggert, and Ulaga (2012), who find that value-based selling is still rather an innovative approach and largely requires proactive marketing and sales to influence carefully selected receptive buyers. Vitasek et al. (2012) show that typical tools include whitepapers, seminars, books, industrial benchmarking studies, and substantiated reference stories.

We have had a value manager over a decade to actively influence procurement organizations by delivering seminars, attending procurement association's summits, writing books and whitepapers, and supporting research.

[Delta]

4.2. Influencing CPV by value quantification and communication

Once a shared conception of value has been achieved, quantified evidence of value is critically important in influencing CPV (Anderson, Narus, & van Rossum, 2006; Hinterhuber, 2004), in order to establish the CPV as a value-based reference point for pricing. Value quantification involves (1) selecting an appealing economic outcome as an aggregate measure of value created (the case companies frequently promote a reduction in total cost of ownership), (2) select salient value dimensions of value in the quantification exercise, in line with the previous step of achieving a shared conception of value, (3) establish the (functional) relationship between the salient value dimensions and the value measure, (4) establish a baseline situation for every salient value dimension by auditing the current situation, (5) determine the achievable performance level for every value dimension, (6) calculate the aggregate impact on the value measure (e.g., Anderson et al., 2006), and finally, (7) communicate value by involving the customer in the process (Anderson et al., 2007).

Value quantification is generally a major challenge for industrial companies (Storbacka, 2011). The case companies report mixed results from their value quantification attempts. Quantification can fail at any stage during the quantification process. The parties may fail to agree on the salient dimensions of value; the baseline situation may be inaccessible, or the customer could be unwilling to share the data due to the lack of trust, the customer may be reluctant to engage in the quantification exercise, the calculation of value may be difficult, or the end result may not be credible.

4.2.1. Salient dimensions of value

Our findings suggest that industrial companies still use only a subset of potential dimensions of value elements in their approach to quantify customer value. Our interviews with the senior managers in the sellers' organizations indicated that this is mainly attributable to the sellers' responsiveness to buyers' behaviors, as well as the institutionalized norms of value selling approaches within the seller's businesses. Only the operational dimension of value is systematically quantified and leveraged as a basis of VBP, even though it is evident from previous research that buyers are evaluating the other strategic, social and symbolic dimensions in their decision making.

4.2.2. Access to baseline data

Congruent with the findings of Grönroos and Helle (2010, 576), we found that firms are faced with significant practical challenges in getting access to essential data on the elements needed for quantification of value of the offerings for the customers. Trust, confidentiality, rivalry, and similar factors may prevent the gathering of the necessary numbers to perform value quantification.

"Few factories have good systems to collect the data. They are also sometimes jealous about the data, thinking that it may benefit competition".

[Beta]

To overcome these issues, many of the case companies are furnishing their installed equipment base with sensors to collect production and performance data and use this information in advanced services and equipment modernization recommendations through value quantification and verification.

4.2.3. Lack of trust

Lack of trust and credibility discourages decision makers from sharing essential information such as production data, making value quantification difficult or impossible (e.g., Grönroos & Helle, 2010). The contribution of a supplier's offering to a company's value creation process significantly influences the relationship that the company is willing to enter into with the supplier (Kraljic, 1983; Van Weele, 2009).

4.2.4. Reluctance to quantify value

Pretended ignorance of value or reluctance to evaluate value in anticipation that undesired value would be discovered may occur when customers pretend that sellers could then leverage that information for a higher price. This may be the case "if they [the sellers] believe they can negotiate a better deal by appearing indifferent to benefits" (Smith & Nagle, 2002, 20).

4.2.5. Value function

Value quantification generally requires capability to establish the functional rule from operational parameters to customer's key performance indicators, such as total cost of ownership. Woodruff (1997) describes a process of generating such means–end calculation rule. An example of such a top–down process of value–quantification is a DuPont analysis (e.g., Soliman, 2004). The case companies Alpha, Beta, Delta, Gamma and Epsilon successfully produce quantified evidence to support value-based pricing. Alpha motivates industrial equipment

modernizations by calculating how much customer profit is impacted by improved mineral recovery, reduced maintenance costs, and lower energy costs in a flotation process. Beta calculates the savings resulting from a longer lifecycle of roll surfaces. Gamma can show the savings of using their people transportation equipment during construction time, instead of specialized additional equipment. Epsilon can compare power plant investment alternatives by calculating the customer-specific cost of producing electricity over the lifecycle of a power plant. Some of these calculations are relatively straightforward equipment-level comparisons, but some require specialized production knowledge.

4.3. Capturing a share of the value created

4.3.1. Barriers to capturing value

Once the value has been agreed upon, created, and quantified, the remaining challenge is to determine how the value is shared between the parties. Capturing a fair share of the value created requires overcoming the institutionalized barriers of cost-based pricing, managing the uncertainty in value creation, and building a strong bargaining position.

4.3.1.1. *Established cost-based pricing and perceived fairness.* Our findings reveal that customers are seldom prepared to share the value evenly, despite a convincing proof of value. A senior executive from Alpha stated, "we can charge high cost-based prices by demonstrating value". For industrial buyers, a cost-based price is generally "right". The industrial exchange is characterized by repetitive buying, competitive alternatives, and high buyer power. The cost-based pricing has become an institutionalized norm over time, and deviating from the norm is not appealing:

"Our customer on the west coast had a number of leaking valves in a paper mill. They were losing about a million in a year because of this. We devised a solution for this and offered to solve the problem and tie our compensation to the actual savings made. To our surprise, they declined. We later found out that they felt that the deal would have been too good for us".

[Beta]

The quotation from Beta illustrates a situation in which criteria other than purely utility maximization were driving the decision-making. Perceived fairness influences decisions (Xia, Monroe, & Cox, 2004). The Ultimatum Game (see Sanfey, Rilling, Aronson, Nystrom, & Cohen, 2003, p. 1755) provides a salient explanation for the behavior.

4.3.1.2. *Value at risk.* Value is often created over a longer period of time with an inherent risk of failure. Anderson and Wynstra (2010) address value from the perspective of customers who are concerned about whether their businesses will actually realize the cost savings or are able to capture the incremental revenue and profits that suppliers claim for their offerings. Wilson (1995) suggests that personal risk of failure is among the key sacrifices feared by individual stakeholders, dramatically reducing the perceived value of an offering.

"We have found it especially difficult to introduce new products in Asia due to perceived risk of losing face in case something goes wrong. This industry is conservative, and the attitude is not to fix it if it is working".

[Beta]

Value-based pricing generally requires monitoring value creation through periodic value verification. Value verification is costly and in itself risky. One method of value-based pricing employs bonus payments when predefined goals have been achieved. Evidence from the case companies reveals that customers are generally hesitant or unable to deal with bonus payments for reasons relating to budgetary processes and similar governance structures. Generally, a temporal distance

between benefits and sacrifices creates complications. Not all value-based pricing allows tracking of the value created, either:

“We would like to limit dynamically tracking value to larger deals, because of the cost and burden”.

[Beta]

“If the value generated by a product is low, we still want to communicate the value, but apply a fixed price to keep it simple”.

[Alpha]

Apart from value verification, Anderson and Wynstra (2010, 29) find that “reference customers and pilot programs appear to be equally effective as value evidence in reducing ambiguity about superior value”.

Another challenge identified by the case companies was to manage the customer-induced risks in the mutual value-creation process. Potential remedies include factoring the risks into pricing (Storbacka, 2011) or by gaining control of the shared processes by outsourcing. On the other hand, information asymmetry and incomplete understanding of the customer's value creating process presents a major outsourcing challenge.

4.3.2. *Influencing value sharing from a position of strength*

Ultimately, successful value-based pricing requires bargaining power (e.g., Bowman & Ambrosini, 2000; Emerson, 1962). Bargaining power is the relative ability of the exchange parties to influence how the value is shared. Bargaining operates within the range from supplier cost to net benefits (Fig. 1) and bargaining power determines who captures the value. Regardless of how much value a supplier contributes, or how critical the supplier's role is in creating the value, the supplier can still capture a minuscule amount of exchange value, if their bargaining power is weak (Bowman & Ambrosini, 2000). Professional buying is likely to seek the best possible deal by leveraging procurement and negotiation tactics (Raiffa, 1982) to capture a higher share of the value created. The prerequisites for VBP discussed—achieving a shared conception of value, quantifying value to influence CPV, overcoming the institutional barriers of fair sharing of value, and finding ways to manage the value at risk—are among the fundamental methods of building a strong position.

4.3.2.1. *Exclude alternatives.* Effective application of value-based pricing requires at least a temporary monopoly for a solution. Comparability and competitive bidding quickly drive prices toward competition-based pricing, in which the customer captures the majority of the value created.

“We already for quite some time had a product, <omitted>, which reduced waste from 8% to approximately 3%. We priced the equipment based on the realized savings only. We did not sell modernizations or anything; the only choice was to buy the equipment. Competition eventually managed to work around our patents, and we lost our price premium”.

[Beta]

Identified mechanisms to achieve a temporary monopoly include solution differentiation and making decomposing the solution difficult to avoid comparability, and to avoid the cost as a pricing reference by selling services instead of products.

4.3.2.2. *Hide cost.* Some of our case companies (whose identities are withheld for the nature of the statement) avoid revealing their cost to avoid establishing the cost as a pricing reference and aim to bargain from a position of strength. In such cases, a negotiating position can be seen as an antecedent to value-based pricing.

4.2.2.3. *Relationship value matters.* Finally, aggressive bargaining is destructive for a relationship. Winning a bargaining contest is likely to destroy supplier motivation, joint innovation, integration efficiencies,

formation of social and structural bonds, and other forms of relationship value. Therefore, long-term relationship value discourages the use of one's negotiating position for short-term benefit. Buyers may perceive a long-term partnership as preferable to aggressive bargaining and arms-length relationship, requiring that the buyer's vendor management policy recognizes the value of the relationship (Kraljic, 1983).

5. Conclusions and implications

Value-based pricing is mounting as value-based strategies are amplified in the business and management discourse, and there is a need to develop a matching pricing approach that supports value capture. Overall, the present study aimed to deepen the current understanding of the application of customer-perceived value in a B2B setting. Specifically, we provide a conceptualization of the dimensions of customer value and findings on their manifestation in practice and focus on understanding the barriers to VBP in buyer–seller relationships. Our analysis provides a critical perspective of how B2B firms utilize customer-perceived value as the reference in their pricing approach. Following Ulaga and Chacour (2001), our investigation centered on customers' judgments of business value, taking into account both perceived benefits and sacrifices.

5.1. *Synthesis of findings*

Our study identified three institutional barriers to value-based pricing: 1) understanding and influencing the customer's desired value, 2) quantifying and communicating value in buyer–seller relationships, and 3) challenges in capturing a share of the value created in industrial exchange. Overcoming the two first-mentioned barriers necessitate the establishment value as a pricing reference. Regarding the third barrier, our findings emphasize that capturing a share of the value created in industrial exchange calls for bargaining power in the buyer–seller relationship. Moreover, our analysis shows that overcoming each of these barriers is a multi-faceted issue accompanied by several challenges.

The combination of theoretical knowledge and empirical insights gained from our cases provided an important observation: value-based pricing in an industrial setting focuses almost solely on the operational dimension of value. While the other three dimensions of value (strategic, social and symbolic) were found to influence decision-making, only the operational benefits and sacrifices seem to be considered explicitly when determining the pricing range illustrated in Fig. 1. Contributing to the body of knowledge of implementing VBP in industrial exchange, our investigation focused on how price is determined within that range.

We found that buyers often wish to establish the supplier's cost as a pricing reference, while our data highlights that the supplier's main goal is to establish the customer-perceived net benefits as a pricing reference (Fig. 1). Buyers increasingly apply aggressive procurement practices to push the price toward the supplier's cost. Also, buyers may want to decompose offerings to comparable elements, find competitive alternatives, and arrange bidding contests and similar tools to build their negotiating position. The case companies reported the use of sophisticated, IT-based methods of revealing the supplier's cost in order to provide evidence that the buyers are more effective in establishing the supplier cost as a pricing reference than the sellers are in establishing the perceived value as a pricing reference. In comparison with the value-based approach to pricing investigated herein, competition-based market prices generally provide a middle-ground pricing reference for commoditized offerings as it does not necessarily require cost or benefits analysis, but reflects the power balance among the suppliers and customers.

Unlike much of the literature, our study addressed customer-perceived value from a holistic perspective, including the dimensions and outcomes of value, and relating value to the different constituents of the value exchange. Based on our data, the identified sources of

value include product-related sources, such as performance enhancements or improved reliability; relationship-related sources pertaining to cooperation efficiency and scope, and the potential for gaining new capabilities from a partner by learning from cooperation. Understanding the sources of value may help managers in both assessing and creating value. However, there are sacrifices that hamper the value gained through an exchange. For example, collaboration within a network of autonomous actors may cause transaction costs to rise higher than that of operating with the closest and known partners. Our analysis underscores the importance of addressing these issues in value research, which should precede price setting.

5.2. Theoretical implications

While the present study is based on a qualitative exploration of value-based pricing, the findings reinforce the role of pricing as a crucial element of marketing strategy. Managers in business markets today seek to deliver superior value to customers and gain a fair share of that value through pricing. The present study provides two key contributions to this discourse: A holistic conceptualization of customer-perceived value and an analysis of how sellers try to overcome the challenges in pursuing value-based pricing to improve value capture.

First, we conceptualized customer-perceived value as the basis for value-based business strategies. Building on the earlier conceptualizations of value (e.g., [Ulaga & Eggert, 2005](#)) in the existing body of scientific knowledge, the present study goes beyond what is earlier understood of value in business markets. Moreover, we consider the impact of value on organizational performance and the ways that they lead to the economic outcomes. Contributing to future analyses of value creation and capture, the present study classifies customers' value drivers into four dimensions including the 1) strategic, 2) operational, 3) social, and 4) symbolic aspects of value. The present study suggests that an analysis of the perceived changes in these value dimensions contributes to the understanding of the impact of value creating activities on the sellers' and customers' current and future performance. In doing so, it distinguishes the essential dimensions of customer-perceived value from the economic outcomes of value. The outcomes were identified in terms of 1) revenues, 2) costs, 3) resource efficiency and 4) risks. The suggested conceptualization has implications for building theories about the role of value-based pricing in marketing strategies.

Second, the present study investigated how value-based pricing facilitates value captured among business-to-business sellers. In concordance with [Liozu and Hinterhuber \(2013\)](#), we consider value-based pricing as an organizational capability. By investing in the development of such capabilities, value-focusing marketers need to forge a shared vision, a collective can-do mentality ([Liozu and Hinterhuber \(2013\)](#)), and managerial practices supporting the value-based approach that leads to superior levels of organizational efficacy. Theoretically, a key task then for managers is to decide what aspects of customer-perceived value to focus upon in order to differentiate their business in the marketplace ([O'Cass & Ngo, 2012](#)), based on the understanding of what value their customers seek. The present study contributes to this discussion by providing a cognitive model of quantifying value for value-based pricing through a function of perceived benefits and sacrifices.

Yet another interesting finding which surfaced from the analysis, which may prove valuable in the future development of theoretical explanations of the implementation of VBP is that for either party, relationship related value, which is unknown to the other party, might exist. For example, a supplier may value a symbolic or social value resulting from a relationship, such as increased legitimacy, much higher than the direct economic value resulting from the exchange. Therefore, future theories of B2B pricing should take a broader range of value dimensions into account in explaining value-based pricing than just the operational and strategic ones that are currently employed by the mainstream practitioners.

Contributing to the literature of the implementation of VBP in industrial exchange, our analysis unravels institutional barriers that may impede the utilization of customer-perceived value as the pricing reference in B2B relationships. These include the seller's limited understanding of the aspects of value that are important to the buyer, buying practices that may obscure value-based buying and other contingencies of the buyer-seller relationship, such as commonness of the value propositions. We also identified some ways in which firms have increased the use of customer-perceived value in pricing. Among the most imperative ones seem to be behaviors that are associated with increased customer orientation for better understanding of customer-desired value, and the focus on lifecycle value instead of the short-term spread of benefits and sacrifices. On that front, we found that sellers who strive to implement VBP try to avoid bargaining about the short-term value to increase the likelihood of gaining from the long-haul benefits of the relationship. Moreover, advanced use of VBP takes the stakeholders' desired value into account, including not only the traditionally addressed operational and strategic aspects, but also the social and symbolic aspects of value. These findings underscore the need to develop further explanations on the contingencies that influence the application of value-based pricing in practice.

5.3. Managerial implications

In this article, we show that understanding how customers perceive value in business-to-business exchange can help sellers develop their pricing capability. For managers, the implication is clear: systematic development and management of capabilities and practices for value-based pricing enable the implementation of value-based business strategies. This is imperative to economic performance, as price setting directly affects the revenue streams of a company. Pricing of products and services is a challenging managerial task because it requires special knowledge and capabilities. In particular, successful value-based pricing depends on one's knowledge about customers' desired value perceptions. The results of this study suggest that sellers should analyze their customers' desired value in all the four identified dimensions to understand how the customers perceive the different sources of value, and take measures to improve customers' overall value perception.

The present study identified eleven challenges to the application of value-based pricing and analyzed how the investigated case companies have tried to overcome them in their customer relationships. The managerial implication is relatively straightforward; each of these eleven challenges requires attention, and in most cases requires the development of new capabilities and practices. The challenges faced in value-based pricing and ways that companies have tried to overcome them, as identified in our study, are summarized in [Table 2](#).

The findings indicate that an assessment of customers' perceptions of the relative importance of value in its different dimensions should help marketing managers to quantify the perceived value for more effective pricing. Of course, credibility of the value quantification is affected by the controllability of the factors not included in the value analysis.

Congruent with earlier research (e.g., [Hinterhuber, 2008b](#)), we identified the difficulties related to obtaining and interpreting data on customer perceptions and communicating the considerations of value between the customer and the seller. Consistent with the findings of [Kortge and Okonkwo \(1993\)](#), we see that managers must collect detailed micro-information for the implementation of value-based pricing in practice. Such information includes past experiences of the suppliers' and competitors' prices and perceptions of product quality, delivery process, and service experience. In this vein, determining value often includes benchmarking analyses.

Among the identified challenges is the fit between pricing objectives and tactical level considerations. In our data, differences between marketing strategies and pricing policies are observable. Many of the case organizations have an articulated strategy to create increased value for

Table 2
Identified barriers in VBP and ways that companies have overcome them.

| Actions | Barriers | Measures taken |
|---|---|--|
| Understanding and influencing customer-desired value | <ul style="list-style-type: none"> • No access to influence value perceptions • Limited receptivity • Goal conflicts • Too late to influence | <ul style="list-style-type: none"> • Development of ways to understand desired value perceptions • Influencing desired value at the early stages of a buying process |
| Influencing CPV by quantifying and communicating value | <ul style="list-style-type: none"> • Emphasis on salient dimension of value • Access to baseline data, • Lack of trust • Reluctance to quantify • Value function not known | <ul style="list-style-type: none"> • Systematic quantification and communication of value |
| Sharing the value—capturing a fair share of the value created | <ul style="list-style-type: none"> • Established cost-based pricing and perceived fairness • Value at risk (risks related to the realization of desired outcomes) | <ul style="list-style-type: none"> • Influencing value sharing from a position of strength (by excluding alternatives, hiding costs and emphasizing relationship value) |

the customers, but do not systematically use the important dimensions of value as the basis of pricing. We discovered that only the operational dimension of value is systematically quantified and leveraged as a basis of VBP, even though it is evident from previous research that buyers are including the other strategic, social and symbolic dimensions in their desired value perceptions, and evaluating those as part of their decision making. Often the focus is on short-term operational gains, which are easier to quantify, and are salient and resonating for the industrial buyers. The strategic, social, and symbolic elements of value are seldom an active and explicit part of the exchange. Again, the prevailing norms, normative pressures (e.g., Wiener, 1982) and beliefs may be among the reasons that constrain the use of a broader set of aspects of customer's value perception as the basis of pricing. Our empirical findings suggest that in order to include other than operational dimensions of customer-perceived value, sellers need to demonstrate the value in a broader scope than with just operational benefits. Communication of the strategic, social, and symbolic aspects of value, by respecting the institutional constraints, provides a basis for gradually effectuating an institutional change toward value-based practices in pricing.

Finally, our analysis highlights that many industrial companies aim to implement value-based business strategies. Many of the companies are developing organizational capabilities that support their value-driven activities, such as value-based selling, solution-based business models, and value-based pricing. Building on what has been previously argued about value capture and stakeholder bargaining power (e.g., Coff, 1999), it appears that without successfully remedying the obstacles identified in our study, industrial sellers cannot build power to benefit from the value created and their customers are likely to capture a major share of the value created. Hence, our findings endorse the previous finding that investments in value capabilities are likely making suppliers more attractive, but do not necessarily make them more profitable (c.f., Gebauer, Fleisch, & Friedli, 2005).

5.4. Limitations and future research directions

Our study suffers from several limitations, concurrently pointing to potential avenues for future research. First, considering the exploratory nature of our research, there is a need to validate these findings in further research. To this end, future research should review the conceptualization of customer-perceived value as the basis of value-based pricing. In particular, as suggested earlier by Ulaga and Chacour (2001), our findings give rise to suggest that customer-perceived value should be measured as a multi-attribute construct. Likewise, different industries and markets may reflect distinct institutional and behavioral constraints that play a role in value-based pricing practice. Understanding these constraints can help sellers to support their marketing strategies through successful pricing and capture more value with their marketing activities.

Second, we suggest that pricing should be studied as part of firms' business models. This is because business models make a central theme in the marketing management literature and offer marketing

researchers a fresh perspective on key marketing elements. A fruitful area for empirical investigation is the alignment of a firm's pricing approach with other elements of the business model. In particular, substantial opportunities exist for researching the use of value-based pricing for fostering the performance of business models. Specifically, the interconnection between value-based pricing and value-based selling activities requires further investigation. One such activity is the customer-specific bundling of offerings for individual pricing (Simon & Butscher, 2001). While modular product and service architectures are employed more than ever in firms' business models, the implementation of modular offerings as the basis of individual pricing requires further investigation. Third, several constraints to pricing deserve further investigation. For instance, in the previous research in marketing, one could observe multiple examples of firms using contracts to manage inter-organizational exchange (e.g., Wuyts & Geyskens, 2005). In some cases, contracts make an important institutional setting for pricing, thereby underscoring the importance of contracts as institutional factors that affect pricing decisions.

In addition, in the present study, the perceptions of value were investigated in a multiple-case study setting. However, for consistency in the empirical inquiry, the data were collected from five case organizations representing globally operating manufacturers of investment goods and related services in the metal and engineering industries. Moreover, it is possible that different aspects of value-based pricing will be emphasized in different cultural, geographical, or industry contexts. Therefore, although we have paid special attention to assessing the reliability of our findings, we call for more research to complement and validate the findings in other industries and in cultural and geographical areas.

Finally, there is a need to investigate value-based guidance of buying beyond what was done in this study. In addition, the effects of profitability incentives on price perceptions in the buyer organizations require more attention. Hence, we call for more research on how value-based thinking may change procurement practices. Increasing the customer perspective to a value based approach can help companies instill an increasingly fact-based decision-making process to value-based pricing.

6. Closing remarks

This article contributes to the emerging research on value-based exchange. In our recent paper on value-based selling in *Industrial Marketing Management* (see Töytäri & Rajala, 2015: Value-based selling: An organizational capability perspective), we investigate the organizational capabilities that contribute to the value-based strategy implementation in the context of industrial business-to-business sales. For a broader view of value-based exchange and strategy implementation, please refer to that paper, too. The present paper sheds more light on the challenges associated with value-based pricing in buyer-supplier relationships and investigates the actions taken in sales organizations to cope with these challenges.

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