

# THE PERSPECTIVE OF VALUE OF THE CUSTOMER IN THE ISRAELI BUSINESS-2-BUSINESS ENVIRONMENT

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## **Abstract**

*The Business-to-Business (B2B) environment involves negotiations between sellers and buyers participating in the trade of products and services. While each transaction is expected to foster a source of value and the distribution of value across the value chain, most of the focus of the current literature has been on value from the sellers' perspectives, and the studies frequently address industrial firms. Therefore, with an interest in increasing the understanding of the buyers' source of value, most especially in service enterprises, a study was conducted to examine the use of a Customer Value-Based Pricing approach in the Israeli B2B environment. The case study involved an Israeli business that operated in the international B2B arena and was a seller of core business technologies. The buyers were other businesses, who were service providers to the End-Customers. This study identified the key characteristics that affect negotiations between the sellers and buyers active in the B2B environment of service enterprises and the influence they have on the seller's offer, the buyer's valuation, and the overall negotiation process. Furthermore, the study describes the impact of Value-Based Pricing on the seller's offers, the buyer's valuations, and the buyer's willingness to pay for the services offered by the seller. In addition, the importance of the buyer's considerations of downstream-customer value during the negotiations were also highlighted.*

**Keywords:** *Business-to-Business (B2B), Value-Based Pricing, negotiations, valuations*

## **I. INTRODUCTION**

Over the years, the traditional pricing policy adopted by most firms has been based on costs for the firm and anticipated profits. Using this pricing strategy, what is gained by the seller is lost by the buyer. As a short-term pricing policy, the focus is on the single transaction with a dependence on price and in this process, the final price emerges during the negotiation process (Formentini & Romano, 2016). In seeking longer-term relationships with the buyers, I argue that in the B2B setting, the adoption of an approach that appropriates higher values for the sellers is dependent on a better understanding of the buyer's valuation during the negotiations. The consideration of buyers' value from earlier research, includes several dimensions of value, such as the operational, strategic, social, and symbolic dimensions of value (Töytäri, & Rajala, 2015), each of which affects the value inherent for the sellers in the B2B setting. In this study, I explore how during negotiations, the seller's sales team can appropriate value for the seller by leveraging a Customer Value-Based Pricing approach, taking into consideration the customer's valuation. Incorporating a Customer Value-Based Pricing approach during purchasing negotiations could be expected to facilitate the establishment of longer-term competitive advantages for the seller. Effects of the use of this approach in B2B transactions, on both the seller and the buyer are wide-ranging, influencing many facets of the transaction, including the buyer's valuation of the seller and the seller's offerings, the negotiation process between seller and buyer and the buyer's willingness to pay for the products and services being offered.

## **II. VALUE IN B2B**

### *A. B2B Transactions*

The marketplace for transactions has changed over the years, influenced by the global environment and the forces driving the markets. These changes have affected the organizations participating in Business-2-Business (B2B) transactions who may face intense competition (Grewal, Lilien, Bharadwaj, et al., 2015). B2B transactions are initiated between a buyer and a seller to provide products or services to fulfill customers' needs. In the B2B framework, it is

usually the seller that is the process owner and thus may initiate a value chain integration process that can include assistance to the buyer to provide value to their customers down the value supply chain (Formentini & Romano, 2016).

### *B. Customer Value*

In the B2B framework, customer value is one of the decisive factors that facilitates the transaction between the seller and the buyer (Formentini & Romano, 2016). With the increased complexity involved in an offer in the B2B setting, which is often expanded beyond the product itself to meet additional needs of the buyer to satisfy their customers, valuation of the offer by the customer becomes an important consideration during the negotiations (Grewal, Lilien, Bharadwaj, et al., 2015). As the B2B marketplace evolves, enhanced buyer knowledge and power have caused a shift in the balance of power away from sellers to the buyers (Grewal, Lilien, Bharadwaj, et al., 2015). Shared-Value Creation (SVC) is often used as a management strategy for realizing brand value through the redefinition of products and markets and is used in the B2B environment to create value for the sellers, buyers, and their end-customers. Shared Value Creation is expected to contribute to the creation and enhancement of trustworthiness of an enterprise, resulting in an increase in the perceived value of the enterprise.

### *C. Value Based Pricing*

Value-Based Pricing (VBP) is a pricing strategy which has been examined to understand the source of value and the distribution of value along the value chain. The Value-Based Pricing approach aligns the setting of prices to the value that a product or service is expected to deliver to its target segment of customers (Hinterhuber, 2008). The seller's sales' team is in the best position to appraise the transaction, since they have the insight and the understanding needed to appropriate value for the customers while ascertaining value for the sellers (Blocker, Panagopoulos & Sager, 2012). While the seller's interest may lie in creating value for the customer, an inherent aim of the seller is to capture some of the value involved in the transaction for themselves (Jaakkola, Frösén, & Tikkanen, 2015). During the negotiations process, it is the role of the sales team to develop strategy that focuses on the buyer's perceived value of the deal offered (Töytäri & Rajala, 2015). Applying a Value-Based Pricing (VBP) approach in the B2B environment facilitates downstream processes involving trust and collaboration, creating a

situation of advantage to both the suppliers and the buyers. Nevertheless, Value-Based Pricing approaches have generally been implemented in a limited manner, with most of the focus being placed on the operational dimension of value, with little regard for strategic, social, and symbolic dimensions of value (Töytäri, Rajala & Alejandro, 2015).

### **III. METHODOLOGY**

The B2B environment is a very diverse environment regarding the sellers, buyers and the area of business involved. In this study, the focus of the research was the understanding of the conduct of the buyers and the Israeli business sellers dealing with core enterprise applications, such as ERP, CRM, BPM, EAM, etc. and active in the international B2B markets. Therefore, the B2B setting investigated in the study included the seller, which was a business providing core business technologies, and the buyers, which comprised businesses that provide their services to other businesses, as well as to end-customers.

Data from 2015 showed that in the global enterprise application market, SAP was the largest player and held the biggest market share of around 25%, followed by Oracle, the second largest player, with around 15% market share. The rest of the market is made up of various other companies (Columbus, 2015). A case study was used to examine the application of the Selling Value Concept by the seller. This case study focused on Priority™ to gain a greater understanding of customer valuation in the negotiation process involving sellers dealing with core enterprise applications. Priority™ is an Israeli company that competes in the global ERP solutions market. The company has branches in the USA and UK and their flexible ERP systems are used by over 10,000 organizations in 40 countries around the world (Priority, 2020).

Mixed-method research was used in the study, to encompass both qualitative and quantitative research tools for the collection and analysis of data, the integration of the findings from the research and the drawing of inferences in a combined process of inquiry (Tashakorri, & Teddlie 2010). The mixed-method research involved both qualitative and quantitative research of the seller and buyers in the B2B environment.

The study included qualitative research using interviews that were conducted with key stakeholders of the B2B service vendor, Priority™ and with its buyers. The interview participants included four salespersons from the Priority™ sales team and two CPO's and two CEOs from amongst the Priority™ buyers. The semi-structured interviews used an open-ended

questionnaire to gather the responses from the participants. The participants were asked to respond to the open-ended questions and describe in words their experience of the negotiation process, their conduct during negotiations and their valuation of the outcomes of the negotiations. Analysis of the response to the interviews provided insight into the paradigm used by the sales team during the negotiation process for the purchasing of core enterprise applications by the buyers in the B2B setting. The interview enabled a better understanding of the value that the vendor is selling and a perception of how the buyers view the value inherent in the offer. The extent of the managerial and control contribution, operational contribution and reputational contribution to the negotiations were specifically investigated. Furthermore, information was gathered about the consideration of the buyers for End-Customer Value and the importance of this value in the negotiation process.

The qualitative research was followed by quantitative research that involved the distribution of a close-ended questionnaire. The insights gathered from the qualitative phase were used to formulate the items for use in the questionnaire. Fifty-one high-level executives and procurement officers, including CEOs, CFOs, CIOs, COOs & POs from the buyers of the core application services were enlisted via LinkedIn to participate in the online questionnaire. Retention rate and response quality to the questionnaire could be expected to improve by using personal connections via a social network (Sánchez-Fernández, Muñoz-Leiva & Montoro-Ríos, 2012). The questionnaire investigated the views of the buyers about their valuation of the B2B seller and the seller's offers, as well as the potential to enhance the willingness of the buyers to pay for an offer based on incorporating the process of Value-Based Pricing in the negotiations.

#### **IV. RESULTS**

Analysis of the demographics of the senior functionaries in the study, showed a tendency of the participants to display career conservatism. The participants mainly held executive roles in their organizations, and dealt with service, manufacturing, and software. The demographics collected about the sales teams that were involved in the negotiation processes showed that the majority were males, most had an academic background and on average the participants had 18 years of experience in the field, often working in the same organization.

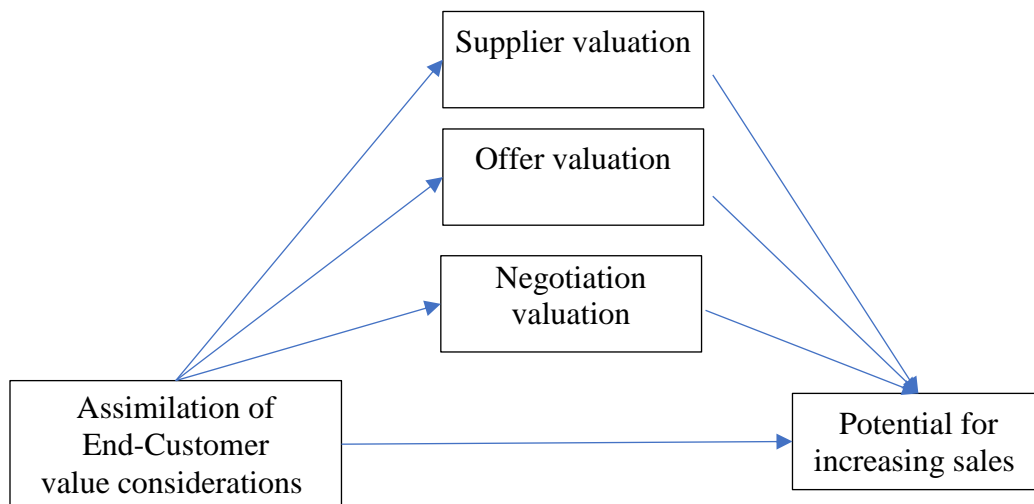
Initially, the study focused on the value of operational contribution, managerial and control contribution and reputational contribution to the negotiations and the offers. From the

perspective of the buyer, the seller's offer was viewed as having the potential to contribute to the streamlining of internal business processes in the buyer's organization. The statistical analysis of the study results showed that for the buyer, there did not appear to be a difference between the value of operational contribution, managerial and control contribution, and reputational contribution from a business perspective. Rather, sixty percent of the participants indicated that the offers help specific business processes, such as the time for delivery, control of business processes and process flows and improvements in production quality. The findings also showed that the buyers ranked their evaluations of the offers at a moderate level, possibly indicating a lack of co-operation in managing the negotiation process. The outlook on negotiations has been one of negotiations as a short-term process, wherein what one side wins, the other side loses (Brennan, Canning, & McDowell, 2007). Overall, the buyers did not relate highly to the offers of the sellers, but rather focused on the contribution of the offer to their internal business processes.

Another goal of the study was to examine whether the use of a Value-based Pricing approach by the seller was a factor that influenced the negotiations leading up to a transaction. Based on the effect that is expected from assimilating End-Customer Value considerations into B2B service offers, a research model was proposed and is shown in Figure 1. The model was used to assess the influence of the End-Customer Value considerations on the buyer's valuations of the seller and the seller's services, on the negotiation process and on the willingness of the buyer to pay for the services offered. The model encompassed several independent variables that are expected to impact the dependent variable, which is the potential for increasing sales.

The supplier (seller) valuation is one of the independent variables that is used to measure the buyer's valuation of the seller providing the service. This measure includes an assessment of the quality, reliability, price, and level of innovation of the seller. Also influencing this variable are the salespersons' personal, professional and sales abilities. The offer valuation is another independent variable that reflects other aspects of the buyer's valuation of the seller providing the service, including operational value, management and control value and reputational value. The negotiation valuation is the next independent variable that measures various aspects of the buyer's valuations of the negotiation process. The End-Customer value consideration is an additional independent variable used to measure the buyer's valuations of aspects of the contribution that B2B services provided to their customers. These aspects include transparency, diversification of products or services, flexibility and adaptability, reliability, and innovation.

In the proposed model, the dependent variable is the potential for increasing sales. This variable reflects the various aspects that may influence the buyer's willingness to pay more for an offer. These aspects include operational value, management and control value, reputational value, and value to the end-customer.



**Figure 1: Proposed research model showing the effect of assimilating End-Customer Value considerations in a B2B service offer.**

Analysis of the results from the study highlighted the emphasis that the value aspect had on the direct and immediate value for the buyer when relating to the operational value of the offer, the managerial value for the buyer and the value of the offer to the image of the buyer's organization.

Further analysis of the results of the assessment of the buyer's willingness to pay related to the different aspects that influence the buyer's willingness to pay during the negotiation process with the seller. The results from the statistical analysis are shown in Table 1 and enable a comparison between the effects of operational contribution/value, management and control contribution/value, reputational contribution/value, and contribution/value to the end-customer

on the buyer's willingness to pay. The results showed that most of the participants indicated a low or non-existent willingness to pay associated with operational contribution/value, management and control contribution/value and reputational contribution/value. In contrast, more than half of the buyers (52.9%) expressed "to a great extent" an increase in the willingness to pay when associated with an emphasis on End-Customer Value. Another 25.5% of the participants indicated "to a moderate extent", an increase in their willingness to pay with emphasis on End-Customer Value. Thus, these results strengthened the emphasis on End-Customer Value as an important factor which was associated with an effect on the buyer's willingness to pay as shown in Table 1.

**Table 1: Buyer's Willingness to Pay Associated with the Supplier Emphasis**

Buyer willingness to pay regarding the emphasis on...	Descriptive		1	2	3	4	5
	M	SD	Not at all	To a small extent	To some extent	To a moderate extent	To a great extent
			%	%	%	%	%
Operational contribution/value	2.16	1.24	39.2%	29.4%	13.7%	11.8%	5.9%
Management and control contribution/value	2.12	1.14	33.3%	41.2%	11.8%	7.8%	5.9%
Reputational contribution/value	1.98	1.19	47.1%	27.5%	9.8%	11.8%	3.9%
Contribution/value to end-customer	4.20	1.08	3.9%	3.9%	13.7%	25.5%	52.9%
Offer evaluation	2.61	.82	Cronbach's $\alpha$ =.660				

When the buyer's willingness to pay was weighted into a single index, the variable Cronbach's  $\alpha$  index is  $\alpha$ =0.660. Overall, the buyer's willingness to pay averages  $M$ =2.61 ( $SD$  = .82). These results indicate a medium-high internal consistency of the items and overall, a relatively low willingness to pay associated with supplier emphasis.



Further analysis of the results collected in the study assessed several aspects of the negotiation which could influence the buyer's assessments and the offer of the buyer. These aspects included instrumental characteristics, value characteristics and customer value. When these aspects came into play during the negotiations, the result was a higher assessment by the buyer of the seller and their sales team, and the seller's offer. Therefore, Value-Based Pricing should be considered as a relevant aspect for enhancing the buyer's valuations. These findings were found to be in accordance with Töytäri, & Rajala's (2015) value approach, which described the increase in the value of the seller and the seller's offer as being associated with an increase, during the negotiations, in the dimensions of value, which include amongst them End-Customer Value.

Examination of the aspects that enhance the buyer's potential willingness to pay for the seller's offer was carried out. From the results, it was shown that the buyer's willingness to pay for an offer that provides operational or managerial benefits was only mediocre. Furthermore, the buyer's willingness to pay for image benefit was low, possibly since the buyer's perception is that the transaction with the seller would be more beneficial to the seller's image. While the buyers demonstrated limited willingness to pay for the operational contribution/value, management and control contribution/value and reputational contribution/value in the negotiations, the buyers displayed high willingness to pay for End-Customer Value. A positive relationship was found between a buyer's willingness to pay for Customer Value and negotiation instrumental and value characteristics. There was also a positive correlation between the buyer's willingness to pay for Customer Value and the degree to which this value was included in the negotiations. It should be expected that the role of the sales team would be to emphasize the perceived value of the offer to the buyer. It has been shown that in the B2B setting, where services are sold down a value chain, Customer Value remains a decisive factor for enhancing the transaction between seller and buyer (Formentini & Romano, 2016). The findings from the study have further indicated the central role that Customer Value seems is expected to play in the B2B negotiation processes between seller and buyer.

## V. CONCLUSIONS

In the B2B environment, manufacturers and service providers create a value chain that stretches down to the end customer. However, collaboration between the different partners along the value chain has largely been based on a reliance on price and the creation of short-term relationships between the partners during the negotiations. In these types of collaborations, the sales teams have a limited understanding of the customers, and the sales team usually directs its attention to maximizing price during negotiation of transactions. This study focused on exploring an alternative approach whereby the seller centers on enhancing customer value along the value chain during the negotiation process.

By acknowledging the important role of buyer valuation in the negotiation process, the position of the seller for appropriating and distributing value between the seller and the buyer and advancing the negotiations can improve. Yet, in the current situation of B2B transactions involving core enterprise applications the buyer's value was only expressed at a moderate level in the framework of the negotiations and deal. Furthermore, the negotiations did not explicitly encompass the buyer's considerations for End-Customer Value.

Although an emphasis on instrumental characteristics, value characteristics and customer's value can lead to a higher degree of appreciation of the buyer for the seller and the sales team during the negotiations and the deal, from the buyer's perspective, these factors were often overlooked during the negotiation process. From the point of view of the buyers themselves, the emphasis of the buyer during the negotiation and the transaction is limited to improving their production, operational and management capabilities.

When relating to the willingness of the buyer to pay for a deal, it was found that currently, the willingness of the buyer to pay for a deal within the B2B framework is dependent on the various value components of the proposed deal and this willingness was often found to be mediocre. In accordance with the findings from the study, incorporation of customer value in the negotiation process appears to drive the buyer's willingness to pay for the deal, more so than the inclusion of operational contribution/value, management and control contribution/value and reputational contribution/value to the negotiations. It could be supposed that operational contribution/value, management and control contribution/value and reputational

contribution/value would have been determined by the buyer prior to the receipt of the offer, thus explained their minimal effect on the buyer's willingness to pay for the deal.

Based on the findings from the study, it can be recommended that paying attention to the buyer's willingness to pay becomes a priority during negotiations. The effect of the price, the terms of the negotiations and the identity of the seller were found to have little influence on the buyer's willingness to pay for the transaction. Therefore, with the value to the customer having been found to be the main factor influencing the willingness of the buyer to pay for the transaction, a better understanding of customer value by the sales team could be expected to enhance the buyer's willingness to pay. The sales team could place emphasis on creating customer value during the negotiations by highlighting the benefits of the transaction and the creation of a long-term relationship built around cooperation and trust.

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