Changing Value Propositions during Tough Economic Times: 
Purchasing and Sales Perspectives

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Abstract: Both purchasers and suppliers have perceptions of appropriate value propositions in various situations. How do these perceptions change when the economic environment is so radically different from anything experienced in recent times? As firms conceptualize, develop, and deliver value in its myriad forms, specific customer value propositions must be adapted to the realities of both the macro- and micro- marketplaces. This presentation focuses on specific strategies useful in understanding the process and mechanics of transforming value equations during challenging economic times, from purchasing and sales perspectives. A practical perspective will be used to share specific experiences, across industry sectors, in adapting value propositions to meet customer needs in changing markets.

Introduction and Background
Organizations across all sectors have experienced, to varying degrees, the challenging impacts of a major economic downturn over the past few years. Given the enormity of the economic impact, firms have had to ‘recalibrate’ the buyer –seller exchange equation in negotiating value and delivering customer satisfaction. Organizations have had to re-think the real, fundamental meaning of value and its role in both the traditional marketing mix and purchaser/supply mix. Both buyers and sellers are in search of just the appropriate ‘value position’ that allows each to enjoy maximum satisfaction, over the long-run. Thus, the focus of this paper is to explicate the concept of value proposition within the context of a changing economy. The remainder of the paper is organized in the following manner: (1) understanding customer value and value propositions; (2) environmental forces shaping customer value perspectives; (3) why and how value propositions change; (4) scenarios of specific examples of value proposition changes as a direct response to economic fluctuations; and (5) summary and conclusions.

Understanding Customer Value
Value is obviously a hallmark of any buyer-seller relationship. While there may be differences in the conceptualization, analysis, implementation, and assessment of value across business eras and orientations, fundamentally, value balances the expectations/perceptions of all parties to the exchange process. Whether during periods of economic expansion, compression, recovery, decline or any other applicable monikers, all parties have some perspective of value that offers guidance in structuring the exchange process.

The concept of customer value is viewed from different vantage points. Menon, Homburg, and Beutin (2005) conceptualize customer value as a “business customer’s overall assessment of
a relationship with a supplier based on perceptions of benefits received and sacrifices made.” They further delineate benefits into – core benefits (essential requirements and expectations that suppliers must meet completely to be included for consideration) and add-on benefits (attributes that distinguishes or differentiates suppliers and that exceed core expectations). Concomitantly, sacrifices are viewed as purchase price, acquisition costs, and operations costs. From both objective and perceptual perspectives the benefits must exceed sacrifices on a consistent basis. Thus, it is essential to craft the appropriate ‘value mix’ required to facilitate the exchange process.

In crafting the right value mix, Vandenbosch and Dawar (2002) suggest capturing value in customer interactions. They suggest going beyond the focus on just a ‘better product.’ In a wide-ranging survey of over 1,500 senior executives, Vandenbosch and Dawar (2002) asked the following question: “Why do your customers choose to buy from you rather than from your competition?” The overwhelming response to this pivotal question was “the need to maintain an edge in the way their companies interacted with customers; they recognized that customers often value ‘how’ they interact with their suppliers as much as or more than ‘what’ they actually buy.” It is almost a given that quality products and competitive prices will be offered. But, beyond the basic tangibles, they seek a special type of relationship in the exchange process.

In particular, Vandenbosch and Dawar (2002) identify five strategies that assist in building advantages with customers – (1) unlocking economies of interaction; (2) simplifying the route to benefits; (3) integration of activities; (4) be the nexus; and (5) form the future. Each of these strategies offers specific guidance in crafting the types of relationships required to add sustained value across a range of changing variables, including the economy. The shift from product focus to relationship focus is an evolutionary journey that is often misunderstood and underestimated in terms of difficulty. However, changing perspectives is critical to gaining and maintaining customers in turbulent times.

The particular strategies chosen to build advantages with customers are in part a function of the types of environmental forces to which firms are responding. Fawcett, Ellram, and Ogden (2007) identify a fairly comprehensive list of forces that change or alter decision-making environments encountered by those in the supply chain. These forces include – competitive pressure, corporate social responsibility, customer expectations, role shifting, financial pressure, global capacity, globalization, mergers and acquisitions, technological innovation, and time compression. Each of these forces has accompanying competitive imperatives that direct the nature of the responses on both sides of the buyer-seller equation. More specifically, these changing forces impact the nature, tone, and spirit of the value propositions offered to stakeholders.

These changing forces, both externally and internally, require alternative perspectives on value propositions. Anderson, Narus, and van Rossum (2006) offer three types of value propositions that match differing circumstances and situations. Strategy one is to identify all benefits offered by the product for the intended customers. The key question here is ‘why should a firm purchase this product?’ This is basically a ‘laundry list’ of benefits that may or may not address the specific concerns of prospective customers. While this is not a desirable strategy for most situations, it may work in some low-level exchanges, especially involving products/services with few benefits to extol. However, this approach emphasizes benefits that may not target the specific needs or concerns of the customer. It ‘assumes’ certain benefits
are of interest. This approach may also identify points of parity with the next best alternative, which does not distinguish two options.

Strategy two focuses on a product’s key differences relative to the next best option. The key question is ‘why should they purchase from us vs. our competitor?’

Strategy three addresses a few targeted points of difference that could be enhanced to offer the greatest value for the customer. The key question here is ‘what is most important for prospective buyers to know about our offering?’ In reality, each of the strategies represents unique selling propositions for different audiences.

**Adjusting Value Propositions in Changing Times**

The value matrix [Treacy and Wiersema, 1996], (Bititci, Martinez, Albores, Parung, 2004)] offers some guidance regarding matching value propositions with alternative internal and external environmental circumstances. The value matrix uses the core value propositions of product leadership, operational excellence, and customer intimacy as the foundations for new value dimensions. In particular, Martinez and Bititci (2000) identify six strategies as follows – product leadership (**innovator or brand manager**), operational excellence (**price minimize or simplifiers**), customer intimacy (**technology integrator or socializer**). In each of the six categories there are both strategic and operational objectives for sellers and buyers.

From a product leadership perspective, suppliers need to focus on innovative continuity, with a technological twist, if innovation is the value proposition most likely to deliver sustained performance. If brand management is the route to long-term performance, attention should be focused on quality, brand image/history/credibility, and overall market position/strength to meet the needs of organizational buyers. Both innovation and brand management can offer value propositions of interest during periods of economic stress and prosperity depending upon the needs of the organization. Marketers must reinforce how their strategies are a direct match for the needs of buyers in changing economic situations.

Operational excellence is always a path to consider when crafting value propositions. According to the Value Matrix, price minimization is one of the sub-options in the operational excellence category. Low prices can be the outcome of this value proposition. Price becomes the strategic and operational focal point. The supplying organization needs to focus on processes and behaviors targeted toward delivering lower prices consistently.

Value propositions embracing the ‘simplifiers’ perspective, target convenience, ease of doing business, a ‘no hassle’ approach, and removal of small and large barriers/impediments to the exchange process. Suppliers should emphasize all of the reasons why firms should do business, based on simplified processes, but excellent quality products and services. The use of this value proposition is predicated on whether or not the prospective buyers’ needs for simplicity are manifested in a manner that heightens the significance of this variable. If simplicity as a buying criterion is not important, this route should not be pursued.

Customer intimacy is also a pathway to the conceptualization and execution of value propositions. Technological integrators achieve customer intimacy through a more thoughtful application of technology to the full range of customer needs. Responding to customer
intimacy needs through technology ensures a more comprehensive/integrative approach to managing the broad spectrum of customer care concerns.

A strong value proposition in many contexts can be the relationship aspect, described in the Value Matrix as 'socializers.' These value propositions are based on the power and influence of the detailed attention of individuals in the supplying organization to those in the buying realm. It is important to build trust, emphasize interpersonal skills, and to strengthen the relative attention allocated to members of the buying center.

All six of the above value propositions have merit within the context of alternative internal/external environmental scenarios. The decision-making milieu defines the choice of the value proposition selected in a particular buyer-seller exchange. Adroit decision-makers must select the value proposition most consistent with the needs of the buyer, within the context of both the range of controllable and uncontrollable variables surrounding the decision.

Summary and Conclusions
Both suppliers and buyers develop value propositions to navigate strategic and operational challenges and opportunities. Given the dynamic nature of the environment, static value propositions are ill-equipped to serve the needs of suppliers or buyers. This paper highlights the importance of adaptive value propositions in ensuring long-term success and performance excellence. Adjusting the concept of value across changing scenarios ensures a stronger match between market opportunities and the capacity of organizations to deliver, regardless of the economic environment or other constraining factors. The current paper also provides a foundation on which to build a mindset oriented toward practical, responsive, agile, relevant, and achievable value propositions across the life-cycle of relationships and organizations.

References


