Gender identity and breast cancer campaigns
by Stefano Puntoni, Steven Sweldens and Nader T. Tavassoli

Crisis performance predictability in supply chains
by Michaëla C. Schippers, Laurens Rook and Steef van de Velde

Understanding servant leadership
by Dirk van Dierendonck

Purchasing superior-value offerings effectively and successfully
by Finn Wynstra and James C. Anderson
Purchasing superior-value offerings effectively and successfully

By Finn Wynstra and James C. Anderson

In business markets price still plays a significant part in selling and buying decisions. Suppliers strive to get an equitable or fair return on the value of their offerings and buyers look for bargains and usually find them, thanks to over-eager suppliers. However, recent experiments show that there are other more effective and successful ways of selling without giving away too much value.

When selling superior value relative to the incumbent or next-best alternative offering, a supplier often tries to claim a portion of this by asking a price that is higher than either. At the same time, though, buyers’ purchasing decisions are often based primarily on price, thus frequently tempting suppliers to give away some value to the customer – such as 10 per cent additional value for a price increase of only 7.5 per cent. One reason for this is that buyers may not be able to appreciate the superior value on offer. Another, more obvious reason is that discount or rebate give-aways are simpler and more concrete to comprehend, and come without risk to the buyer.

Although this is an essential part of customer-value management, remarkably little research has gone into understanding what would persuade business customers to purchase higher-value offerings that come with a higher-price tag – other than just a monetary give-away. In practice, suppliers competing at the high-end with high-value offerings are not always good at demonstrating how this high-value they are selling could affect an individual customer. Instead these suppliers will focus, at best, on generic features and benefits.

To study the effects of alternative ways to promote high-value, high-price offerings, we conducted field experiments where we tested other key selling tactics to reduce “value ambiguity”. One such tactic is by providing “value evidence”, where suppliers document and demonstrate this superior value, and thus remove uncertainties and ambiguities in the minds of buyers. Suppliers can develop value evidence by conducting pilot studies of beta-test customers and documenting the results, or by using reference lists of key customers deploying this offering and related case studies. As the use of reference lists is obviously cheaper than conducting pilot studies with each new customer, it is useful to understand whether the first is equally effective in getting customers to buy higher-value, higher-price offerings.

Realistic scenarios

We constructed 36 alternative-purchasing scenarios, built around the purchase of 10 KW/HP replacement motors. In each scenario, a manager has to choose a new motor from a selection of four products, varying in price and value. This choice is timely because, outside these scenarios, suppliers have actually started offering lines of premium-efficiency replacement motors. To simplify matters, the incumbent supplier always provides the incumbent (reference) offering, as well as the alternative products (this removes any ambiguity caused by having to change suppliers).

In addition to “value evidence” tactics, we introduced one other factor into our experiments: consequences of obtaining superior value. We studied this factor in two ways. First, by comparing the preferences of purchasing and maintenance managers, we were able to study the effects of functional responsibility. Second, in the scenarios we manipulated the kind of performance review and reward system in place (based on lower total cost of ownership, for example).

To help develop these experiments, we drew on past research in the USA and on two business roundtable
the company’s competitive advantage, buyers are coming increasingly under pressure to document all of this for evaluation purposes. In reacting to market and company demands, buyers are honing their purchasing skills and proficiency at making professional assessments of suppliers and the value of their offerings.

While no significant differences in purchase preferences were found for area of responsibility (purchasing managers versus maintenance managers), there is some indication that buyers in Anglo-Saxon economies, like the USA, are mostly interested in low-value, low-price offerings, unlike their Dutch counterparts, who were also interested in high-value, high-price ones. Perhaps this has something to do with looking at the bigger and longer-term business picture. In general, buyers from companies with a more strategic perspective on purchasing and supply management tend to look beyond short-term gains (such as price) and at the total cost of ownership, for example, making them more accepting of high-value, high-price offerings.

**Key messages**

While we must be cautious when using scenario-based experiments with purchasing and plant maintenance managers to generalise what occurs in actual business practice in diverse
markets, several recommendations and observations can be drawn from our studies.

Looking at the consequences dimension, suppliers should be aware that in general customers are not primarily interested in low-price, low-grade products. Although they are sceptical and critical of all offerings, even purchasing managers are serious about quality offerings, even if it means a higher price.

However, suppliers should also take into account the pressure purchasing and other customer managers face with performance reviews and rewards, and act accordingly. Customer managers reviewed and rewarded for staying within the established budget will likely have purchase intentions opposite to those reviewed and rewarded for lowering total cost of ownership. The former will pursue lower-value, lower-price offerings (as long as the offerings meet the minimum specifications); the latter will prefer higher-value, higher-price offerings. This suggests customer manager performance review and reward system as a segmentation variable, with suppliers targeting not linear, which means that there is nothing to be gained beyond the critical threshold.

Second, suppliers should provide evidence of value through pilot studies, or even customer references and case studies, where possible, because these are the cheaper option. In fact, reference lists of respected competitors can be equally effective in persuading buyers to purchase higher-value, higher-price offerings. This suggests a two-stage strategy. Suppliers should conduct pilot programmes with beta-test customers to understand the value delivered by new or enhanced offerings. The results of the pilot programmes, when they are carefully designed and monitored, enable the supplier to document the actual value in monetary terms that the beta customers receive. Customers may be willing to cooperate in documenting the costs savings or greater value in exchange for supplier assistance in the data gathering and analysis as well as earlier access to these offerings. Additionally, suppliers can use the documented results to create reference customer lists and value case histories.

This leads us to a final piece of advice for suppliers: do not blame your customers if they tend to focus solely on price; after all, it is up to you to convince them otherwise.

Finn Wynstra is NEVI Professor of Purchasing and Supply Chain Management, Rotterdam School of Management, Erasmus University. Email: fwynstra@rsm.nl

James C. Anderson is the William L. Ford Distinguished Professor of Marketing and Wholesale Distribution, and Professor of Behavioural Science in Management, Kellogg School of Management, Northwestern University. Email: jc-anderson@kellogg.northwestern.edu

This article is based on the research paper “Purchasing Higher-Value, Higher-Price Offerings in Business Markets”, which was published in Journal of Business-to-Business Marketing Vol 17, Issue 1. The paper was voted by the editorial board of the journal as Outstanding Article of the Year for 2010.