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How to Build a B2B Sales Strategy in a Startup Company - Handbook for StartUp School

Konsta Laitinen

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Abstract

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Author Konsta Rasmus Laitinen	
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The title of the thesis How to Build a B2B Sales Strategy in a Startup Company - Handbook for StartUp School	**Number of pages and appendix pages** 80+56
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The objective of this project-oriented thesis was to create a handbook for Haaga-Helia StartUp School. The handbook is the product of this thesis. The title of the handbook is "How to Build a B2B Sales Strategy in a Startup Company". The objective of the handbook is to provide guidance and information for entrepreneurs and students who wish learn how to build a business-to-business (B2B) sales strategy in a startup company. A startup company can be described as a new company or entrepreneurial venture that is just beginning to develop.

In this thesis, the B2B sales strategy is divided into competitive strategy, pricing strategy and B2B sales process. The theoretical framework of this thesis consists of four main components, which are B2B sales strategy, competitive strategy, pricing strategy and B2B sales process.

The theoretical part starts by describing not only B2B sales strategy, but also organisational buying process and how to build a successful sales organisation. The second main component of the theoretical part examines competitive strategy and provides the reader information on choosing the right industry for long-term profitability. The second main component also helps to understand a company's relative position within a chosen industry and guides the reader in choosing a competitive strategy. The third main component of the theoretical part examines pricing strategy and provides information on not only the factors that affect pricing and possible sources of lost revenue and profit, but also pricing strategy options and pricing methods. The final main component of the theoretical part describes the eight-step B2B sales process. This thesis does not examine marketing strategy.

The source materials utilised in creating the theoretical part and the product part of this thesis consist of literature and online sources. The structure of the B2B sales strategy presented in this thesis is based on the author's own personal experience and active participant observation which was conducted during a 13-month employment in a startup company.

The product of this thesis is based on the theory presented in the thesis. The product was created by using Microsoft PowerPoint and is attached to the thesis.

This thesis was executed during the spring 2018.

Key words
Strategy, Sales, B2B, Startup, Pricing, Competitive strategy

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1 Introduction

Starting a business can be easy. Selling your idea to others is not. Building your business and having success requires making the right strategic choices and conducting an efficient sales process while creating buyer value.

This project-oriented thesis concentrates on a fundamental topic for entrepreneurs who are aiming to create revenue and develop their businesses by increasing sales. This thesis and the product of this thesis focus on business-to-business (B2B) sales strategy and aim to offer guidance and information for students and entrepreneurs who are seeking to learn how to build an effective B2B sales strategy in a startup company. A startup company can be described as a new company or entrepreneurial venture that is just beginning to develop. In this thesis, the B2B sales strategy is divided into three sub-categories which are competitive strategy, pricing strategy and B2B sales process.

The ability to create revenue through sales can enable startup companies to gain market share and continuously develop their businesses for example by hiring new talent and investing in research and development. Investors and potential partners are looking for not only a great idea, but also an entrepreneur or a team that can effectively sell the idea to others.

1.1 Client introduction

The client of this thesis is Haaga-Helia StartUp School, which has approximately 130 students and 30 startup companies participating every year (Haaga-Helia StartUp School 2018). Haaga-Helia University of Applied Sciences is a private university of applied sciences which offers multiple Bachelor’s and Master’s degree programmes.

StartUp School operates on each of the five campuses of Haaga-Helia University of Applied Sciences and has participating students from all Haaga-Helia study programmes. StartUp School supports students who have already established their own businesses or are interested in entrepreneurship by offering various courses, hands-on assistance and events.

1.2 The objective of the thesis

The objective of this thesis was to create a handbook for Haaga-Helia StartUp School. The title of the handbook is “How to Build a B2B Sales Strategy in a Startup Company” and it is primarily meant to be used as a study material at StartUp School. The objective of the handbook is to provide guidance and information for students and entrepreneurs who wish to learn how to build a B2B sales strategy in a startup company. However, the thesis and the handbook can also be used by anyone who is interested in B2B sales strategy.

Building an efficient B2B sales strategy is essential for entrepreneurs who aspire to create revenue in the B2B sector or modify their current B2B sales strategy to increase sales. This thesis examines the main components of B2B sales strategy and aims to guide the reader through the building process of B2B sales strategy. This thesis does not examine marketing strategy.

1.3 Thesis structure

This thesis consists of theoretical part and product part. The theoretical part is composed of four main components, which are B2B sales strategy, competitive strategy, pricing strategy and B2B sales process. The product part presents a handbook which is based on the theory presented in the theoretical part. The structure of the B2B sales strategy presented in this thesis is based on active participant observation and the author's personal experiences with working in international B2B sales and business development in a startup company.

The second main chapter of the thesis describes B2B sales strategy. The chapter also examines how to build a successful sales organisation and presents the concept of organisational buying process to help the reader understand how a well-designed B2B sales strategy can help a startup company sell more effectively.

The third main chapter examines competitive strategy and provides information on fundamental concepts and central questions of competitive strategy. The chapter also helps the reader with choosing the right industry for long-term profitability, understanding a company's relative position within a chosen industry and choosing a competitive strategy. The third main chapter will lead the reader to the fourth main chapter, which presents the pricing strategy. The fourth main chapter focuses on not only the factors that affect price, but also price waterfall analysis and three fundamental pricing strategies: skimming and sequential skimming pricing strategy, penetration pricing strategy and neutral pricing strategy. The chapter also introduces three pricing methods: cost-plus pricing, market-based pricing and value-based pricing.

The fifth main chapter introduces B2B sales process, which is divided into eight steps: preparation, prospecting, connecting, customer needs analysis, solution presentation, objection handling, closing and after-care. The sixth main chapter summarises the theoretical part of the thesis and the seventh main chapter presents the product of the thesis, which is a handbook created for Haaga-Helia StartUp School. In the eighth main chapter, the author examines whether the set objectives were reached and provides suggestions for further research.

2 B2B sales strategy

B2B describes a relationship in which the commercial transaction is conducted between the provider and the buyer, both of which are legal entities, for example companies. Increasingly intensifying competition has forced companies to adapt to achieve growth and increase revenue. The simplest way to increase revenue is to increase sales and that is why it is important for a startup company to build an effective sales strategy. A modern B2B sales strategy focuses more on creating value for the buyers than just pushing products to the market. (Kaario 2009, 17, 28.) In this thesis, the B2B sales strategy is divided into three main components (Figure 1), which are competitive strategy, pricing strategy and B2B sales process.

Figure 1. Components of B2B sales strategy

One of the most important things that a startup company needs to consider is how large is the market share and sales volume that the company can achieve during its first five years (McKinsey & Company 2001, 75). To break into a market and establish a successful B2B business, a startup company needs to build a successful sales strategy. To build a successful sales strategy, the company needs to know where and how to compete, and how to effectively price and sell the product or service. (Lambing & Kuehl 2000, 153.) Furthermore, a startup company needs to build a successful sales organisation.

2.1 Building a successful sales organisation

A sales organisation can be built in many different ways, but it is almost impossible for it to be perfect. For example, there will always be some customer overlap, meaning that serving one customer requires several salespeople working together. A sales organisation might have several different types of salespeople, but seamless cooperation is needed to deliver excellent customer service and successfully accomplish sales targets. Thus, a sales organisation should hire people who can effectively work together with other people and help the organisation succeed. (Castleberry & Tanner 2011, 442-443.)

When building a sales organisation, a company should determine how many salespeople and what different roles are needed to achieve the sales targets. A sales organisation should have an appointed sales executive, who manages the sales organisation. Sales executives also monitor and control activities of the sales organisation, forecast overall sales, create budgets, set sales quotas (minimum number of sales in units), develop plans to achieve the set sales targets and strive to create an ethical and customer-oriented culture within a sales organisation. (Castleberry & Tanner 2011, 442-444.)

To build a successful sales organisation, a company needs to create a basic compensation and evaluation system. The compensation system should encourage the salespeople to sell the products or services at a profitable price. A compensation system that satisfies the needs of both a company and its salespeople will motivate the salespeople to meet the set objectives. A stable and well-designed compensation system rewards the salespeople for their efforts and results and attracts talented salespeople to join the company. In a basic compensation system, the salespeople can earn a base salary, which is not based on performance. The salespeople can also earn incentive pay, which is partially based on performance. Incentive pay can be a bonus or a commission. A bonus is paid for overall performance in certain areas. For example, for reaching a certain level of annual sales in euros. A commission can be a certain percentage of each individual sale. The compensation system is crucial when competing for the best salespeople. Thus, to build a successful sales organisation, a company needs to design an attractive compensation system. (Castleberry & Tanner 2011, 445.)

A successful sales organisation should continuously work towards improving the performance of the organisation and each individual salesperson. By constantly evaluating the performance of the salespeople, a sales organisation will be able to adapt to changes and outperform the competition. The salespeople should be evaluated not only by the amount of sales made by each salesperson, but also by other things such as their customer service level, hit-rate (how many meetings lead to a sale) and product knowledge. Performance evaluation can help a company find weaknesses from the sales process and individual performances and offers an opportunity to fix those weaknesses. For example, a relatively low-performing salesperson may receive additional training which would improve the salesperson’s performance. Performance evaluation also helps to understand what works and who can be rewarded for their performance. A sales organisation that is constantly learning will be able to increase sales and achieve success. (Castleberry & Tanner 2011, 447-448.)

2.2 Understanding organisational buying process

To successfully sell to different organisations, a sales organisation needs to understand how organisations make purchase decisions. Organisational buying process often includes multiple phases, negotiations and people who are involved in decision-making. The organisational buying process can be divided into eight steps (Figure 2) to help the salespeople understand how B2B buyers make purchase decisions. (Bergström & Leppänen 2015, 131; Castleberry & Tanner 2011, 68-69.)

Figure 2. Organisational buying process (adapted from Bergström & Leppänen 2015, 131; Castleberry & Tanner 2011, 69)

The organisational buying process starts when someone realises that there is a problem that needs to be solved (Step 1). This recognition of a need can be triggered by someone in the buying organisation or outside salespeople who demonstrate how their product or service can improve the buyer's business. After a problem has been identified, the people within the buying organisation will try to develop an approach to solving the problem (Step 2). Outside salespeople may work with the buyer to analyse the situation and show how the problem could be solved by purchasing a product or service. In Step 3, the buying organisation prepares specifications for the product or service needed to solve the problem. The specification can be used by potential suppliers to develop offers and proposals. Salespeople can influence the buying process and its outcome during steps 2 and 3 by helping the buying organisation develop specifications that favour the products or services offered by the salespeople. (Bergström & Leppänen 2015, 130-131; Castleberry & Tanner 2011, 70.)

After preparing specifications for the needed product or service, the buying organisation starts searching for potential suppliers (Step 4). The organisation can conduct an extensive research or contact previous suppliers. Many purchasing teams use internet to find suppliers and it is important that suppliers have their supply and value proposition clearly defined and easily available on the internet. Organisations conduct 12 internet searches on average before engaging a potential B2B supplier. This means that much of the purchase decision might have been made before the salespeople get to talk to the buying organisation. (Google & Millward Brown Digital 2014.) A sales organisation should try to influence the buying process by providing customer-oriented and valuable content on the internet and engaging with the potential customers in the early stages of the buying process. In Step 5, the buying organisation asks the qualified suppliers to submit proposals. After receiving the proposals, the organisation evaluates the proposals and selects a preferred supplier (Step 6). It is important to remember that the organisation might still want to conduct further negotiations concerning performance features, price or delivery. (Bergström & Leppänen 2015, 131-132; Castleberry & Tanner 2011, 70.)

In Step 7, the buying organisation places an order which goes to the supplier. The supplier accepts the receipt and the parties agree on a delivery date. After the product has been delivered, the buying organisation checks the product and then pays for the product. Salespeople should double-check that there are no mistakes in the paperwork and the customer is satisfied. In Step 8, the last step of the organisational purchasing process, the buying organisation evaluates the performance of the supplier (Figure 3) and the purchased product or service. The buying organisation will evaluate the price and quality delivery of the product or service, the responsiveness and support offered by the supplier, and the intangibles and value of the investment. (Castleberry & Tanner 2011, 71; Rogers 2007, 47-48.) Salespeople should work with the customer to make sure that the evaluation will be positive and the customer is satisfied. A well-managed after-sale support can help build successful long-term customer relationships and increase customer retention rate. (Bergström & Leppänen 2015, 131-132; Castleberry & Tanner 2011, 71.)

Figure 3. Supplier performance measures (Rogers 2007, 47)

To successfully influence the organisational buying process, salespeople need to find out how the purchase decision is made in each potential customer organisation and understand what buyer's value. In organisations, the purchase decision is often made by a small team with at least one key decision maker. Usually the key decision maker is the person who controls the budget and has the final say on the purchase decision. The salespeople should target those decision makers and show how the product or service can be the best solution for the potential customer's problem. (Rubanovitsch & Aalto 2007, 17-18.)

3 Competitive strategy

At the heart of the success or failure of companies is competition. Competition dictates the usefulness of a company's actions that define its performance. Different industries are the arenas in which competition occurs and competitive strategy is the method for pursuing a profitable competitive position in an industry. The objective of competitive strategy is to build a sustainable and profitable position in which a company can successfully defend itself against the competitive forces that dictate industry competition. Competitive strategy also aims to mould the environment and shape the competition in a company's favour to gain competitive advantage over competitors. (Porter 2004a, 1-2.) The fundamental factors of competitive strategy can be adapted in a similar way by both startup companies and already established companies.

Competitive advantage helps a company differentiate itself from the competition. To achieve competitive advantage, a company needs to provide more value to the buyer than what the competition provides and that value needs to eclipse the company's costs of creating it. Superior value is generated by providing unique benefits that more than cancel out the price difference between a company's and its competitor's price or by offering lower prices than the competition with equal benefits. The two fundamental types of competitive advantage are differentiation and cost leadership. (Porter 2004a, 3.) The more competitive advantages a company has, the better chance it has to beat the competition (Lambing & Kuehl 2000, 153).

3.1 Choosing the right industry for long-term profitability

Porter (2004a, 1-2, 4, 11) has determined two central questions that determine which competitive strategy a company should choose. The first is the industries' attractiveness for long-term profitability and the different factors that determine that profitability. Different industries offer different opportunities for sustained profitability. The inherent profitability of the industry is an extremely important factor in determining the profitability of a company. (Porter 2004a, 1-2.)

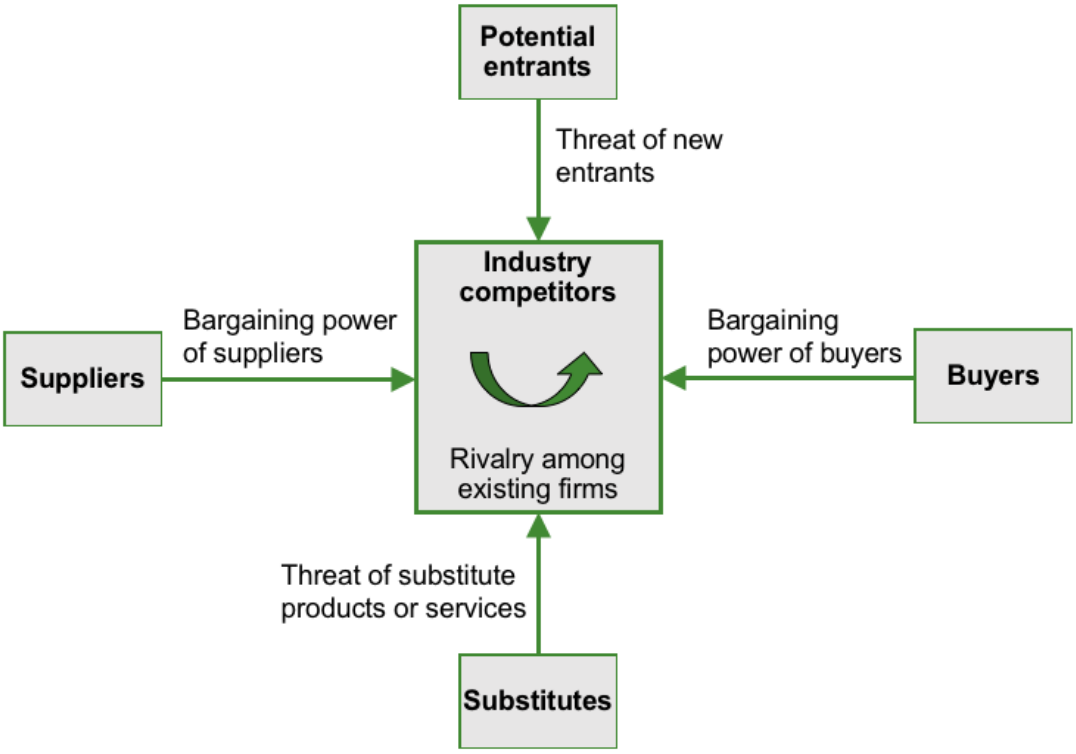

Figure 4. The five competitive forces that determine industry profitability (Porter 2004a, 5)

Industry attractiveness is determined by rules of competition and competitive strategy arises from an understanding of those rules. The fundamental purpose of competitive strategy is to endure and shape those rules in a company's favour. In all industries, the rules of competition are manifested in five competitive forces (Figure 4), which are the rivalry among existing firms, the bargaining power of buyers, the threat of substitutes, the bargaining power of suppliers and the threat of new competitors. These five competitive forces form a collective strength that dictates a company's ability to earn rates of return on investment that exceed the cost of capital. (Porter 2004a, 4-5.)

The five competitive forces dictate the industry profitability due to the influence they have on the elements of return on investment: costs, prices and required investments of companies in an industry. The forces are also connected to each other. For example, the bargaining power of buyers and the threat of substitutes impact the prices that companies can charge and the bargaining power of suppliers influences the cost of materials. New entrants, such as startup companies, can change an industry by bringing their aspiration to gain market share, new capacity and considerable resources. As a result of new entrants entering an industry, prices can decrease or costs can increase, causing reduced profitability. The threat of new entrants also affects the investments required to block new entrants. (Porter 2004a, 5-7.)

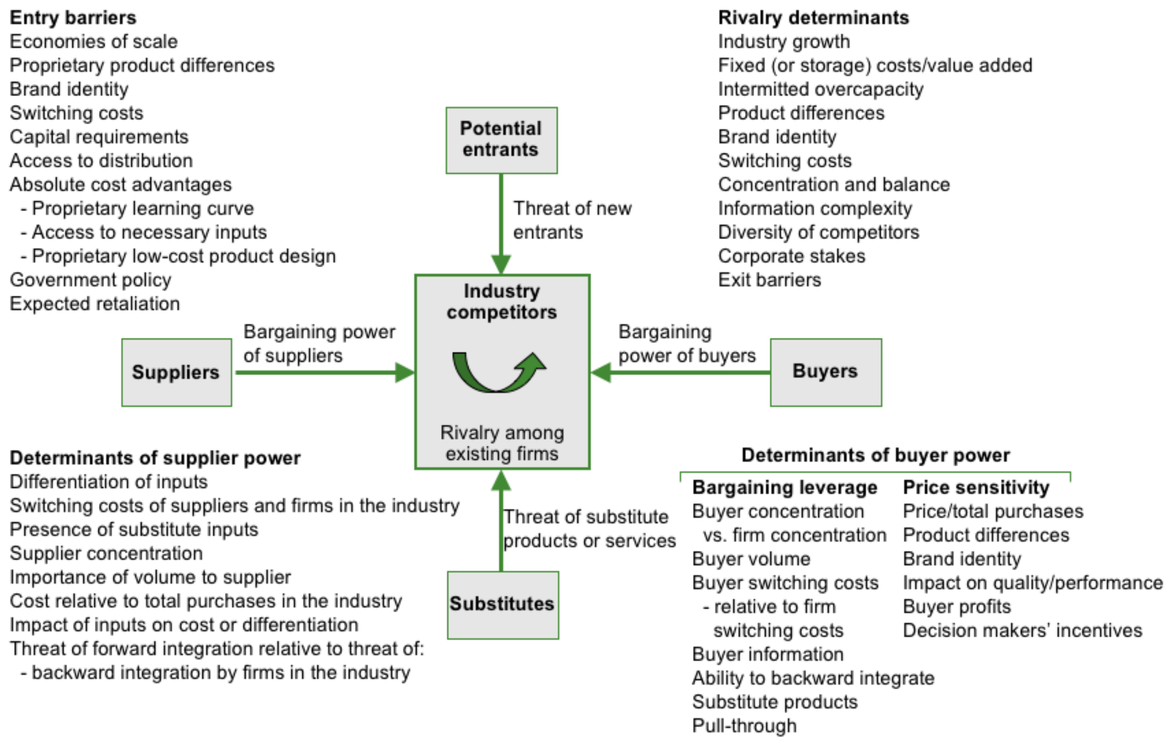

Figure 5. Elements of industry structure (Porter 2004a, 6)

The strengths of the five competitive forces are functions of industry structure, which describes an industry's fundamental economic and technical characteristics. The structural elements of industry structure are listed in Figure 5. Although industry structure is comparably stable, it can change over time if an industry evolves. The change of structure shapes the overall and proportional strength of competitive forces and can increase or decrease industry profitability. The most important industry trends for strategy are those that have the most impact on industry structure. (Porter 2004a, 5-7.)

3.2 Understanding a company's relative position within a chosen industry

Porter's (2004a, 11) second central question that determines the choice of competitive strategy is a company's relative position within its industry. Whether a company's profitability is higher or lower than the industry average is dictated by positioning. A well-positioned company might be highly-profitable even if the industry structure is disadvantageous and the industry's average profitability is moderate. (Porter 2004a, 11.)

In the long run, an above-average performance is based on sustainable competitive advantage. Although a company can have multiple strengths and weaknesses, there are two essential types of competitive advantage a company can have: low cost or differentiation. The importance of any strength or weakness is a function of its impact on relative cost or differentiation. The more impact a company's strength or weakness has on relative cost or differentiation, the more significant that strength or weakness is. Cost advantage and differentiation derive from industry structure and a company's capability to manage the five competitive forces better than its competitors. (Porter 2004a, 11.)

Porter (2004a, 11-12) combines the two fundamental types of competitive advantage with the scope of activities for which a company aims to achieve them. This combination leads to three generic strategies, each of which aims to gain an above-average performance in an industry. Figure 6 presents the three generic strategies, which are cost leadership, differentiation and focus. The focus strategy is divided into cost focus and differentiation focus. (Porter 2004a, 11-12.)

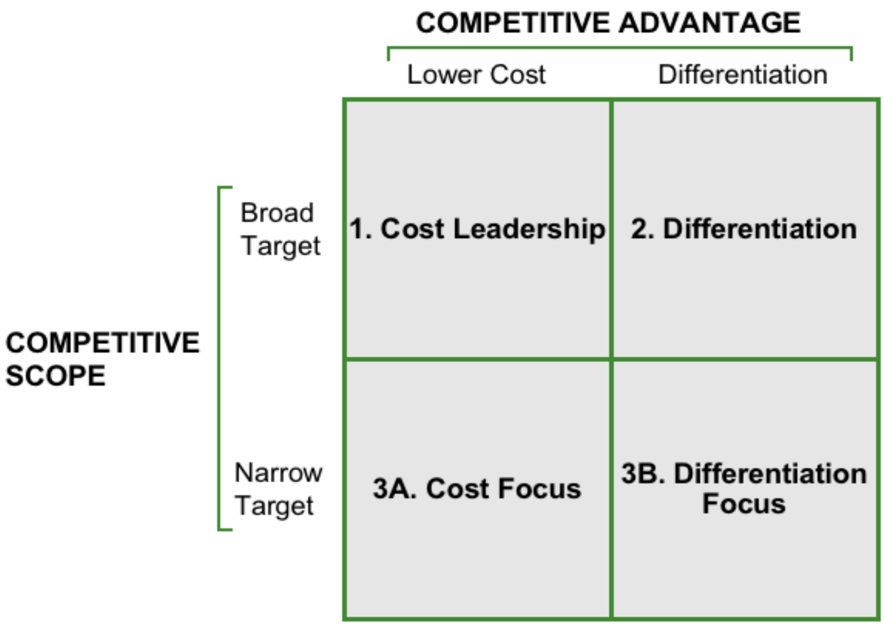

Figure 6. Three generic competitive strategies (Porter 2004a, 12)

Each one of the generic strategies takes a different road to competitive advantage. They all combine the choice of competitive advantage type with the strategic target scope in which a company seeks to gain competitive advantage. The cost leadership and differentiation aim to achieve competitive advantage in a broad range of industry sectors. Conversely, the focus strategy concentrates on cost advantage (cost focus) or differentiation (differentiation focus) in a narrow sector. To achieve competitive advantage, a company must choose a competitive advantage it aims to achieve and the target scope that matches the company's objectives. (Porter 2004a, 11-12.)

3.2.1 Cost leadership

When choosing cost leadership as a generic strategy, a company tries to become the producer with the lowest costs in its industry. The company has a broad scope and serves multiple segments within the industry. The company might even operate in other related industries. The sources of cost advantage depend on the industry structure. A company has a cost advantage when it can perform its value activities with a lower cumulative cost than the competition. A company's relative cost position is a function of not only its value chain's structure versus the structure of competitors' value chains, but also its comparative position versus the cost drivers of each value activity. (Porter 2004a, 12, 64, 97-98.) Figure 7 presents the value chain and value activities.

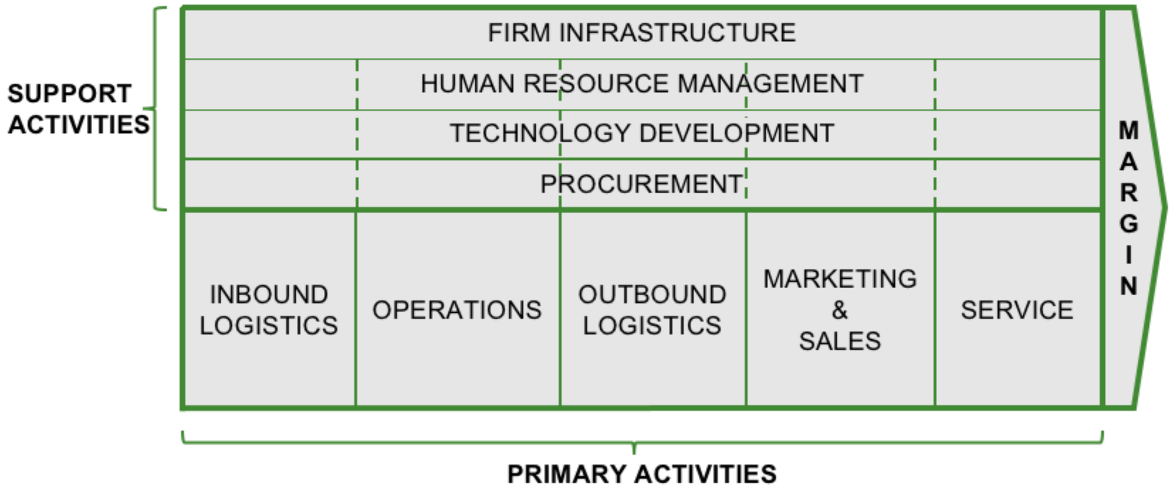

Figure 7. The generic value chain (Porter 2004a, 37)

Every company is a collection of different activities and value chain (Figure 7) is used to present all those activities. Companies invent, produce, market, sell and support their services and products. The objective of each generic strategy is to create value for buyers that exceeds the costs of creating that value. The value chain comprises value activities and margin and demonstrates the total value. Value activities are components which a company uses to build value for the buyers. Margin is the remainder after the collective cost of performing the value activities is subtracted from total value. Value chain can be a useful tool when diagnosing competitive advantage and performing cost analysis. (Porter 2004a, 36, 38, 45, 64, 97.)

Porter (2004a, 38) divides the value activities into primary activities and support activities. Primary activities are involved in the physical creation of the product or service and its logistics, sales and after-sale service. Primary activities can be divided into five basic categories: inbound logistics, operations, outbound logistics, marketing and sales, and service. Primary activities are supported by support activities, which provide companywide functions, human resources, technology and purchased inputs. Support activities also support each other. Human resource management, technology development and procurement can support specific primary activities and the entire value chain. Firm infrastructure supports the entire value chain but is not associated with any specific primary activity. (Porter 2004a, 36, 38, 97.)

A company's costs and its relative cost position derive from the value activities performed by that company and the cost behaviour of those value activities. A cost analysis analyses the costs within the value activities and not the costs of the whole company. All value activities have their own cost structures. At the start of cost analysis, a company's value chain is defined and operating costs and assets are assigned to value activities. A company should assign operating costs to the activities in which those operating costs are incurred and assets to the activities which control or most influence the use of those assets. After costs and assets have been allocated, a company can view the distribution of its costs from the value chain and may find areas for cost improvement. The value chain can separate operating costs into purchased operating inputs and human resource costs, and assets into liquid assets and fixed assets. (Porter 2004a, 64-66, 70.) Figure 8 shows an example of how costs and assets can be distributed among activities in a value chain.

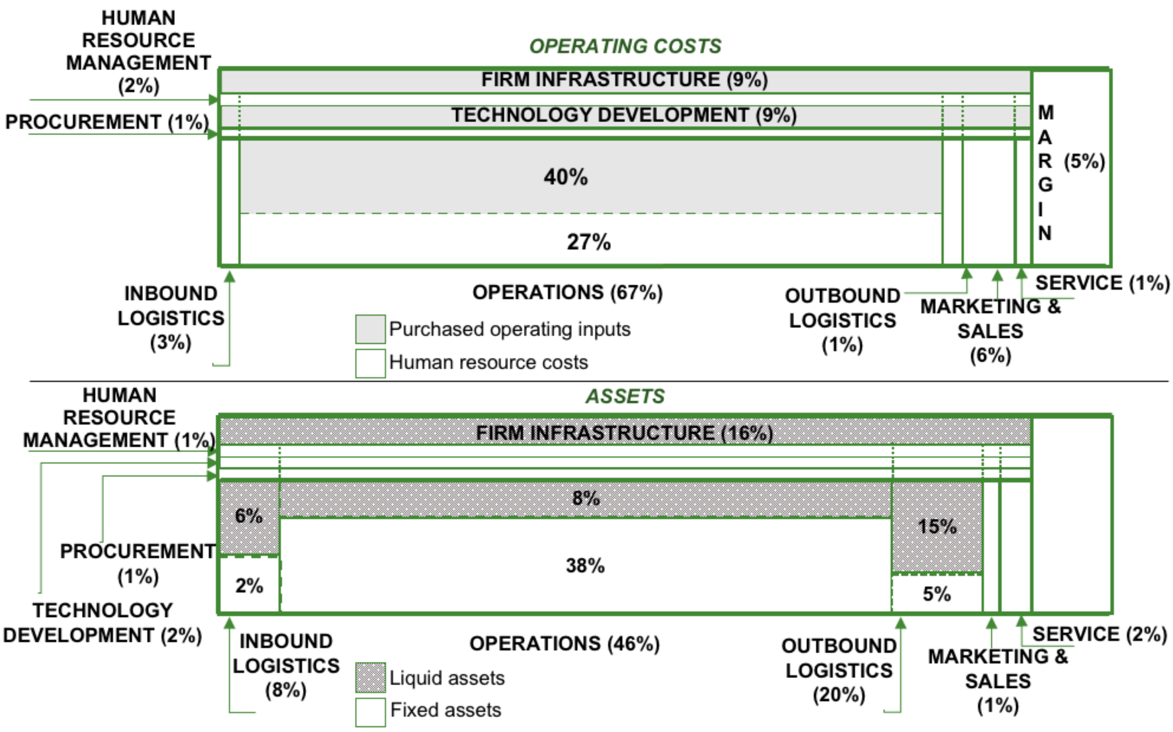

Figure 8. Distribution of operating costs and assets (Porter 2004a, 68-69)

As previously stated, a company can gain cost advantage if it can perform its value activities with a lower cumulative cost than the competition. This can be achieved by controlling cost drivers or reconfiguring the value chain. The cost of each value activity can result from multiple cost drivers. The best opportunity for improving relative cost position is offered by those value activities that represent a major or an increasing portion of cost. (Porter 2004a, 70, 84, 98-100.) Porter (2004a, 70, 73-75, 78-80, 82-83, 99-106) has determined ten major cost drivers, which are shown in Figure 9.

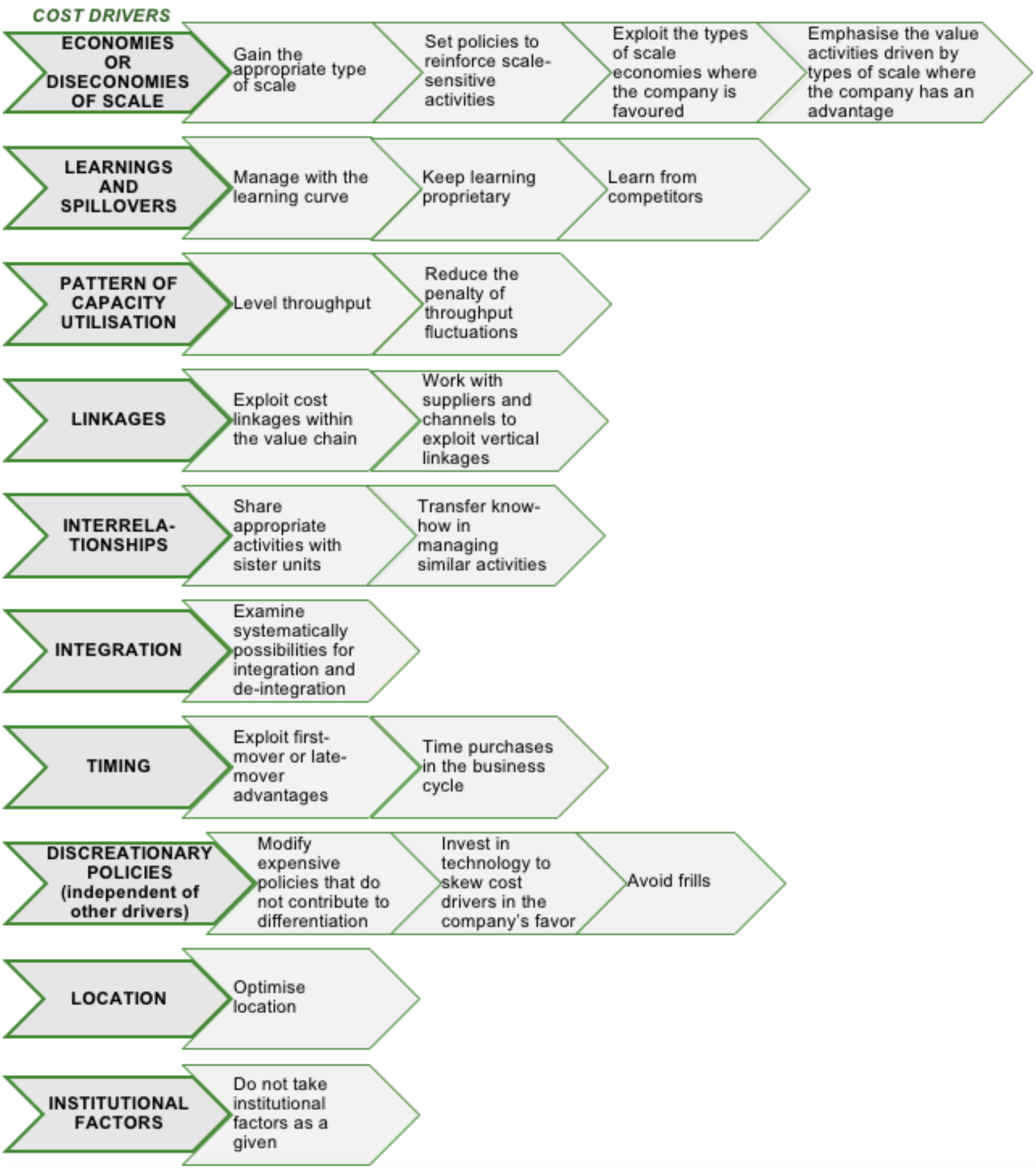

Figure 9. The ten major cost drivers and examples of how to control them (adapted from Porter 2004a, 70, 73-75, 78-80, 82-83, 99-106)

Economies of scale result from the ability to perform value activities in a different and more efficient way at higher volume or from the ability to cut the cost of intangibles such as research and development or online advertising over a higher sales volume. *Diseconomies of scale* in a value activity result from a situation where complexity and coordination costs increase when scale increases. For example, when the number of product lines in a certain automobile factory exceeds 20, the complexity of the factory becomes unmanageable. The second major cost driver, *learning*, can also lower the cost of a value activity by increasing its efficiency over time. For example, learning can lead to labour efficiency improvements, layout changes and improved procedures that increase asset utilisation. Learning can might also spill over from one company to another, for example through suppliers and previous employees. (Porter 2004a, 70-71, 73.)

The third major cost driver, *capacity utilisation*, will affect a value activity when that value activity has considerable fixed cost associated with it. A value activity's sensitivity to utilisation is determined by the ratio of fixed cost to variable cost and a value activity's sensitivity to capacity utilisation is affected by the various ways of configuring that value activity. For example, a wine company can reduce sensitivity to capacity utilisation by using beverage brokers instead of an in-house sales team to sell to supermarkets. Brokers would generally receive a sales commission, whereas a sales team would receive a fixed salary and create expenses that would most likely exceed the commissions paid to the brokers. (Porter 2004a, 74-75.)

According to Porter (2004a, 75) there are two basic types of *linkages*: linkages that appear within the value chain and vertical linkages between the supplier's and channel's value chains. Linkages offer an opportunity to decrease the linked activities' total costs. Linkages within the value chain link the value activities to each other and thus changing the way of performing one value activity can lower the total cost of all linked value activities. Linkages can also appear vertically within a company's own value chain or between a company and its suppliers, for example a link between a company's technology development cost and supplier's application engineering. Linkage can also appear between a company and its channels, for example a company's outbound logistical cost can be influenced by a channel's warehouse location. (Porter 2004a, 75-77.)

Cost can be affected by *interrelationships* with different business units within a company. A value activity that is shared with a sister unit is the most important form of interrelationship. For example, cost reduction expertise developed in unit X can also be used to help decrease cost in other units. Cost can also be influenced by the level of vertical *integration* in a value activity. For example, integration can lower a company's cost of outbound logistics if the company decides to use its own transportation trucks, thus allowing the company to avoid different outside service costs, such as transportation service costs. (Porter 2004a, 78-79.)

The seventh major cost driver, *timing*, can create either a short-term cost advantage or sustainable cost advantage and affects the cost of a value activity in various ways. For example, a company can gain first-mover advantages by being the first big brand in the market and thus having lower costs of creating and sustaining a brand name. Rightly-timed purchases in the business cycle can also affect a company's cost position. For example, the timing of purchase of an oil tanker in the industry's cycle has a measurable impact on interest cost and the oil tanker's purchase price. (Porter 2004a, 79-80.)

Policy choices a company makes affect the cost of a value activity and do not depend on other major cost drivers. For example, the cost position of an airline company can be determined by different policy choices, such as the baggage allowance offered, the quality of food and which airports are used. A "no-frills" airline company aims to decrease cost by offering no free baggage allowance, offering no meals and using secondary airports. Examples of the policy choices that usually have the highest effect on cost include delivery time, level of service provided, and product configuration, performance and features. Cost can also be influenced by a value activity's geographical *location*. Location can be determined by policy choices, but it can also derive from history or other factors and should therefore be seen as a separate cost driver. Different locations can have different costs of raw materials, labour, energy and other factors. For example, different countries and even cities can have different prevailing tax rates and salary levels. (Porter 2004a, 80-83.)

According to Porter (2004a, 83-84), the tenth major cost driver, *institutional factors*, includes unionisation, government regulation, tariffs and levies, tax holidays and other financial incentives, and local content rules. For example, unionised workers might have higher salary costs than non-union workers. Although it is difficult for a company to control institutional factors, the company might be able to find ways to influence institutional factors or minimise their impact. (Porter 2004a, 83-84.)

The cost drivers explained above interact with each other by reinforcing or counteracting each other. Cost drivers can reinforce each other in influencing cost. For example, a policy choice about how the company will perform a certain value activity can influence the extent of scale economies in the value activity. It is also possible for cost drivers to counteract each other and deteriorate or even cancel out each other's effects. Counteracting happens when the effort to improve relative cost position by controlling one cost driver makes the company's other cost driver worse. For example, the penalty of underutilising capacity can be escalated by broad scale and constant vertical integration. (Porter 2004a, 84-87.)

A company's relative cost position depends on the cost behaviour of its value activities and the cost behaviour of a company's value activities is determined by cost drivers. A value activity's cost behaviour can result from multiple cost drivers. One cost driver might have the highest impact on the cost of a value activity, but multiple cost drivers usually interact to dictate the cost and a single cost driver cannot solely determine a company's cost position. (Porter 2004a, 84, 98-100.)

A company can diagnose the relative competitor costs by analysing the competitors' value chains and how those competitors perform their value activities. A company uses the same process to analyse both its own and competitor's value chain. Lack of information can make diagnosing the competitors' costs difficult. A company can use public data and interview suppliers, buyers and others to directly estimate the cost of several of competitors' value activities. For example, a company can find out how many salespeople a competitor employs and the estimated compensation level and salary paid to those salespeople. By doing this, a company can use the information of costs of competitor's certain value activities to form an incomplete, but correct description of the costs of competitor. (Porter 2004a, 98-99.)

The company can also draw comparisons between itself and the competitor to estimate the costs of competitor's value activities that cannot be directly estimated. The company needs to find out the competitor's position relative to the cost drivers of the chosen value activities and use the gained information of cost behaviour to build an estimated model of the competitor's cost differences. For example, a competitor most likely has a cost advantage in logistics if local share determines the cost of logistics and the company's local share is lower than the competitor's local share. In this situation, the difference in share can help the company to estimate the magnitude of its disadvantage, if the company is able to determine the scale curve of costs of logistics. It is often possible for a company to analyse multiple competitors simultaneously and thus increase the accuracy of competitor's cost estimates. The company can use the information it has about one competitor and cross-check that information against the information it has about other companies. By doing this, the company can to test the consistency of different value activity cost models such as scale curves. (Porter 2004a, 98-99.)

By reconfiguring its value chain, a company is able to adjust the cost drivers in a way that creates cost advantage for the company. Value chain can be reconfigured by adopting a more efficient way to produce, market, design, or distribute the product. For example, a company can create a more efficient production process, change to a new distribution channel or shift to a new advertising channel. A company needs to examine its own and competitor's value chains when determining a new value chain. For example, a company can ask three questions: 1. Is there a way to perform this particular value activity in a different way or can the value activity be eliminated? 2. Is there a way to regroup or reorder this group of connected value activities? 3. How can alliances with other companies decrease or eliminate costs? (Porter 2004a, 99-100, 107, 110.)

A company can also reduce costs by reconfiguring downstream activities. This is useful when different downstream costs, such as channel costs, make up a large portion of cost to the buyer. For example, a producer can choose to use distributor A's web store channel over distributor B's physical store channel for distribution because the web store channel has lower distribution costs than the physical store channel. By doing this, the producer has decreased the cost of getting the product to buyers. Besides choosing a more efficient downstream path to the buyer, a company can also promote consolidation or find other ways to increase the efficiency of downstream activities. In some situations, a company might integrate forward and take control of its distribution to achieve downstream efficiency. (Porter 2004a, 110-111.)

Sustainable cost advantage derives from multiple value activities and successful cost leaders reconfigure their value chains frequently to create cost advantage. It is important for all companies to pursue cost reduction in all activities that do not have a negative influence on differentiation. After identifying its value chain and diagnosing the cost drivers of important value activities, a company can grow cost advantage by controlling the cost drivers better than the competition. (Porter 2004a, 99-100, 107.)

Porter (2004a, 118) summarises the strategic cost analysis in six steps:

1. Determine your value chain and assign costs and assets to that value chain.
2. Identify the cost drivers of each value activity and how those cost drivers interact.
3. Diagnose the value chains of competitors and find out competitors' relative costs and the sources of cost differences.
4. Build a strategy to decrease relative cost position by controlling cost drivers or reconfiguring the value chain and/or downstream value.
5. Make sure that cost reduction efforts do not negatively impact differentiation or make a calculated decision to do so.

6. Test the sustainability of the chosen cost reduction strategy.

3.2.2 Differentiation

Cost is also important to differentiation strategies because differentiation will fail to attain a superior performance unless cost proximity to competitors is maintained and price premium exceeds the cost of differentiating. Differentiation is the second one of the three generic competitive strategies and the second competitive advantage a company can achieve. A company differentiates itself from the competition by being unique at something that is valuable to buyers. Differentiation derives from a company's value chain (the activities a company performs and what effect those activities have on the buyer). Figure 10 shows examples of how activities in value chain can contribute to differentiation. (Porter 2004a, 62, 119-122.)

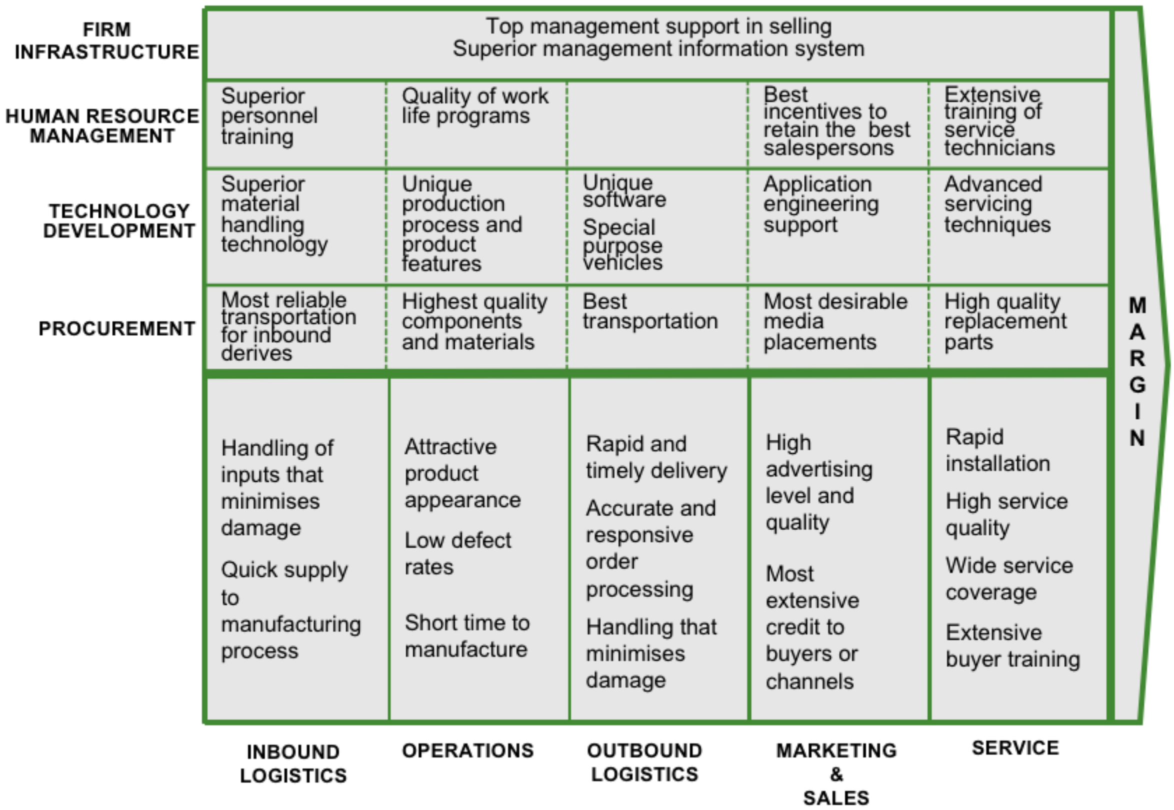

Figure 10. Representative sources of differentiation in the value chain (adapted from Porter 2004a, 122)

Each value activity can create uniqueness. Effective differentiators use various support and primary activities to create uniqueness (Figure 10). For example, the procurement of raw materials can impact differentiation by affecting the performance of the end product. Technology development activities may help create products that have superior performance. Human resource management can affect the quality of work life programs and hence differentiation. Firm infrastructure can create uniqueness by having a superior management information system. Development of inbound logistics can create a faster supply to manufacturing process and operations activities can create uniqueness by affecting product appearance and reliability. The outbound logistical system can improve the speed and timing of deliveries. Marketing and sales activities can create uniqueness for example by helping buyers use the purchased product in their manufacturing process. Service development activities can create a higher service quality that helps a company differentiate itself. (Porter 2004a, 62, 120-122.)

The uniqueness of a company in a value activity is dictated by uniqueness drivers, similar to the cost drivers introduced earlier. If a company is unable to identify uniqueness drivers, it cannot successfully create new forms of differentiation or analyse the sustainability of its current differentiation. (Porter 2004a, 124-125.) The major uniqueness drivers are listed in Figure 11.

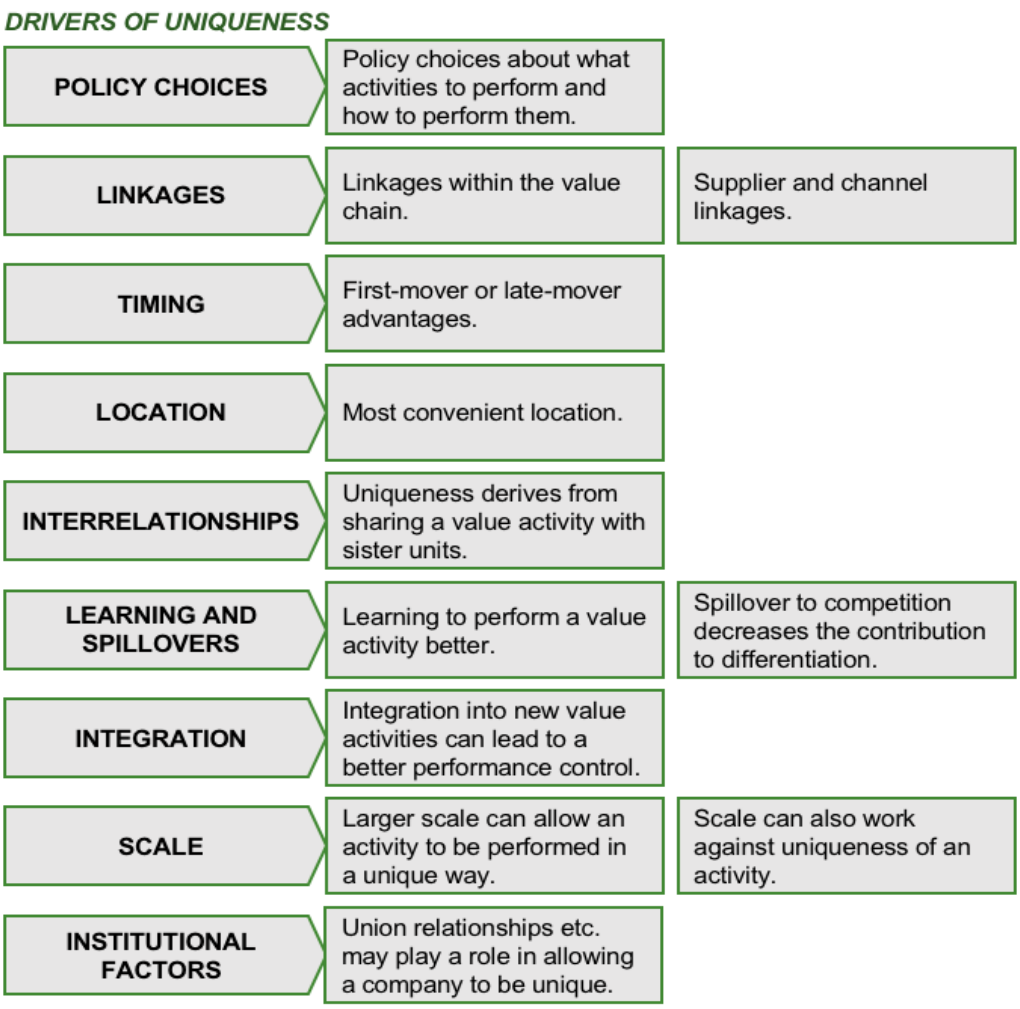

Figure 11. The major drivers of uniqueness and examples of them (adapted from Porter 2004a, 124-127)

A company makes *policy choices* to determine what activities it will perform and how it will perform those activities. For example, a software company can choose to provide comprehensive customer training in installing its software service. General policy choices that create uniqueness include, but are not limited to, product features and performance provided, technology used to perform an activity and different services provided. *Linkages* can also create uniqueness if a performed value activity affects the performance of other value activities. For example, coordination between the customer service organisation and the sales organisation can create higher customer service responsiveness. Coordination with suppliers might decrease the development time of a new product and thus create uniqueness. Joint selling efforts with channels may also be a source of uniqueness. (Porter 2004a, 124-125.)

Timing can also create uniqueness. For example, a company might use its first-mover advantage to be the first to establish a certain product image. In some industries, a late-mover might be able to differentiate itself by utilising the latest technology. A company can also differentiate itself by having the best warehouse or branch store *locations* or sharing a value activity with a sister unit (*interrelationship*). For example, a company can provide the buyer better service by having the same sales team for both insurance and loan products. (Porter 2004a, 125-126.)

A company can also achieve uniqueness in a value activity by *learning* how to perform that value activity in a better way. However, if learning spills over to competition it can have a negative impact on differentiation. For example, a startup company might have employees who resign and take the things they have learned in the company to another company. Another way of achieving uniqueness can be *integration*. A company can achieve a better control of the performance of the value activities or better coordination between value activities by integrating into new value activities. For example, a company can offer in-house service instead of outsourcing the service to a third party. This can enable the company to be the only company in its industry to offer service with its product. (Porter 2004a, 126-127.)

Uniqueness can also result from *scale*. Large scale might create uniqueness by enabling a company to perform a value activity in a way that would not be feasible at smaller scale. For example, a car rental company can achieve uniqueness by providing more rental and service locations than its competitors. There is also a chance that scale decreases the uniqueness of a value activity. For example, scale might decrease fashion-related companies' flexibility to customer needs. There are also situations where *institutional factors* affect a company's uniqueness. For example, a company might be able to create unique employment positions by having good relationships with unions. (Porter 2004a, 126-127.)

Company can also differentiate itself by having a broad range of activities or a broad competitive scope. For example, a company can have a broad range of activities in financial services. This broad range of activities can improve the company's reputation and allow its sales force to offer a wider range of products. A broad competitive scope can also lead to various other differentiating factors and a company needs to be consistent and have coordination between the value activities to achieve those differentiating factors. Examples of differentiating factors which can derive from broad competitive scope are the ability to serve customer needs anywhere and superior compatibility among products. (Porter 2004a, 121, 123.)

According to Porter (2004a, 123), a company's channels can also be a source of uniqueness and can increase the company's reputation and various other factors. For example, many soft drink companies spend a lot of time and money attempting to increase the effectiveness of bottlers. Companies can enhance the effect channels have on differentiation in different ways. For example, by selecting the right channel to gain consistency in effectiveness, image or facilities. (Porter 2004a, 123-124.)

A company also needs to understand buyer perception of value and buyer purchase criteria to create uniqueness that leads to differentiation. A company is a successful differentiator if it is able to create value for buyers that generates a price premium that exceeds the cost of creating that value. (Porter 2004a, 130.)

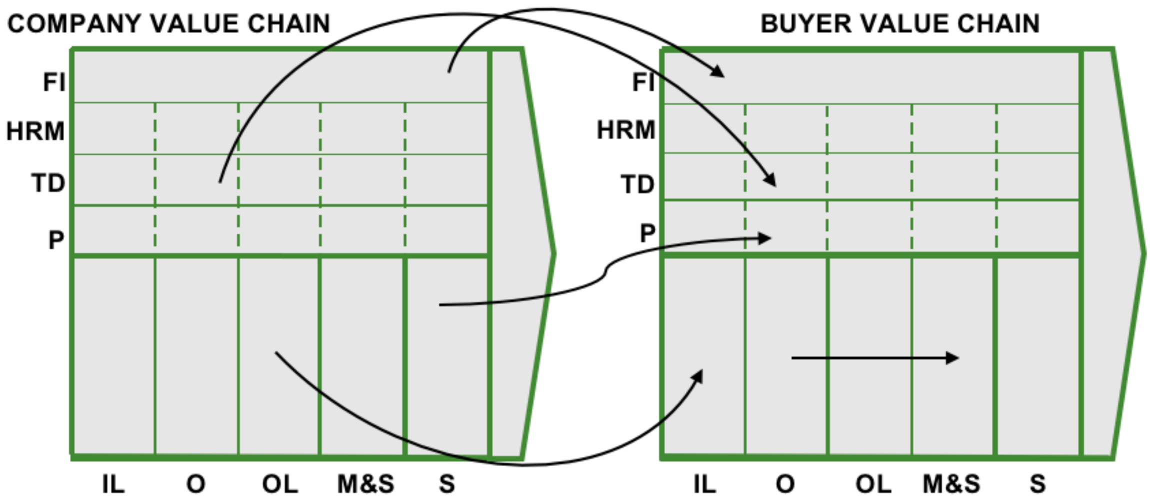

Figure 12. Representative linkages between the company and the buyer's value chain (adapted from Porter 2004a, 133)

Differentiation derives from creating unique buyer value. By lowering the cost of a buyer or increasing the performance of a buyer, a company can justify a price premium and the buyer will agree to pay that price. The impact a company's value chain has on a buyer's value chain will decrease the cost of the buyer or increase the performance of the buyer. Thus, the links between a company's value chain and a buyer's value chain determine the value the company creates for the buyer (Figure 12). A company can provide direct input into one of the buyer's value activities or have an indirect impact on the value chain of the buyer. Indirect impact exceeds the value activity in which the product or service is meant to be used. For example, the weight of a laptop computer is important because it is moved around, but the weight does not matter if the buyer activity is viewed simply as creating presentations and typing. (Porter 2004a, 131-133, 153-154.)

Buyers may have difficulties in evaluating the value a company provides to its buyers. For example, even a test drive and pedantic inspection of a transportation truck does not allow the buyer to completely evaluate the truck's fuel usage, comfort, repair frequency and durability. Furthermore, the buyer cannot know how the other value activities performed by the company will affect the total value of the truck. It is important to understand that the price premium a company commands is influenced by the value delivered to the buyer and how the buyer perceives the received value. Buyers will only pay for the value they can perceive. A company that delivers an average value but is able to signal that value effectively can command a higher price than a company that provides a higher-than-average value but signals it less effectively. (Porter 2004a, 138-140.) This is illustrated in Figure 13.

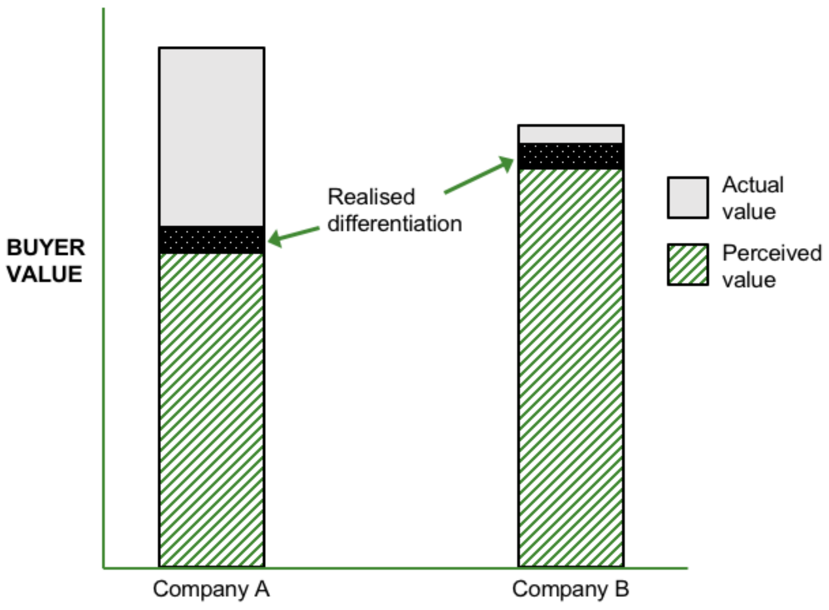

Figure 13. Actual versus perceived buyer value (Porter 2004a, 140)

Porter (2004a, 142) divides buyer purchase criteria into use criteria and signalling criteria. Use criteria describe purchase criteria that derive from the approach a company uses to increase the performance of the buyer or decrease the cost of the buyer. Use criteria can include different factors such as product features, delivery time and product quality. Thus, use criteria describe what generates buyer value and derive from the links between a company’s value chain and the value chain of the buyer. Signalling criteria describe purchase criteria that derive from value signals or means that the buyer uses to judge or infer what a product’s actual value is. Signalling criteria can include different factors such as reputation and advertising. Signalling criteria stem from the value signals that impact the buyer’s perception of the company’s ability to satisfy the buyer’s use criteria. For example, the value activities a company performs or its reputation or image can be a part of signalling criteria. (Porter 2004a, 142-144.)

Both use criteria and signalling criteria need to be identified as accurately as possible so that they can be used in developing differentiation strategy. Because use criteria measure buyer value sources and usually determine signalling criteria, a company should identify use criteria first. When analysing buyer purchase criteria, a company should always include direct contact with the buyer. To understand buyer purchase criteria, a company needs to identify the value chain of the buyer and perform analysis of all the current and potential linkages that exist between the company’s value chain and the buyer’s value chain. A company can identify signalling criteria by understanding the process the buyer uses to form opinions and judgements about the company’s ability to satisfy use criteria. The buyer purchase criteria identifying process should produce a ranking and sorting of purchase criteria. (Porter 2004a, 146-148.) Figure 14 presents an example of buyer purchase criteria for a chocolate chip cookie product.

	Use criteria	**Signalling criteria**
End user	Taste Nutritional value Texture Appearance *Price* Availability Package size	Advertising Shelf positioning In-store displays Availability
Channels	Speed of order processing *Channel margin* Reliability of service Promotional support	Frequency of sales calls

Figure 14. Ranked buyer purchase criteria for chocolate chip cookies (Porter 2004a, 148)

Price should be placed according to the ranking the buyer places on it. To emphasise the different factors of buyer purchase criteria and to explain the actions that need to be taken to satisfy each criterion, the use criteria and signalling criteria need to be separated. Both channel's and end user's use criteria can by divided into factors that increase the performance of the buyer and decrease the cost of the buyer. The use criteria can also be divided into easily measurable ones and those that a buyer has difficult time perceiving (Figure 15). It is possible that satisfying a use criterion increases performance and decreases cost, but usually one of the value creation modes is predominant. For example, in the chocolate chip cookie example in Figure 14, taste relates to the performance of a buyer and availability is a measure of the shopping cost of a buyer. (Porter 2004a, 146-149.)

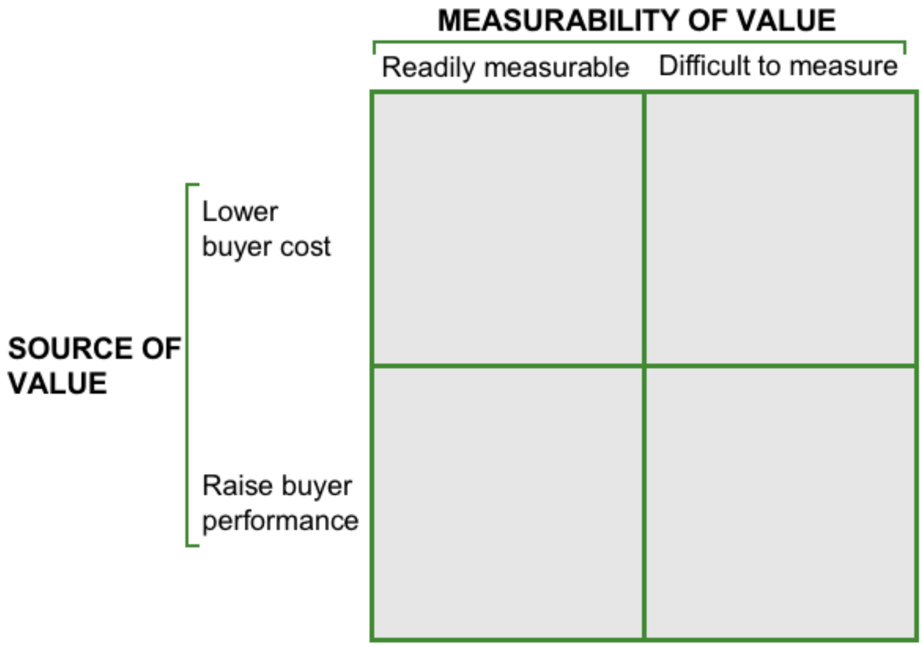

Figure 15. The relationship between use criteria and buyer value (Porter 2004a, 149)

A company should recognise the differences in use criteria (Figure 15) because differentiation that decreases buyer's cost can be stronger justification for paying a price premium than performance raising differentiation. For example, financial pressures can make buyers willing to pay premium exclusively to companies that can successfully demonstrate that they can decrease the cost of a buyer. Differentiation that can be linked to the value of a buyer is easier to translate into a price premium than differentiation that creates value by means that are difficult to perceive or measure. Differentiation on the right side of Figure 15 is often expensive to communicate and might require a large investment in signalling. (Porter 2004a, 149-150.)

It is important to understand that differentiation can be costly. Achieving uniqueness often requires that a company finds ways to perform its value activities better than its competition. The cost drivers of the value activity in which a company seeks to achieve uniqueness create the cost of differentiation. There are two related types of the relationship between cost drivers and uniqueness: 1. Cost drivers may be influenced by drivers of uniqueness (what makes a value activity unique). 2. The cost of uniqueness can be affected by the cost drivers. When trying to achieve differentiation, a company may deliberately add costs. For example, the effect of location cost driver can increase cost when a company moves an activity closer to the buyer. However, it is also possible that making an activity unique decreases cost. For example, integration can create uniqueness but also decrease cost if integration is a cost driver. Thus, the cost drivers have not only a significant impact in determining the differentiation strategies' success, but also substantial competitive implications. (Porter 2004a, 127-129.)

Differentiation strategy needs to be sustainable. Sustainability of differentiation is based on its constant perceived value to buyers and the absence of replication by competitors. A company needs to understand that buyers' needs or perception of value can change and thus erase the value of differentiation. Another risk is that competitors replicate the company's strategy or bypass the bases of differentiation chosen by the company. A company can achieve sustainability if differentiation is based on durable sources of uniqueness that competitors cannot replicate. The most sustainable form of differentiation results from meeting both use criteria and signalling criteria. If sources of differentiation remain valuable to the buyer and cannot be replicated by competitors, differentiation will always lead to a price premium even in the long run. (Porter 2004a, 150, 158-159.)

A company can also increase the sustainability of its differentiation by having cost advantage in differentiating or multiple sources of differentiation or by creating switching costs while differentiating. A sustainable cost advantage in performing the value activities that create differentiation will provide a company with a high sustainability. If differentiation derives from multiple sources of uniqueness, the sustainability of a differentiation strategy is generally at its greatest. Fixed costs incurred by the buyer when the buyer changes suppliers are called switching costs. Switching costs enable a company to sustain a price premium even if the company's product is equal to competitor's product, because the cost of changing a supplier is too high for the buyer. If differentiation leads to switching costs, the sustainability of differentiation grows. (Porter 2004a, 150, 158-159.) Figure 16 provides an example of how the sustainability of a company's sources of differentiation can be determined.

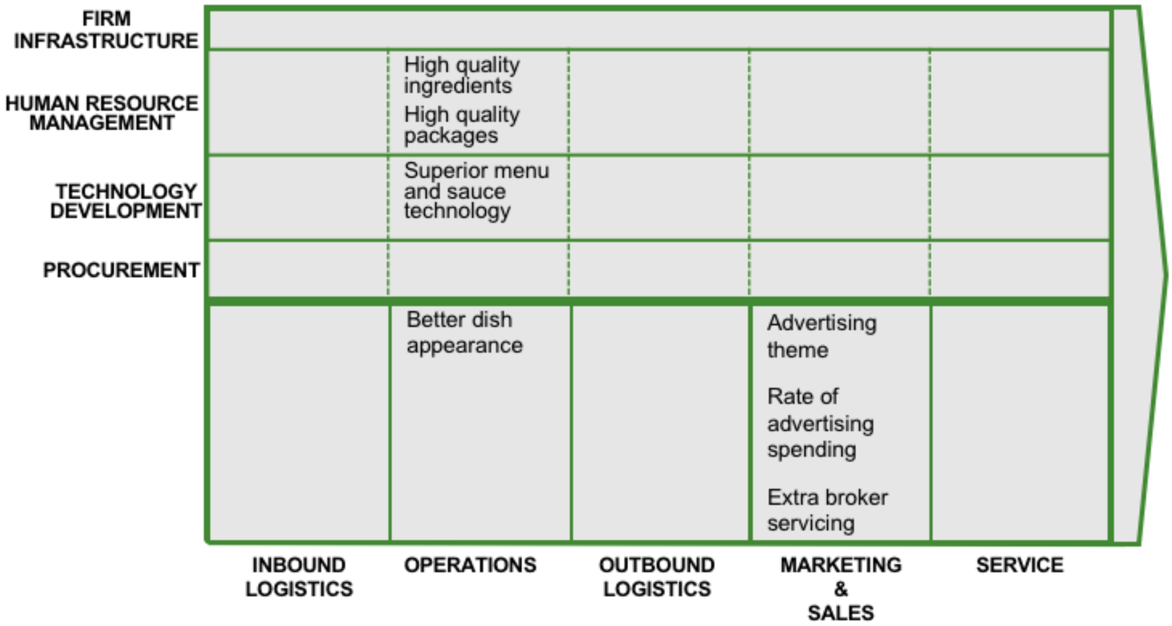

Figure 16. Sources of differentiation in a frozen food company (adapted from Porter 2004a, 152)

In Figure 16, a frozen food company's differentiation level equals the cumulative value it generates for its buyers by satisfying all purchase criteria. There are usually multiple sources of differentiation in a company's value chain as can be seen from Figure 16. The frozen food company has successfully differentiated itself in both use criteria and signalling criteria. By investing heavily in development of menu, the company has achieved the highest relative number of unique dishes and the best sauce technology. Carefully planned selection of ingredients and preparation has made the company's dishes attractive to buyers. The company's superior packaging is a strong value signal and provides an appearance of quality. The company has also spent much more on advertising than its competition and selected an advertising theme that is attractive to buyers. Lastly, the company has invested in food brokers to acquire fast restocking, retail shelf displays that are attractive to buyers and quick removal of damaged products. The multiple sources of uniqueness in the company's value chain earn a considerable price premium over the company's competitors. (Porter 2004a, 150-153.)

Porter (2004a, 162-163) summarises the process of diagnosing the bases of differentiation and selecting a differentiation strategy into eight analytical steps:

1. Identify who is the real buyer.
2. Identify the value chain of the buyer and the impact the company can have on that value chain.
3. Identify the ranked buyer purchase criteria.

4. Analyse the current and potential sources of uniqueness in the value chain of the company.
5. Determine the cost of current and potential sources of differentiation.
6. Select to configure the value activities in a way that produces the most valuable differentiation for the buyer relative to cost of differentiating.
7. Test the sustainability of the chosen differentiation strategy.
8. Aim to decrease cost in activities that do not impact the forms of differentiation that you have chosen.

3.2.3 Cost focus and differentiation focus

Focus strategy is the third one of the three generic strategies and can also help a company achieve a cost advantage or differentiation. Focus strategy is divided into cost focus and differentiation focus. (Porter 2004a, 12, 111.) A company can focus on a specific geographic market, buyer group or segment of the product line. While cost leadership and differentiation strategies aim to achieve their targets industrywide, focus strategy is developed to serve a specific target extremely well, and each function of focus strategy is based on this. (Porter 2004b, 38-39.)

The presumption behind a focus strategy is that it enables a company to serve its narrow strategic target more efficiently or effectively than more broadly competing competitors. Thus, the company can achieve differentiation by better satisfying the needs of the specific target or cost leadership by decreasing costs of this particular target, or both. Although the focus strategy cannot achieve cost leadership or differentiation industrywide, it can achieve one or both of those positions in its specific market target. (Porter 2004b, 38-39.) Figure 17 shows the difference between the three generic strategies.

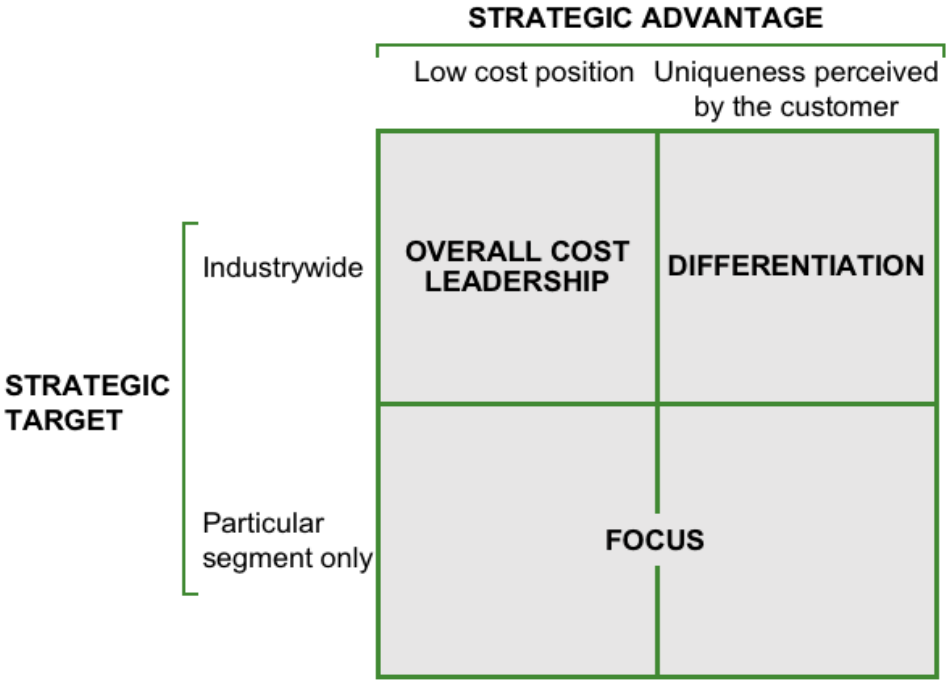

Figure 17. The difference among the three generic strategies (adapted from Porter 2004b, 39)

A company that achieves focus can also earn higher-than-average returns for its industry. The company can have a low-cost position or high differentiation, or both. Those positions help a company defend itself against the five competitive forces. A company can also use focus strategy to select targets that are unlikely to have substitutes or where competition is the weakest. For example, a paper company can avoid consumer products that are vulnerable to swift new product introductions and advertising battles by focusing on a narrow target of industrial-grade papers. In another example, a food distributor can achieve a low-cost position by serving a narrow target of eight leading fast-food chains. The food distributor's focus strategy is to satisfy the needs of those eight customers by moving warehouses close to those customers' locations, stocking only the narrow product lines of those customers and shaping order taking procedures to match the purchasing cycles of those customers. The food distributor is the cost leader in that specific segment and has higher-than-average profitability but is not the industrywide cost leader. It is important to remember that the focus strategy limits the overall market share that a company can gain. Thus, the focus strategy can be seen as a trade-off between sales volume and profitability. (Porter 2004b, 39-40.)

3.3 About choosing a competitive strategy

Neither of the central questions is sufficient by itself when choosing a competitive strategy. A company that operates in a highly-attractive industry might not be able to generate attractive profits if the choice of competitive position is weak. On the other hand, a company that is in a strong competitive position might be competing in an inferior industry that makes it impossible for the company to be profitable. Competitive position and industry attractiveness can change and thus the two central questions are dynamic. Over time, industry attractiveness tends to increase or decrease and competitive position expresses the endless competition between companies. It is important to remember that competitive moves can suddenly end a seemingly durable stable situation. (Porter 2004a, 2-3.)

Although there are several factors that determine industry attractiveness and a company can cannot influence them all, competitive strategy can have a significant impact on industry attractiveness. A company can distinctly improve or deteriorate its competitive position within an industry by choosing a competitive strategy. Thus, it can be said that competitive strategy responds to the environment and tries to mould that environment in a company's favour. (Porter 2004a, 2-3.)

Each of the three generic strategies offers a different route to achieving and sustaining a competitive advantage. If a company does not clearly choose one of the three generic strategies, it might get "stuck in the middle". "Stuck in the middle" describes a situation where a company tries to simultaneously engage in each of the three generic strategies but fails to achieve even one of them. This position most often leads to lower-than-average performance. A highly-favourable industry structure (or a high number of competitors that are stuck in the middle) may allow a company that is stuck in the middle to earn good profits, but the company will still most likely be less profitable than competitors who are able to achieve one of the three generic strategies. (Porter 2004a, 16-17.)

If a company is serving a broad range of segments, it cannot acquire the benefits of focus strategy. Two clearly separate business units, one with differentiation strategy and one with cost leadership strategy, can sometimes be created within one corporate entity. For example, a hotel company can have two separate hotel chains and assign one chain to serve target segment A and the other chain to serve target segment B. (Porter 2004a, 17-18.)

Differentiation is often costly and for that reason achieving both differentiation and cost leadership is usually an inconsistent situation. According to Porter (2004a, 18-20), a company can simultaneously pursue both cost leadership and differentiation if:

1. Competitors are stuck in the middle and no competitor has a strong enough position to pressure a company so much that differentiation and cost would become inconsistent.

2. Interrelationships or share strongly impact the cost. For example, if cost position is largely dictated by market share. If a company gains a substantial market share advantage, the cost advantages of share in certain value activities can enable the company to incur added costs in another place and preserve its net cost leadership. Unmatched interrelationships may also decrease the differentiation cost or cancel out the higher cost of differentiation.
3. A company is the first and only company to pioneer a major innovation. For example, a substantially beneficial technological innovation can enable a company to simultaneously increase differentiation and decrease cost and possibly achieve both strategies.

A company should continuously try to seize cost reduction opportunities that do not erode differentiation and differentiation opportunities that are not costly. However, a company should prepare to choose the competitive advantage it aims to achieve and solve the trade-offs accordingly. (Porter 2004a, 20.)

4 Pricing strategy

When determining a pricing structure and strategy, a startup company, similar to any other company, needs to consider both external and internal factors that influence pricing. The market and competitive situation, potential customers, and the company's objectives and costs need to be evaluated when determining a price for a product. (Bergström & Leppänen 2015, 237-239.) The fundamental factors that affect pricing are shown in Figure 18.

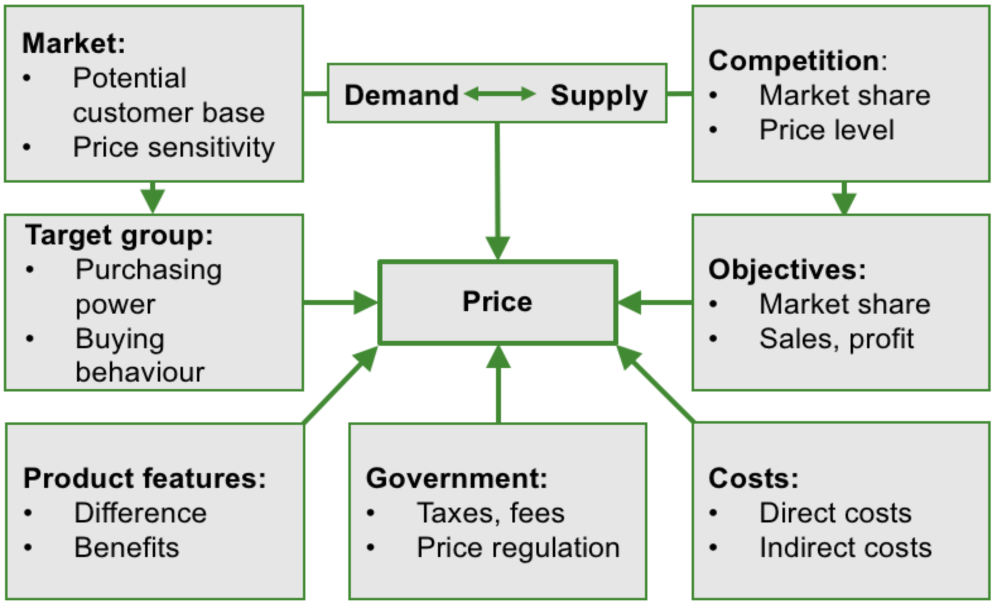

Figure 18. Factors that affect pricing (adapted from Bergström & Leppänen 2015, 238)

A company's objectives underlie its pricing. For example, a company's sales, profitability and market share objectives influence the pricing structure and determine the pricing policy. Government can also influence pricing. For example, different legislative changes can create fluctuation and sudden shifts in demand and thus force companies to adapt to those changes. (Bergström & Leppänen 2015, 237.)

Market also influences a company's pricing. Price levels may vary between different markets and products. The price level is influenced by not only competition, but also the relationship between supply and demand. The higher the supply compared to demand, the more pressure there is to lower the price level and vice versa. When determining a price, a company should examine the size of the market, and target group's purchasing power, buying behaviour and price sensitivity. The price/value sensitivity drivers are presented in Figure 19. A company also needs to identify its competition, products of its main competition and pricing of those products. (Bergström & Leppänen 2015, 237.) When making a purchase decision, buyers will most likely compare prices between competitors. Thus, a company needs to analyse competitors' offerings and prices to determine its pricing. (Lambing & Kuehl 2000, 143.)

Price/Value sensitivity driver	
SIZE OF EXPENDITURE	Buyers are less sensitive to the prices of small expenditures.
SHARED COSTS	Buyers are less price sensitive when some or all of purchase price is paid by others.
SWITCHING COSTS	Buyers are less sensitive to the price of a product the greater the added cost (both monetary and non-monetary) of switching suppliers.
PERCEIVED RISK	Buyers are less price sensitive when it is difficult to compare suppliers and the cost of not getting the expected benefits of a purchase are high.
IMPORTANCE OF END-BENEFIT	Buyers are less price sensitive when the product is a small part of the cost of a benefit with high economical or psychological importance.
PRICE-QUALITY PERCEPTIONS	Buyers are less sensitive to a product's price to the extent that price is a proxy for the likely quality of the purchase.
REFERENCE PRICES	Buyers are more price sensitive the higher the product's price relative to the buyers' price expectation.
PERCEIVED FAIRNESS	Buyers are more sensitive to a product's price when it is outside the range that they perceive as "fair" or "reasonable".
PRICE FRAMING	Buyers are more price sensitive when they perceive the price as a "loss" rather than as a forgone "gain". They are more price sensitive when the price is paid separately rather than as part of a bundle.

Figure 19. Price/Value sensitivity drivers (Nagle & Hogan 2006, 130)

A company also needs to consider its product and costs. The price needs to provide an acceptable profit margin while covering all costs. For example, if a company sells a product or provides a service, it will have costs to purchase materials from its suppliers or labour costs to provide the service. These are called direct costs. Other costs incurred in running a company, such as utilities and rent, are called indirect costs. (Lambing & Kuehl 2000, 142.) When determining its pricing, a company must evaluate the features of its product and the possible benefits that the product can create for the buyers. The higher the differentiation of a product, the more freedom a company has on pricing that product. (Bergström & Leppänen 2015, 237.)

4.1 Price waterfall analysis

A company needs to identify and track the possible sources of lost revenue and profit. A company should not just estimate profitability of an account by the invoice price, because there can be several different sources of profit leakage. (Nagle & Hogan 2006, 112.) An example of this leakage is illustrated in price waterfall analysis in Figure 20.

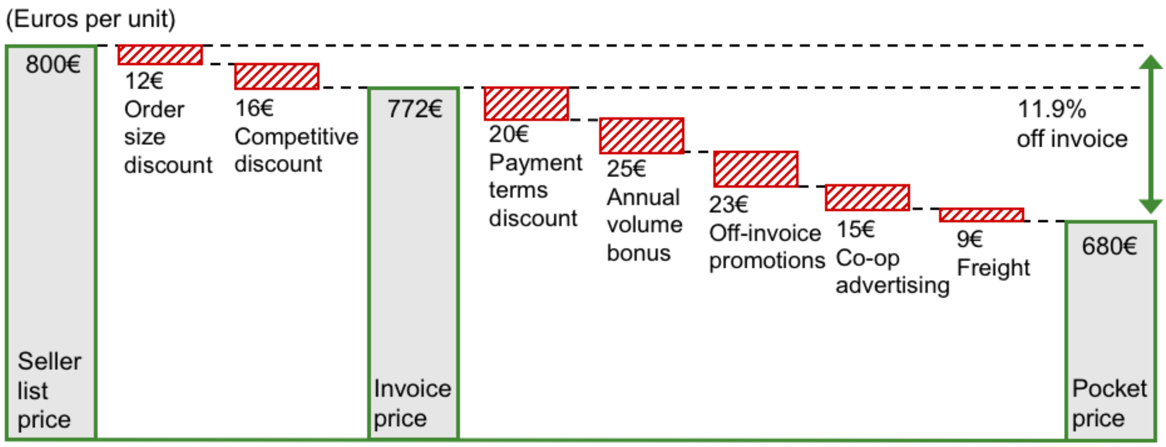

Figure 20. Price waterfall analysis (adapted from Nagle & Hogan 2006, 113)

Pocket price is the revenue that is earned after all the discounts are subtracted from the original price and invoice price and is usually a lot less than the original price. The amount of profit leakage can vary from very low to very high. It is even possible that a company has customers that result in higher leakages than the gross margin at list price. Different variables, such as letting the buyer to pay later or place a smaller order and giving the buyer an extra service free of cost, all add up and result in lower pocket price than the invoice price. However, discounts are sometimes necessary to close the sale. A company should closely monitor the discounts and pocket price and apply clear policies on the use of discounts. (Nagle & Hogan 2006, 112.)

4.2 Pricing strategy options

When introducing a new product to the market and choosing a pricing strategy, all companies should understand the typical stages of a product's life cycle. After a product is developed and introduced to the market, it "grows" when it gradually earns more acceptance from the buyers. In time, a product "matures" when it gains full acceptance from the buyers and "dies" when it is discarded for a superior product. A market has a different personality in each stage of a product's life cycle. A company that understands the general life cycle pattern of a product may be more capable of anticipating the future of the product and determining profitable pricing strategy than competitors are. (Nagle & Hogan

2006, 265.) An illustration of sales and profits over a product's life cycle is shown in Figure 21.

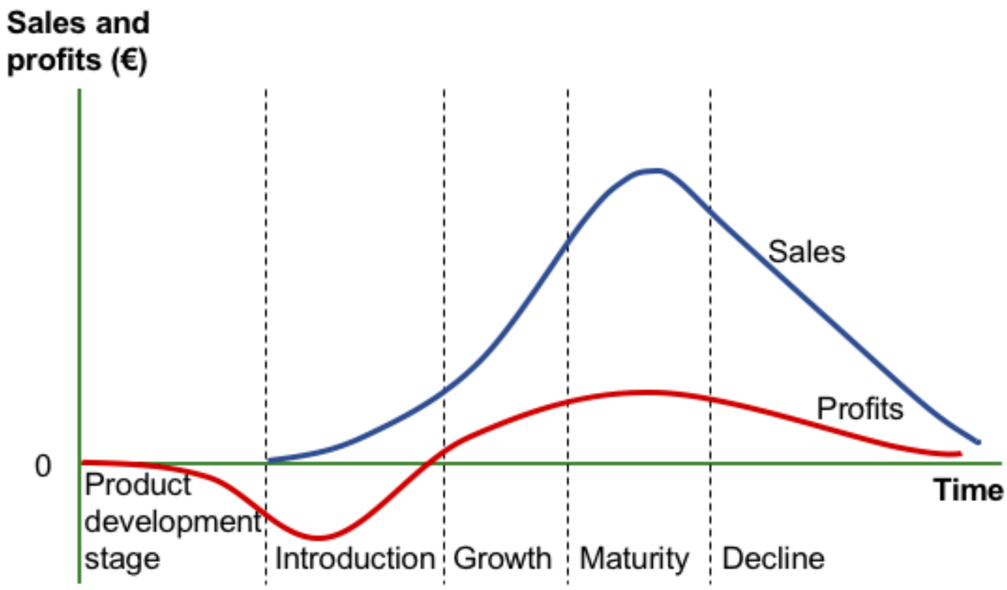

Figure 21. Sales and profits over a product's life cycle from inception to demise (adapted from Nagle & Hogan 2006, 266)

It is extremely important for a company to understand the different aspects of pricing a new product, no matter what the stage of a product's life cycle is. First, a new product or service is a fundamental source of profit growth and organic volume. A company should avoid pricing mistakes because those mistakes may have both long and short-term effects on the company's financial performance. If a product's price is too high at introduction stage, it might not gain the needed volume to maintain short-term profitability. Vice versa, if a product's price is too low, it may achieve its volume objectives but cannot create adequate profits. This can have long-term ramifications for future profit growth because current products are the principal reference for future products. Secondly, the pricing of a new product is crucial because introduction of a new product can provide a company a great opportunity to reengage with buyers to influence how and what they purchase. Buyers are more receptive to price points and value communications when they have less knowledge about new products and want to understand the benefits and value that the products can create. However, when buyers have less knowledge about a new product, they also have a higher perceived risk and price sensitivity. Thus, pricing a new product can be challenging because a company needs to find a balance between the importance of sustaining adequately high prices to maximise profits and higher price sensitivity. A company risks lower profits and lower growth of revenue if it does not succeed at finding this balance. (Nagle & Hogan 2006, 266.)

A company can also adjust its pricing in each stage of a product's life cycle. For example, during the growth stage, the company can price its product according to buyer's perceived value of the product. During the maturity stage, the company can adjust its pricing according to the demand level of the product. The company can also try to attract buyers to other products during the decline stage by pricing the product below cost. (Kuratko & Hodgetts 2007, 302.)

A company's choice of pricing strategy should not be arbitrary, although an individual market segment can have multiple companies each with a different pricing strategy. To grow its profitability, a company might have to simultaneously pursue several market segments that require multiple pricing strategies, especially if the company operates in an industry with high fixed costs. (Nagle & Hogan 2006, 131.) Pricing strategy depends on a company's objectives. For example, a startup company may aim to break into a market quickly with a low price or seek to gain a price premium right from the start. (McKinsey & Company 2001, 76-78.)

Pricing strategy can be divided into three fundamental strategies: Skimming and sequential skimming pricing, penetration pricing and neutral pricing (Bergström & Leppänen 2015, 239; Nagle & Hogan 2006, 131, 133-134).

4.2.1 Skimming and sequential skimming pricing

Skimming pricing strategy is constructed to achieve high profit margins at the cost of high sales volume. Skimming prices are relatively high compared to what most buyers are willing to pay. The strategy is aimed to optimise immediate profitability by earning a profit from selling to relatively price-insensitive buyers that exceeds a profit that could be earned from selling to a bigger market at a smaller price. (Nagle & Hogan 2006, 131.)

To succeed at skimming pricing, a company needs a right competitive environment. Skimming pricing strategy can be used as long as the product or service is so new or different that the buyers cannot determine whether the price is too high. The product or service can also be aimed at the most price-insensitive buyer segments. (Bergström & Leppänen 2015, 239-240.) Long-term profitability while utilising skimming pricing requires competitive protection that inhibits competitors from offering lower-priced alternatives. For example, a company that utilises skimming pricing strategy may gain competitive protection from patents or copyrights, access to scarce resource or the brand's reputation. (Nagle & Hogan 2006, 132.)

Startup companies can benefit from using the skimming pricing strategy in several situations. For example, if a company positions its new product as better than competitors' products, its price can be higher. Higher price will result in higher margin and can enable a startup company to finance its growth. New investments can be funded with profits and the company may not need outside investments. (McKinsey & Company 2001, 77-78.) Charging a higher price has the fastest and the most significant impact on profits. However, an already established company needs to be careful if it decides to switch to skimming pricing strategy. Because increasing price might cause the company to lose some customers, the company needs to calculate whether the cost of the lost customers is higher or lower than the extra profit made from the price increase. The sensitivity of sales volume to price increase can vary significantly between different products and businesses. A company can use simple math to calculate how much sales it can afford to lose. For example, if a company has a 30% gross profit margin and it increases its prices by 10%, it can afford to lose 25% of its customers and will still generate the same profit it made before the price increase. (Hill 2013, 19, 30-31.)

Sometimes a company that provides intangible value for its buyers can gain more profit in the long run by starting with high initial prices and decreasing those prices over time. This is called *sequential skimming pricing* and it is usually a better pricing strategy for those products that have low repurchase rates. (Nagle & Hogan 2006, 132.) Sequential skimming pricing strategy is illustrated in Figure 22.

Figure 22. Sequential skimming pricing strategy (adapted from Nagle & Hogan 2006, 133-134)

Sequential skimming begins when a company offers a price that attracts the least price-sensitive buyer segment first. It is important to understand that after the company has “skimmed the cream” of buyers at the upper end of the demand curve (Figure 22), that market is saturated. The company then lowers its price to sell to the next most profitable buyer segment and thus the company maintains its sales. The company continues sequential skimming and moves down the demand curve until it has used up all skimming opportunities. All skimming opportunities have been used when the company has decreased the price so much that even the most price-sensitive buyers are attracted or when the company cannot decrease the price further without losing profitability. (Nagle & Hogan 2006, 132-133.)

It is theoretically possible for a company to sequentially skim the market for a one-time purchase or a durable product or service by decreasing the price one small step at a time. By doing this, a company could charge every buyer segment the maximum price that segment is willing to pay for the product or service. However, potential customers will most likely understand the situation and start anticipating further decreases in price, thus postponing their purchase decisions. A company can reduce this risk by decreasing the price less frequently or introducing less attractive product models when reducing the price. (Nagle & Hogan 2006, 132-133.)

When entering a new market with a non-durable, high repurchase rate product, a company can utilise sequential skimming pricing strategy in two different ways. First, if a company has a product or service that has several potential uses and all those uses call for a costly marketing effort, the company can introduce the product or service more efficiently by concentrating on one specific use at a time. By doing this, a company can seize the most profitable markets faster without stretching its resources too thinly. Second, a company can utilise sequential skimming pricing to gradually build production capacity. By doing this, the company can improve its manufacturing process while expanding. For example, the company can fund its production with the cash flow already generated by the product or service. Furthermore, since the company has built less capacity, it has less risk if demand does not reach expectations. Because the company began with sequential skimming price, it can scale back its premeditated expansion and boost its price reduction rate and thus reduce the impact of overly optimistic estimates. (Nagle & Hogan 2006, 133-134.)

4.2.2 Penetration pricing

Penetration pricing strategy aims to break into a market with a low-priced product that has a lot of alternatives and may not differentiate from those alternatives (Bergström & Leppänen 2015, 240). A company that utilises penetration pricing strategy prices its product low enough to attract and maintain a large customer base. This does not mean that the product is cheap, but the price is lower than the perceived value in the target segment. For example, Toyota Motor Corporation created Lexus brand to penetrate the luxury car market in North America. Lexus introduced car models that prompted near-luxury buyers to upgrade by creating a perception of remarkably great value despite being a relatively high-priced car brand. (Nagle & Hogan 2006, 134.) Figure 23 shows an illustration of penetration pricing strategy.

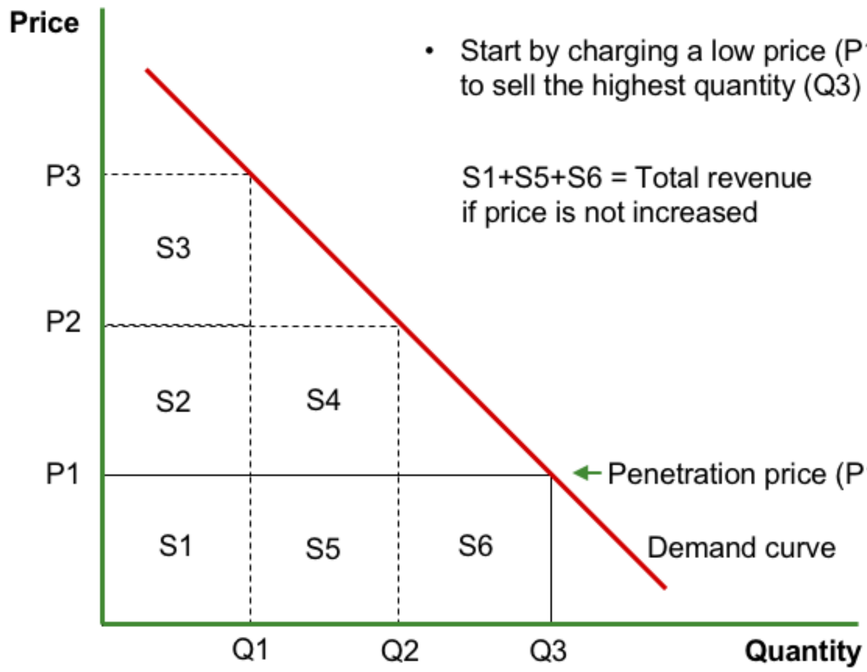

Figure 23. Penetration pricing strategy (adapted from Nagle & Hogan 2006, 134-135)

For penetration pricing strategy to be successful, a significant share of the market needs to respond to lower prices by changing suppliers or brands. It is important to understand that not every market will respond to lower prices. Several companies have been unsuccessful in their penetration pricing attempts because they miscalculated the response of a market. (Nagle & Hogan 2006, 134-135.) Penetrating a market with a low price might not create enough profit or gain enough market share and a company might be forced to increase its prices after the initial launch. However, this might be difficult because buyers may already be used to a certain price level and are not willing to pay more. (Bergström & Leppänen 2015, 240.)

Penetration pricing strategy can be successful even if all buyers are not price-sensitive, as long as an adequate share of the market is sufficiently price-sensitive to validate the company's decision to set a low price. For example, several warehouse clubs such as Costco have utilised penetration pricing strategy to target only those buyers who are ready to buy a high number of products each time. (Nagle & Hogan 2006, 134.)

A company should also recognise the cost environment when analysing how much sales volume the company needs to generate to validate penetration pricing. Penetration pricing strategy is more likely to succeed when incremental costs form a tiny portion of the price and thus each additional sale has a high contribution to profit. In this situation, a lower price will not significantly decrease the contribution from each sale. For example, if a company aims to attract a large buyer segment by lowering its prices by 10%, penetration pricing would still be profitable if the product or service has a high contribution to margin. If the company wants to be profitable with a 90% contribution margin, its increase in sales would have to exceed only 12.5%. The lower the contribution each additional sale has to profit, the higher the increase in sales needs to be before penetration pricing becomes profitable. (Nagle & Hogan 2006, 134.)

When deciding whether to use penetration pricing strategy, a company needs to remember that the competitive environment has a significant impact on whether the company's penetration pricing strategy will succeed. Competitors can start a price war to prevent a company from setting a price that attracts a large segment of the market. (Nagle & Hogan 2006, 134-135.) An example of a company's decision-making process regarding whether to react to price competition is illustrated in Figure 24.

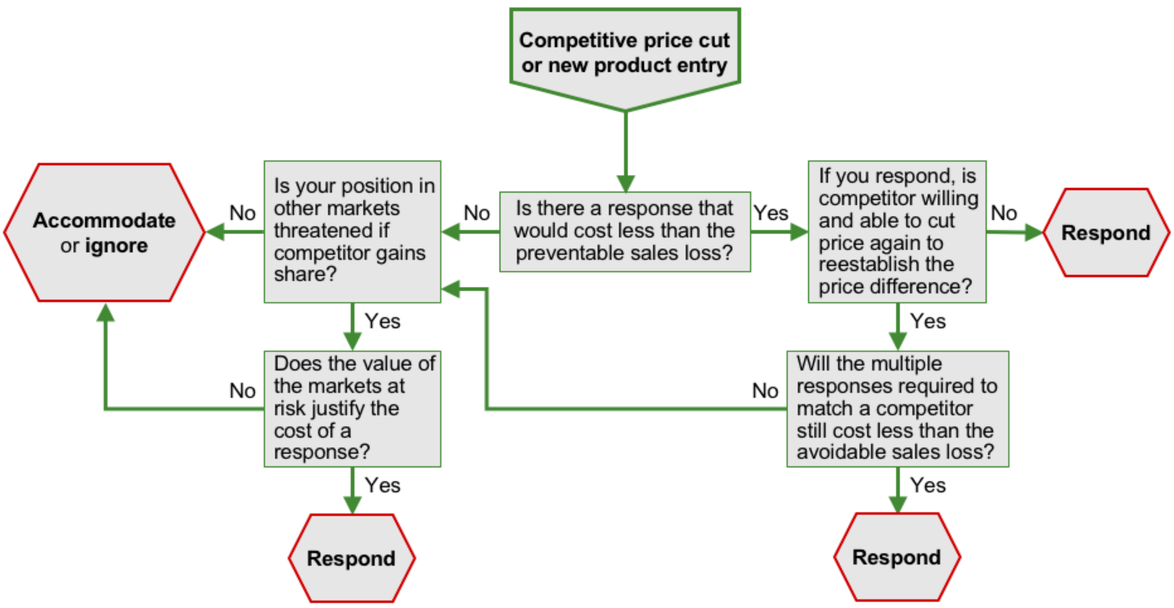

Figure 24. Thoughtfully reacting to price competition (Nagle & Hogan 2006, 222)

It is important to remember that competitors can always undercut a penetration pricing strategy by decreasing their own prices and thus prohibiting the company from providing a superior value to the buyers. Penetration pricing strategy can be viewed as a practical strategy for acquiring and maintaining market share only if competitors do not have the ability or incentive to stop the company. (Nagle & Hogan 2006, 134-135.) There are different situations in which this can usually occur and Nagle & Hogan (2006, 135) have listed the three most common ones:

1. When a company has a substantial cost advantage or/and a resource advantage. In this situation, the competitors will most likely assume that they should not begin a price war because they would likely lose.
2. When a company has a wider range of complementary products. In this situation, the company can utilise a specific product as a penetration-priced “loss leader” to drive the sales of other products.
3. When a company is small enough to grow its sales substantially without prompting a response from its competitors.

4.2.3 Neutral pricing

A company that chooses a neutral pricing strategy decides not to use price to acquire market share and does not allow price to be the only factor that determines market share. Neutral pricing strategy aims to minimise the importance of price as a marketing instrument in favour of various other tactics that a company thinks are more cost-effective or otherwise better for a particular market. However, neutral pricing strategy is not necessarily easier than other pricing strategies. It can be easier to set a price that is high enough to skim or low enough to penetrate than to set a price that achieves a near perfect balance. (Nagle & Hogan 2006, 135-136.)

A company commonly chooses a neutral pricing strategy by default if market conditions do not support neither a penetration pricing nor skimming/sequential skimming pricing strategy. For example, a company might not be able to utilise skimming or sequential skimming pricing strategy if buyers perceive the products in the market to be so substitutable that none of the important buyer segments will pay a premium. That same company might not be able to utilise a penetration pricing strategy because buyers would not be able assess the quality of the product before making a purchase decision and would assume that the product has a low quality since it has a low price (the price-quality effect) or because competitors prevent penetration pricing by responding forcefully to prices that are lower than the established price structure. Neutral pricing strategy is commonly used in industries that have relatively value-sensitive buyers, ruling out skimming/sequential skimming, and relatively volume-sensitive competitors, ruling out successful penetration pricing. (Nagle & Hogan 2006, 136.)

A company can also use neutral pricing strategy to advertise a specific product line. For example, car manufacturers such as Mazda often price popular car models at a neutral level, even if the manufacturers cannot satisfy the demand for those models. This is because car manufacturers want a broad range of potential buyers to see certain popular car models and associate the brand with those models. One popular car model can draw interest from people who may buy other models as well. (Nagle & Hogan 2006, 136.) The difference between skimming/sequential skimming pricing, penetration pricing and neutral pricing is illustrated in Figure 25.

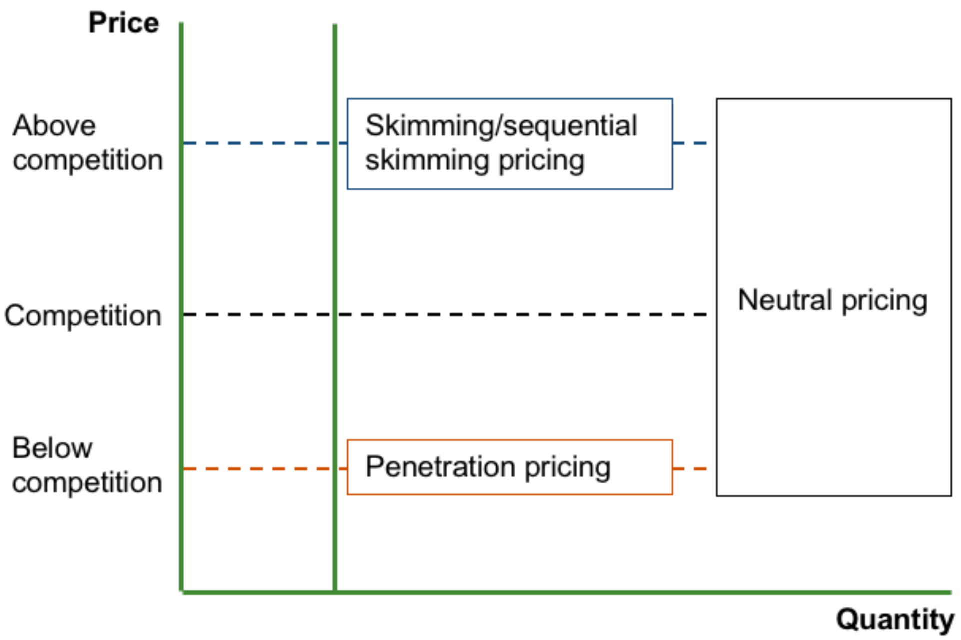

Figure 25. Pricing strategies and price relative to competition (adapted from Nagle & Hogan 2006, 133-136)

A well-executed neutral pricing strategy is no less important or difficult to profitability than penetration or skimming/sequential skimming pricing, although it is less proactive. Neutral prices can be different than competitors' prices and are not always near the median price of the market. In theory, a neutral price may be the lowest or highest price in the market and still be considered as neutral. For example, a product can be regularly priced above competitors, but can still secure large market shares because of the high perceived value buyers associate with that product. Just like a penetration or skimming/sequential skimming price, a neutral price is defined relative to the product's perceived economic value. (Nagle & Hogan 2006, 136.)

4.3 Pricing methods

To choose how to price its product, a company needs to conduct a certain amount of research. It is difficult for a company to set a price that maximises the profit a product generates if the company does not invest in research, analysis, testing and training to successfully respond to buyers' reactions. When choosing a pricing model, a company should consider what it would do if the situation changed. For example, if the company's cost price increased by 15%, would and could the company pass on this increase to buyers? Or if the cost price decreased by 15%, would the company decrease the price to match? What if a company aims to be just under the price of its competitors? If competitors dropped their prices by 15%, would and could the company do the same? Conversely, if competitors increased their prices, would the company do the same? (Hill 2013, 59.)

When pricing its product, a company can use three different pricing methods: cost-plus pricing, market-based pricing and value-based pricing (Bergström & Leppänen 2015, 241).

4.3.1 Cost-plus pricing

Cost-plus pricing method is based on costs. A company will add together direct labour and material costs of a product, such as raw materials and production wages, and the overhead costs for the product, such as rent. After that, the company will add a markup percentage to the sum of direct labour and material costs and allocated overhead costs to create a profit margin and determine the price of the product. (Bergström & Leppänen 2015, 243.) Simply put, cost plus describes adding, for example, 20%, 40% or even 100% to the cost price of a company's product or service to set the price at which the company will sell (Hill 2013, 49). A company can also add cost-plus pricing to a customer contract. In this case, the customer will reimburse the company for all incurred costs and also, in addition to incurred costs, pays the profit both parties have agreed to. An example of cost-plus pricing is shown in Figure 26.

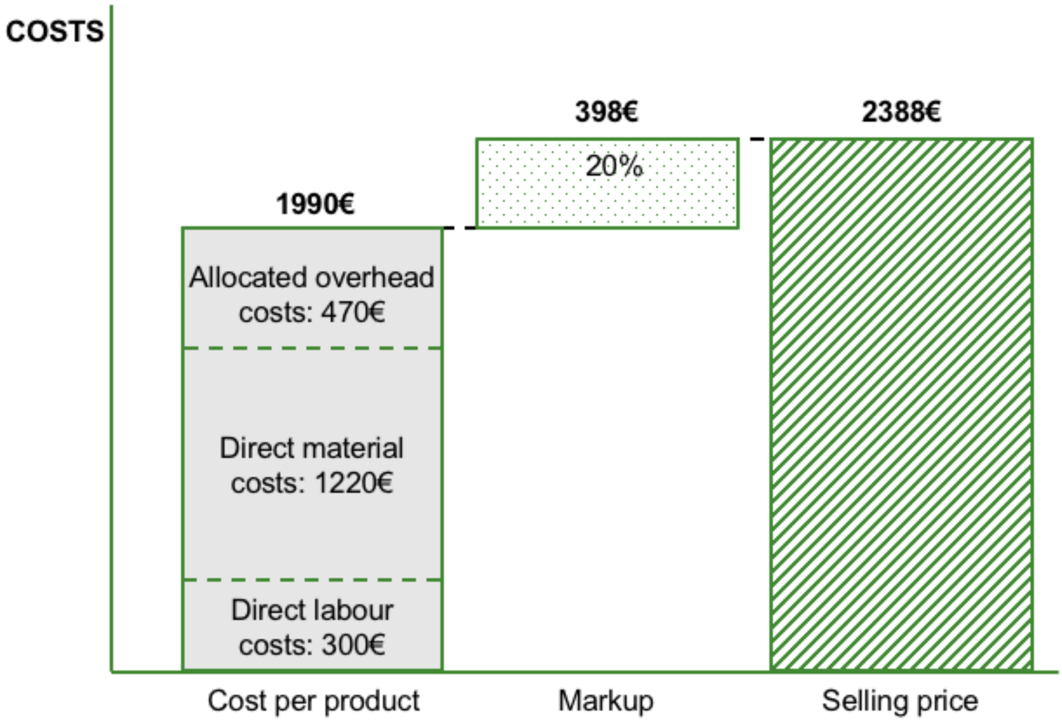

Figure 26. Cost-plus calculation for a company that sets a 20% markup on its product.

In the example shown in Figure 26, the company calculates its product's direct labour and materials costs and allocated overhead costs and adds the costs together. The sum is 1990€ and the company adds a 20% markup on top of that amount by multiplying it by 1.2. Thus, the final price of the product is 2388€.

The weakness of cost-plus pricing method is that it does not consider what buyers want (Bergström & Leppänen 2015, 243). According to Hill (2013, 50), the problem with cost-plus pricing is quite simple. If buyers value a product at 1500€, the valuation does not change based on a cost price to a provider. Cost-plus pricing also ignores competitors' prices and can lead to overpricing or underpricing, both of which lead to low profits. If buyers perceive the price of a product as too high, they will not buy regardless of how high the providers cost price is. If a company has a certain markup, such as 20% in Figure 26, and its cost price decreases, based on a cost-plus pricing method the company would decrease the price of the product. However, price decrease would not lower buyers' valuation of the product and the company might therefore underprice the product. (Bergström & Leppänen 2015, 244.) By using cost-plus pricing method, a company can leave itself vulnerable to competitors' strategic pricing choices and weaken its competitive position.

4.3.2 Market-based pricing

The right price is not the price that just covers the costs and generates a profit margin. The right price is the one a buyer is willing to pay. However, this does not mean that a company should not seek to cover its costs when setting a price for a product. Market-based pricing is based on the current market conditions. The factors that affect market-based pricing are buyer needs and price sensitivity, supply and demand, the product and competition. (Bergström & Leppänen 2015, 244-245.)

When using market-based pricing, a company will compare its product with competitors' products to set a price for the product. For example, if the product has better features than competitors' products, the company can set the price to the same level as competitors, thus creating more value for buyers at the same price, or set a higher price level because of better features. When setting the price, the company will consider buyers' price sensitivity and may divide buyers in segments according to differences in price sensitivity. (Bergström & Leppänen 2015, 245.)

A company should also consider buyers' perception of value. If more buyers are willing to purchase the product (high demand), a company can set a higher price and if demand is low, the company should decrease the price. For example, a highly-anticipated product may have a higher price when its launched due to higher demand. Once the demand decreases, the price too will be decreased. (Bergström & Leppänen 2015, 245.) In essence, market-based pricing is based on continuous negotiation between buyers and sellers.

4.3.3 Value-based pricing

In a perfect situation, a company would set a unique price for each individual buyer based on the value the company's product or service provides to each of those buyers at that particular moment. However, in practice, it is challenging to set a unique price for each buyer and therefore companies use a more generic approach to value-based pricing. (Hill 2013, 57.)

Value-based pricing is based on the value or benefit a product or service creates for a buyer. A buyer can gain use-value, exchange-value and symbolic-value. For example, use-value can appear as cost savings or easiness. Exchange-value of a product is based on equivalences which are discovered when the product is introduced to a market. Exchange-value of a product can transpire when the product is exchanged for a new one. Symbolic-value appears as an immaterial value that is attributed to a product. For example, symbolic value can appear as admiration from other people. (Bergström & Leppänen 2015, 246.)

According to the utility theory, the utility of a product is a measure of the satisfaction a buyer will gain from the consumption of the product. Different buyers experience a different value and seek different benefits. Value-based pricing requires knowledge of buyers' needs, valuations and preferences and a company should aim to segment buyers according to those factors. One buyer might value the durability of a product, while another buyer might place emphasis on the delivery time of the product. Value-based pricing aims to provide different value for different buyer segments and different price is set for each segment according to the value provided for that segment. For example, a company can set two price levels for the same product, the higher price level for a faster delivery time and lower price level for a standard delivery time. A buyer that needs the product as quickly as possible is willing to pay a higher price for faster delivery, because the fast delivery time impacts the buyer's perceived value of the product. (Bergström & Leppänen 2015, 246.) Figure 27 shows an example of value-based pricing and value creation for B2B commodities.

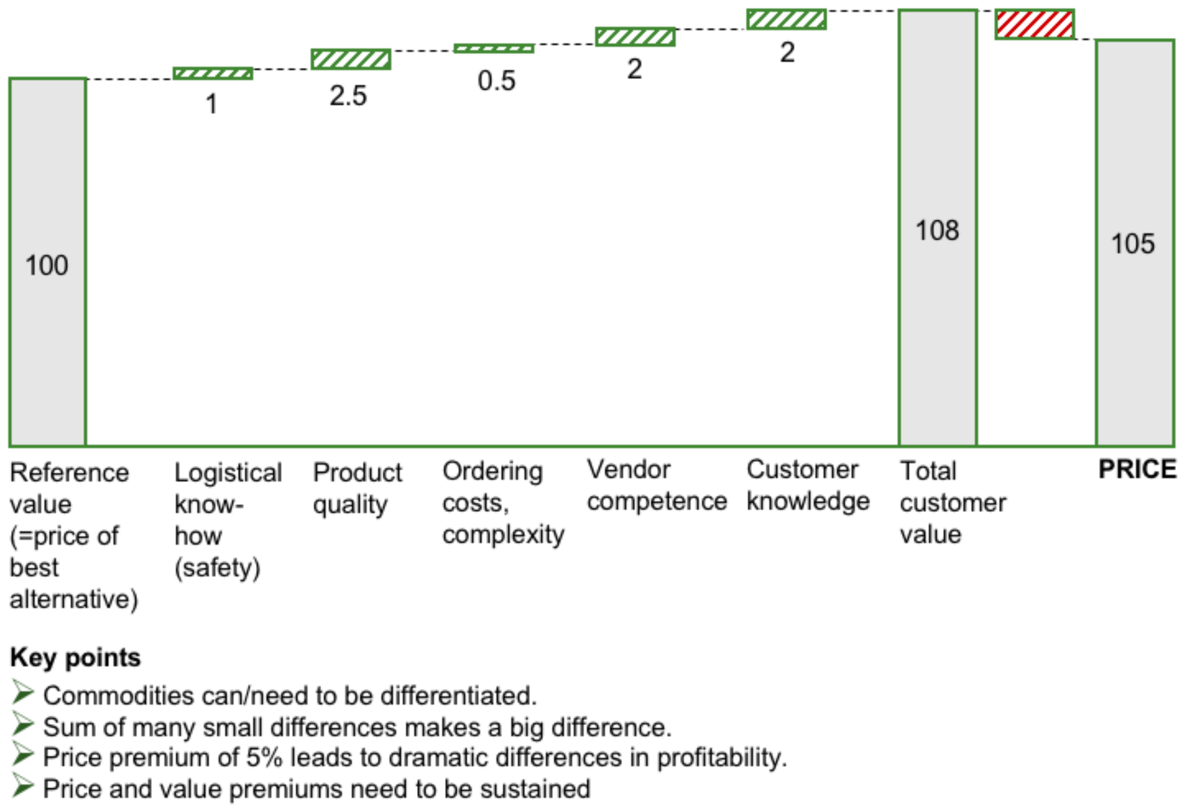

Figure 27. Value-based pricing and value creation for B2B commodities (Hinterhuber & Liozu 2016, 15)

According to Hill (2013, 60), value-based pricing is the ideal choice for most companies. Value for money is the fundamental factor in business and buyers often follow the same rule. Although different factors, such as cost price, competitors' prices, inflation or interest rates can impact a company's pricing decision, the value to the buyer is the main concern.

(Hill 2013, 57, 60.) A company should be able to communicate that value to buyers in an understandable way. To succeed at this, a company can utilise value proposition. Table 1 shows a checklist for developing a best-practice value proposition.

Table 1. Checklist for developing a best-practice value proposition (Hinterhuber & Liozu 2016, 16-17)

Check	Product	Key issue	Rate
	Is the target buyer group clearly defined?	Segment	
	Is the key business issue we resolve a real pain-point for this segment?	Relevance	
	Is it clear that the value proposition is superior for this buyer group?	Better	
	Does the value proposition reflect our competitive advantages?	Advantage	
	Is the value proposition relative to the buyer's best available alternative?	Competition	
	Are buyer benefits quantified? Is the quantification the result of quantifying both financial and quantitative benefits?	Quantity	
	Is the value proposition based on proper buyer and market research?	Research	
	Does the value proposition reflect changing buyer priorities? Is it relevant… tomorrow… next year?	Update	
	Can you substantiate the value proposition in case studies or evidence of quantified performance improvements delivered?	Substantiate	
	Can you articulate the value proposition in 1-2 minutes?	Short	

Value proposition, which was developed to convert buyer value into quantified, monetary benefits, is an important instrument for value-based pricing. By quantifying value, a company converts competitive advantages its product or service creates into financial buyer benefits. Competitive advantages usually create either qualitative or quantitative benefits for buyers, or both. Quantitative benefits can be divided into four types: risk reductions, revenue/margin improvements, capital expense savings and cost reductions, and are always related to financial benefits. Qualitative benefits allow buyers to reach their goals in a more efficient way (process benefits). Qualitative benefits include process benefits such as relationship benefits, the value of the brand, ease of doing business, knowledge and core competencies. (Hinterhuber & Liozu 2016, 16-17.)

The sum of qualitative and quantitative benefits equals total buyer value. Because of this, a company that utilises value-based pricing should use value proposition to demonstrate the total buyer value. For example, SKF, a leading industrial bearing manufacturing company, is able to convince buyers that they gain more benefit and end up paying less if they purchase from SKF, regardless of a price premium of 50% over the competitors' offerings. Industrial bearings are not the most easily differentiable product, yet SKF is still able to successfully quantify the value of its offering. (Hinterhuber & Liozu 2016, 17.) An example of a quantified value proposition is illustrated in Figure 28.

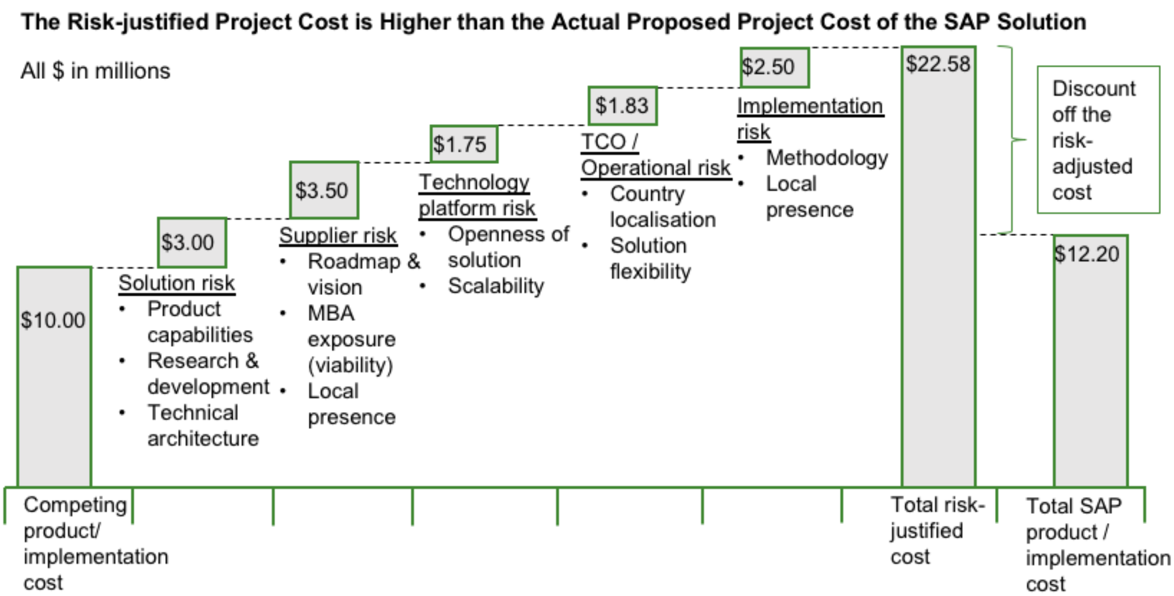

Figure 28. Quantifying the value proposition – the example of SAP (Hinterhuber & Liozu 2016, 21)

SAP is an enterprise software provider. In the example illustrated in Figure 28, SAP's price is 22% above the comparable competitor's price. SAP claims that the real cost of competing product is higher than what SAP charges because risks have not been factored in. The company determines different risk categories: solution risk, supplier risk, technology platform risk, operational risk and implementation risk. SAP argues that these risks should be quantified and added to the price of the competing product. After risk adjustment, the initial lower-cost offer price of the competing product is clearly higher than the price of SAP's product. SAP's experience has proven that by adding risk-adjusted price the company can win deals even if the list price of the product is clearly higher (in this example by 22%) than price of the buyers next best option. (Hinterhuber & Liozu 2016, 21-22.)

5 B2B sales process

A process can be described as a set of activities designed to achieve a certain result and it can be repeated, multiplied and modelled. This is important for startup companies because B2B sales process may include a lot of trial and error. A modern B2B sales process is a systematic approach that can add a lot of value when utilised as an organisational asset rather than an uncontrollable art form. (Alanen, Mälkiä & Sell 2005, 65; Kaario 2009, 17.) During the sales process, the salesperson uncovers the needs and problems of the potential customer and tries to assure the potential customer that the solution offered by the salesperson is the right choice. The objective of sales process is to create a demand and close the sale by finding a solution which both the customer and provider are satisfied with. (Alanen et al. 2005, 65.)

The same solution can create different value for different buyers. The salesperson needs to understand the product or service and how the product or service can create value for each buyer. Demonstration of value is a prerequisite for a developing a successful customer relationship. (Rogers 2007, 46.)

A customer-oriented B2B sales process focuses on the different kinds of values that the product or service can create. The chance of finding the right solution and closing the sale is higher when a salesperson takes a customer-oriented approach on each stage of the sales process. B2B sales process can be divided into eight steps (Figure 29), which are presented in the following subchapters. The eight steps are 1. Preparation, 2. Prospecting, 3. Connecting, 4. Customer needs analysis, 5. Solution presentation, 6. Objection handling, 7. Closing and 8. After-care. (Castleberry & Tanner 2011, 151.)

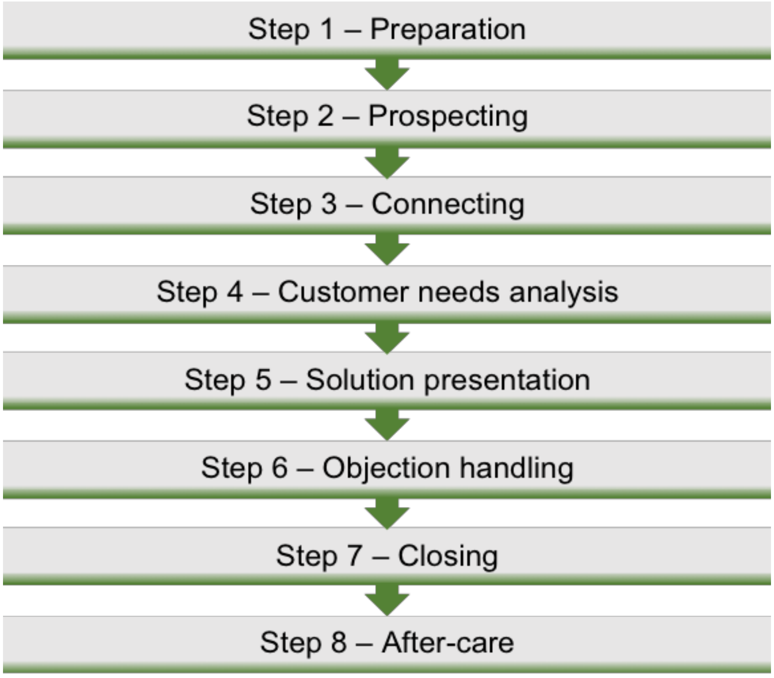

Figure 29. The eight-step B2B sales process (adapted from Castleberry & Tanner 2011, 151)

5.1 Step 1 – Preparation

During the preparation stage, the sales organisation and salespeople conduct market research to find out everything they need to know about the current demand and supply. Besides understanding the current demand in the market place, the sales organisation needs to stay informed of not only the products and services of competition, but also the organisation's own products. (Alanen et al. 2005, 73; McKinsey & Company 2001, 71.) By understanding the current demand and the differences between product offerings, the salespeople are ready and informed when connecting the potential customers (Rubanovitsch & Aalto 2007, 52).

The sales organisation should do all the necessary preparatory work to enable a successful sales process. Preparatory work can include sales support materials such as PowerPoint presentations, product models, presentation videos, test results and references. A well-prepared sales process can increase the chance of closing the sale and helps build trust between the customer and the sales organisation. A well-executed preparation can also give off a trustworthy and professional image, which can help the sales organisation build long-term competitive advantage. (Alanen et al. 2005, 73-75; Rubanovitsch & Aalto 2007, 42.) It is also important to remember that the objective of the preparation stage and the following stages of the B2B sales process is to close the sale and build a long-lasting customer relationship (Rubanovitsch & Aalto 2007, 42).

The sales organisation should also set up a database to store all the relevant sales process data. Startup companies often start with simple Excel worksheets, but there are many free customer databases that can contain all the data and information that is created during the sales process. However, the customer databases should not be overflowed with data. Instead, the sales organisation should clearly define what is relevant data to keep the database simple and easy to navigate through. (Bergström & Leppänen 2015, 426; Castleberry & Tanner 2011, 164.) Organisations generally use different customer databases, commonly known as CRM (Customer Relationship Management) tools to store lead, prospect and customer contact information, and sales opportunities into one location. The data is often stored into a cloud storage and is accessible in real time by everyone in the sales organisation. There are several free CRM systems which a startup company can choose from. Once a customer database is set up, the salespeople can always add information to the database or check for information that might help the sales process.

5.2 Step 2 – Prospecting

Once the sales organisation has gathered enough information by conducting market research, and made the necessary preparations, the organisation can start prospecting the potential customers. The sales organisation should concentrate on the defined buyer segments as those segments have been chosen as the most potential ones. (Alanen et al. 2005, 73.) Generally, a company can divide B2B buyers into different segments based on geographical location, buyer company size, usage rate, benefits a buyer is seeking, buyer's price sensitivity, type of industry, product application or end-use market (Jobber & Lancaster 2009, 20).

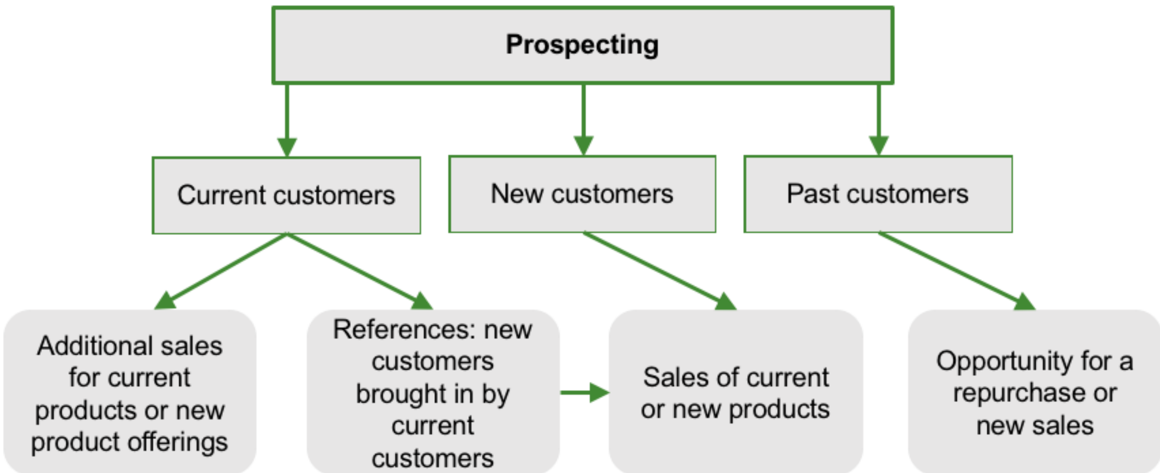

Figure 30. Prospecting and additional sales (adapted from Bergström & Leppänen 2015, 424)

It is important to remember that at the core of sales operations is not the product or the price, but the customer. A customer-oriented approach can be beneficial during the prospecting stage as the sales organisation is trying to sell not only to new customers, but also to current and past customers (Alanen et al. 2005, 73; Bergström & Leppänen 2015, 424). The circumstances around the world are constantly changing and it is not uncommon for companies to lose a certain percentage of customers annually. Many customers switch to competitors, decide to continue without the product or service, merge with non-customers or go bankrupt. Because of the customer turnover, it is important that the sales organisation focuses enough resources on prospecting to replace the lost customers. (Castleberry & Tanner 2011, 150-151.) Figure 30 presents a prospecting process that focuses on current customers, new customers and past customers.

A potential prospect is often defined as a lead. To determine if a lead actually is a prospect, the responsible salesperson qualifies the lead. If a lead is determined as a potential opportunity for a sale, it is called a prospect. The time spent on lead qualifying process can vary depending on different factors such as profit per sale, length of the sales cycle and the type of product or service. (Castleberry & Tanner 2011, 150-151.)

When determining whether a lead qualifies as a prospect, a salesperson should know how to pinpoint a good prospect. A good prospect has a need that the sales organisation's product or service can satisfy. A good prospect also has the ability to pay and authority to buy. Besides these, a good prospect can be approached favourably and is eligible to buy. (Castleberry & Tanner 2011, 151.) It is important not to spend too much valuable time on leads that do not control budget and are therefore not eligible to make purchase decisions. A startup company is often fighting to break into a market and the lead qualification process should be quick and accurate to maximise the efficiency of the B2B sales process.

An efficiently conducted prospecting process will constantly generate new leads. If the organisation has enough resources, the lead generation can be partially handled by the marketing team. However, startup companies often lack resources or funding to launch systematic marketing campaigns or hire new people. To find new leads, many startup companies utilise common methods such as telemarketing, internet, company website, networking, webinars and business fairs, social media platforms, and lists and directories. (Castleberry & Tanner 2011, 157, 160-166, 169.)

Telemarketing is a systematic approach which aims for continuous communication with potential prospects and customers via telephone. Startup companies can utilise telemarketing to call potential customer companies within the defined buyer segments to find out who are the possible prospects in those companies. Telemarketing is also a great way to utilise the endless-chain method, in which the salesperson attempts to gain "referred leads", which are leads provided by a customer or a prospect. If the lead is not interested, the salesperson can ask if there is someone else who might be interested and the lead might provide a referred lead. Referred leads are often considered to be the most potential leads and salespersons should contact these leads as soon as possible. (Castleberry & Tanner 2011, 157, 160-166.) Although telemarketing can produce good leads, it is very time-consuming for a small sales team and it should not be the only method for prospecting.

A quick way to start generating leads is the internet. The salespeople in a startup company can use search engines to find out all the relevant information of the potential customer companies from the internet, for example from company websites, forums and other sources. Internet is also a great platform to discuss and publish specified content, for example in blogs or on social media platforms such as LinkedIn and Twitter. Specified content can be anything related to the product or service the company is trying to sell. The content should be free and aimed to create value for the potential prospects and it should have a "contact us" form or a similar quick-contact plugin to which people who desire more information can leave their contact information. A valuable and informative webinar, article or video can raise interest within the potential customer base and generate new leads for a long time after the content has been published. The contact form should also be utilised on the company website and the website should be a well-designed and informative with a clear value proposition. (Castleberry & Tanner 2011, 161-162.)

To accelerate lead generation, the sales team can utilise personal relationships and establish new ones with well-connected individuals to gather information and generate new leads. This is called networking. Networking is most often crucial for building a successful business. Salespeople can network for example online in social media or face-to-face in business seminars. Business seminars are also a great way to introduce the company and the product or service to the potential prospects. (Castleberry & Tanner 2011, 157, 161-163.)

To save time, many companies are purchasing lead lists and prospecting directories. Different providers are selling lead lists, which can be specified according to the purchaser's requirements, for example by industry, geographical location, company size and revenue.

The drawback of these purchased lists and directories is that they can be partially outdated and inaccurate. The ease of purchased lists can also make salespeople forgo the other lead generation methods, even though other methods might give better results. However, lead lists and prospecting directories can save a lot of time and make the lead generation process more efficient. (Castleberry & Tanner 2011, 164.) For optimal results, a startup company should find a right mix of different prospecting methods and strive for continuous lead generation. After a lead is qualified as a prospect, the salesperson can start the next step of the B2B sales process – connecting.

5.3 Step 3 – Connecting

Connecting describes a stage during which the salesperson approaches a prospect. The objective of the connecting stage is to draw the prospect's interest to the product or service and schedule a meeting with the prospect. Commonly used method for connecting is a phone call. Besides phone calls, the salesperson can use emails, text messages and messages on social media platforms to reach the prospect and schedule a meeting or a phone call. Connecting face-to-face at business fairs or other events can also lead to a sales meeting with the prospect. (Alanen et al. 2005, 72.)

Phone calls and different forms of messaging are often the simplest and cheapest ways to contact the prospect, and that is why those methods can be easily utilised by any startup company. To make a successful first contact, the salesperson should gather information about the prospect and the organisation and plan the sales call or message. The sales call and message should be clear and interesting, with a clear value proposition. The salesperson should be able to convince the prospect about the value of the product or service. It is important to remember that the prospect will want to meet with the salesperson if the prospect believes that the meeting is valuable. Without planning, the salesperson might address subjects which do not interest the prospect, resulting in wasted time and lost sales opportunity. (Alanen et al. 2005, 72; Castleberry & Tanner 2011, 180.)

A well-planned sales call is well-articulated and straightforward and gives the prospect a vision of added value that the offered product or service can provide. Some B2B services can be sold during the first phone call and therefore it is important have a clear value proposition. People also have limited time and that is why it is crucial to win the prospect's trust as quickly as possible. During the call, the salesperson's voice and message are important, because the prospect can neither see the salesperson nor see or touch the product. The salesperson should be calm and efficient, and have trust in the offered product or service. It is important to ask relevant questions and let the prospect talk about possible problems and needs. Different templates and guides for sales calls can be found from multiple sources, but the objective is the same: win the prospect's trust and schedule a meeting. (Castleberry & Tanner 2011, 180-181; Rubanovitsch & Aalto 2007, 54-55.)

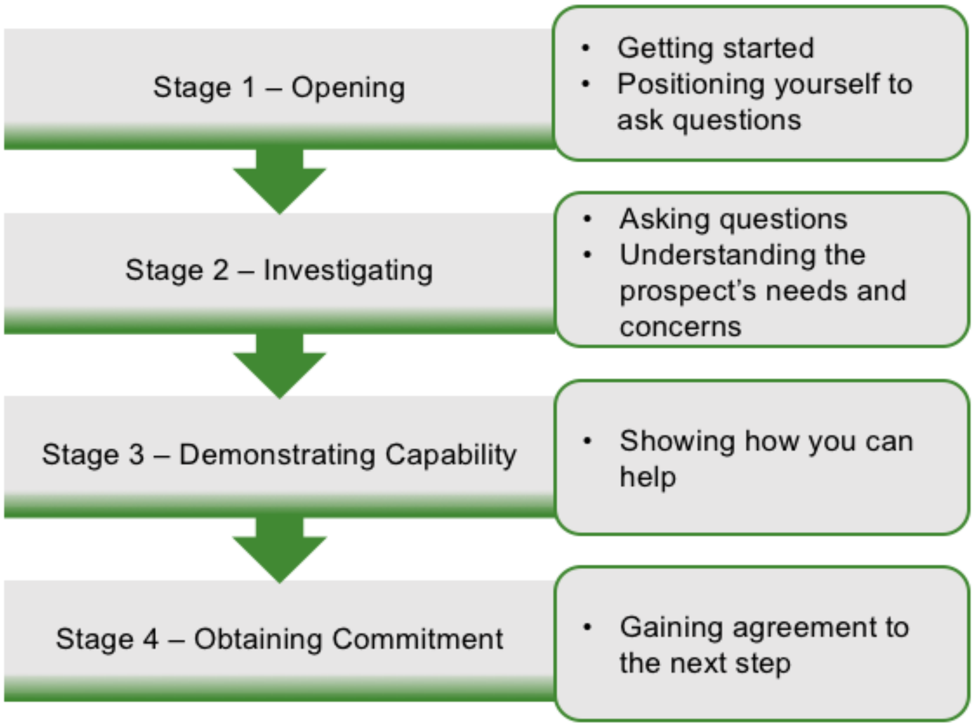

Figure 31. The four stages of a sales call (Rackham 1996, 37)

According to Rackham (1996, 37), a sales call can be divided into four stages (Figure 31), which are opening, investigating, demonstrating capability and obtaining commitment. During the opening stage, the salesperson clarifies who is calling, where that person is calling from and why that person is calling and begins the conversation. In general, the salesperson should spend as little time as necessary on the opening stage. The objective of the opening stage is to gain the prospect's acceptance for asking questions and moving to the investigating stage. During the investigating stage, the salesperson aims to unearth, clarify and develop the prospect's needs. People and companies often make a purchase to satisfy their needs or solve a problem, and purchase decision is easier to make if the pain of the problem is greater than the cost of the solution. The questions asked during investigating stage are aimed to uncover those problems and help the salesperson to move to the third stage of the sales call. (Rackham 1996, 37-40.)

During the third stage, the salesperson presents a solution that can solve the prospect's problems. The value of the solution can be demonstrated in different ways, but usually the demonstration method differs between small sales and large sales. In general, the salesperson should present the solution later during the phone call when trying to schedule a meeting for a large sale. In smaller sales, the solution can be presented earlier during the phone call. The objective of the third stage is to move to the fourth stage and obtain commitment – to schedule a meeting with the prospect. In large sales, the commitment can also be a new phone call or other agreement that moves the sale forward, because large sales often have longer sales cycles and require more time to close. To obtain commitment, the salesperson should make sure that all key concerns have been addressed, the benefits have been summarised and a realistic commitment has been proposed. It is important to remember that obtaining commitment is easier if the prospect has demonstrated clear needs during the investigating stage and the salesperson has demonstrated how the offered solution can meet those needs. (Rackham 1996, 41-42, 44.)

Contact can also be initiated by the potential prospect. This can result for example from a successful marketing campaign or references given by the past and current customers. (Alanen et al. 2005, 72.) The potential prospect might contact the sales organisation by calling, emailing or filling one of the previously mentioned contact forms which can be integrated to the company website or attached to an interesting content produced by the organisation (Castleberry & Tanner 2011, 161).

No matter how the contact is made, it is important to gather information about the prospect's needs, because that information can be used to better understand the prospect's situation and needs. The gathered information will be useful during the next step of the B2B sales process – customer needs analysis.

5.4 Step 4 – Customer needs analysis

An inexperienced salesperson might start the solution presentation too early, without knowing what difficulties and specific needs the prospect might have (Bergström & Leppänen 2015, 385). During the first meeting, the salesperson should conduct customer needs analysis by asking specific questions to find out more about the prospect's needs and problems. The questions should be designed to encourage the prospect to think about the problems and needs from a new perspective. (Alanen et al. 2005, 82-84; Rackham 1996, 67.) It is also appropriate to ask the prospect's permission for asking questions (Bergström & Leppänen 2015, 385).

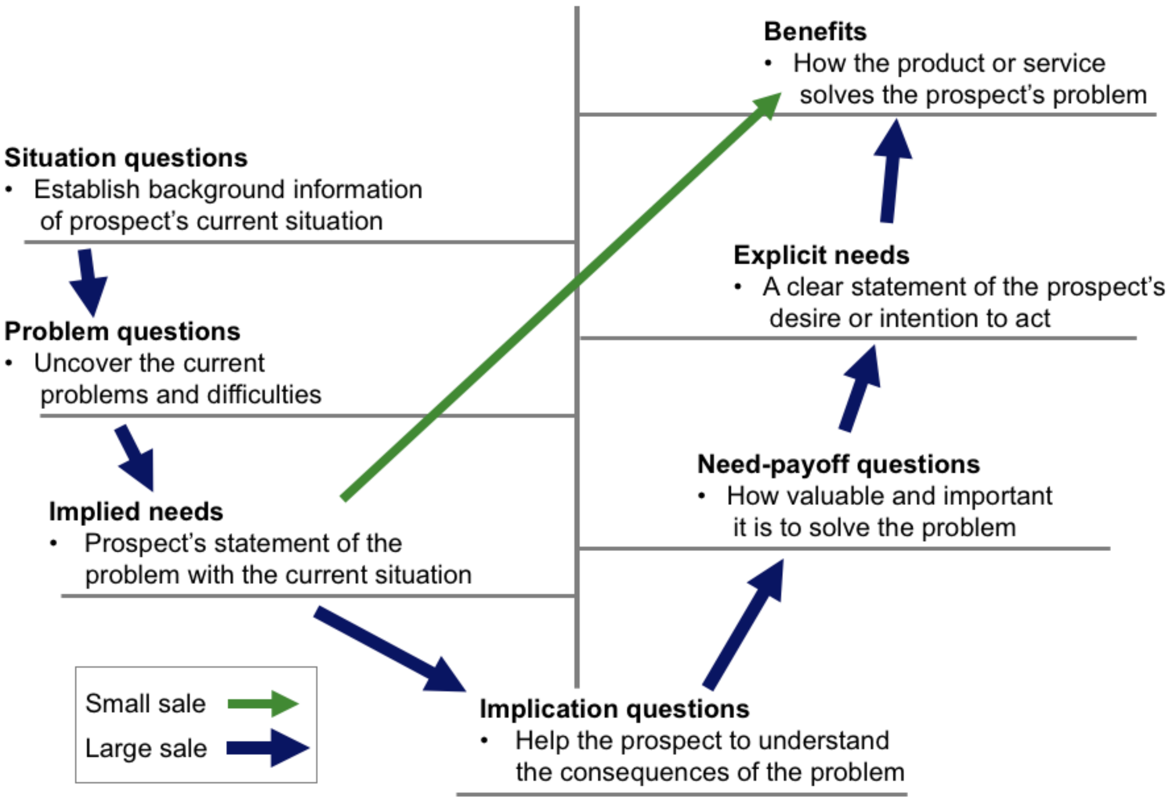

Figure 32. The SPIN Tree – Customer needs analysis in small and large sales (adapted from Rackham 1996, 10-12, 15-17, 21)

Rackham's (1996) SPIN model (Figure 32) is a widely used model for customer needs analysis. The SPIN questions form a process of exploration and understanding focused on the prospect's difficulties, problems and needs. The SPIN model starts with situation questions, which seek to uncover the background of prospect's business and current situation, for example "What is the average monthly output of your production facility?". The situation questions should focus on key information that can help the salesperson not only uncover prospect's problems, but also develop those problems into explicit needs. (Rackham 1996, 68, 75-77.)

After situation questions, the salesperson moves on to the problem questions, which focus on the problems, dissatisfactions or difficulties that the prospect has in the current situation, for example "What happens if/when…?". The objective of problem questions is to uncover the prospect's implied needs and achieve a shared understanding of the prospect's problems. An implied need is a statement of the prospect's problem, difficulty or a dissatisfaction with the current situation. The salesperson has to ask the right questions about potential problems to uncover the implied needs and help the prospect to develop needs. After asking problem questions and uncovering the implied needs, the salesperson starts asking implication questions. The implication questions focus on consequences of the problems and implicate how harmful the problems are, for example "How often does that lead to a lost sales opportunity and loss of revenue?". The objective is to understand and persuade the prospect by increasing the significance of the prospect's problems. (Rackham 1996, 89-93, 107, 117, 123.)

After implication questions, the salesperson starts asking need-payoff questions, which concentrate on the value and importance of the solution to the prospect's problems, for example "How much savings would this solution create?". The need-payoff questions are aimed to increase the attractiveness of the offered solution by focusing on the benefits of the solution rather than on the problem and helping the prospect to understand the payoff of the solution. The salesperson also tries to probe for explicit needs and move the discussion towards closing the sale. An explicit need is an open statement of the prospect's desire to act. After the need-payoff questions (and stated explicit need), the salesperson will demonstrate the benefits of the offered solution. (Rackham 1996, 64, 127-129.)

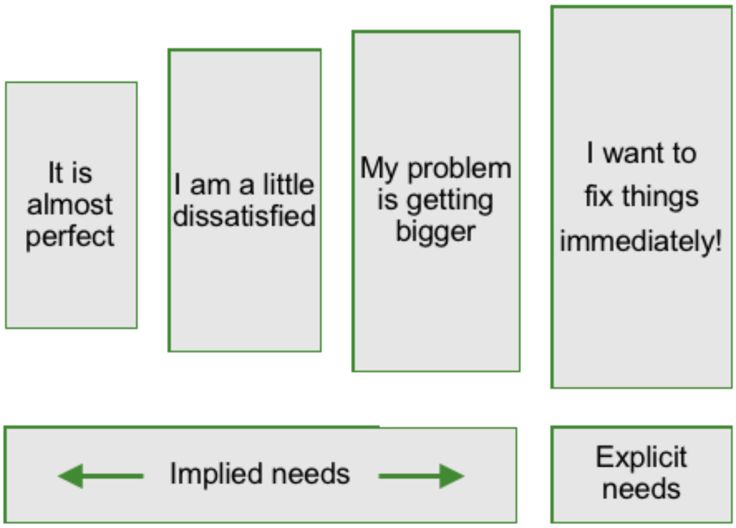

Figure 33. How needs develop (Rackham 1996, 67)

The questions asked during the customer needs analysis will develop the prospect's needs and provide the salesperson with the necessary information for a successful solution presentation. Prospects are rarely 100 percent satisfied with the current situation and the more they think about the current problems, the more dissatisfied they become (Figure 33). If dissatisfaction keeps growing, the prospect will eventually feel that there is a need for a solution. (Rackham 1996, 67.) A skilful salesperson can control the conversation by asking the right questions but will not provide answers to those questions. Instead, the salesperson will listen to the prospect and help the prospect to develop needs. (Alanen et al. 2005, 82-86; Rackham 1996, 67.)

The salesperson uses the customer needs analysis as a base for the solution presentation and can always use the customer needs analysis for tackling possible objections (Alanen et al. 2005, 104-106). The customer needs analysis can also be utilised to create different solution models which the prospect can consider. By utilising the customer needs analysis, the salesperson can offer a solution that will create the highest value for the prospect. (Rubanovitsch & Aalto 2007, 77.)

5.5 Step 5 – Solution presentation

After a well-conducted customer needs analysis, the salesperson knows what solution would create the highest value for the prospect. The objective of the solution presentation is to find the right solution for the prospect's problems. (Rubanovitsch & Aalto 2007, 77.) The solution presentation is not only about offering the solution, but also about answering the question: "Why should I purchase this product or service?". A good salesperson uses only those sales arguments that are important to the prospect. The arguments can be based on the Feature-Benefit-Impact table (Table 2), which presents the features, advantages and benefits of the offered solution. (Bergström & Leppänen 2015, 387; Rackham 1996, 149.)

Table 2. Feature-Advantage-Benefit table (adapted from Rackham 1996, 149)

Feature	Advantage	Benefit
"We provide full implementation support."	"… so the system is quickly available with no downtime."	"The system provides the necessary power and security you have said you will need."
"We have 62 branch offices."	"… so our international staff can meet your requirements in all time zones, at any time."	"The service matches the exact specifications you have given us for FCA compliance."
"There is a 10-year warranty."	"… which means that it is a safe investment."	"The FILTEM system provides you with the pollution filter you have said you will need."

Feature-Advantage-Benefit table is a widely-used method of demonstrating the capabilities of products and services. Features are neutral facts that describe the characteristics of the offered solution. From a prospect's point of view, each additional feature adds to the cost and that is why the salesperson should avoid listing too many features without mentioning advantages and benefits. Advantages demonstrate how the offered solution or its features can be utilised or can help the prospect. However, the salesperson should know the prospect's needs before listing advantages, because advantages that do not create value for the prospect will most likely raise objections. Benefits describe how the offered solution satisfies the prospect's needs. Benefits will impact the prospect's decision-making throughout the sales process and the salesperson should make sure that the benefits are emphasised during the sales process. (Rackham 1996, 149-154, 158.)

A persuasive solution presentation should be straightforward and not too complicated. The prospect might get confused if the presentation is illogical and full of irrelevant information. The salesperson should use words and sentences that the prospect is familiar with. The salesperson can use several different methods to showcase the features, advantages and benefits of the offered solution. Data, statistics and references from satisfied customers are good ways to demonstrate the benefits of the offered solution. Depending on the solution, the salesperson can also let the prospect use the product or service. A successful solution presentation is informative, will arouse the prospect's interest and makes the prospect feel that the offered solution provides enough value to justify the price. (Castleberry & Tanner 2011, 234-235; Hänti, Kairisto-Mertanen & Kock 2016, 146-147.)

Besides selling the product or service, the salesperson should be able to sell himself to the prospect by earning the prospect's trust and respect. A clean appearance, open body language and well-executed small talk can help win the prospect's trust and create a positive atmosphere. It is also easier to handle possible objections if the prospect is comfortable and feels that the salesperson is trustworthy. (Alanen et al. 2005, 75-79; Rubanovitsch & Aalto 2007, 77.)

5.6 Step 6 – Objection handling

Objections are a natural part of the sales negotiation and are often an indicator of prospect's interest towards the offered solution. However, objections are not buying signals, but rather questions that the prospect is asking because there is something that makes the prospect unsure or doubtful. (Rackham 1996, 161.) The salesperson's objective is to give the prospect a good reason for making a purchase decision and that is why it is crucial to answer the objections and win the prospect's trust. (Hänti et al. 2016, 149.) Objections can be based on rational, emotional, personal or tactical reasons. The prospect is evaluating the value of the offered solution while pondering the purchase decision. The salesperson can utilise the information acquired during the customer needs analysis to tackle objections and close the sales. (Alanen et al. 2005, 104-106.)

The prospect might have doubts about the offered solution even if the solution matches the prospect's needs and expectations and that is why objections can arise during any stage of the sales process. The salesperson can answer the most common objections before the prospect presents them. By doing so, the salesperson clarifies the prospect's doubts and increases the chance of closing the sale. (Hänti at al. 2016, 149.)

Table 3. Examples of the answer methods for objection handling (adapted from Bergström & Leppänen 2015, 390; Castleberry & Tanner 2011, 280)

Objection	The answer method	Salesperson's answer
"This looks very small"	Indirect denial	• "Yes, this is the smallest model, but it actually has more…"
"I don't think there is demand for this"	Direct denial	• "On the contrary, it was the most sold model of the first quarter because…"
"The price is higher than your competitor's"	Compensation	• "Our price is not the cheapest one, because it includes… and that is why it is…"
"The quality is lower than in your other products."	Revisit	• "The slightly lower quality and price are actually the reasons why you should buy these products. As you said, your customers are looking for low-priced solutions…"
"I don't think the product is worth this much."	Acknowledge	• "I understand your concern. I also like to compare the cost and benefit of the product. [pause] Now, we were talking about..."
"I don't think the product is worth this much."	Referral	• "I understand how you feel. Company X felt the same way, but after buying and using our service, they found out that it substantially increased their savings…"

There are multiple answer methods for tackling objections (Table 3) during the sales negotiation. The salesperson can combine different answer methods depending on the situation. The indirect denial method should be used when prospect's objection is based on incorrect information. When using the indirect denial, the salesperson softens the response by respecting the prospect's view, but at the same time denies the objection and points out a positive factor that diminishes the objection. The indirect denial method is effective because the prospect knows that the salesperson has listened and paid attention to the objection. (Bergström & Leppänen 2015, 390; Castleberry & Tanner 2011, 275-276; Manning, Aherane & Reece 2014, 313.)

Another answer method is the direct denial, which can be used when the prospect's objection blatantly false and potentially harmful to the solution presentation (Bergström & Leppänen 2015, 390; Castleberry & Tanner 2011, 275). When using the direct denial method, the salesperson should stay calm and correct the false information in way that does not irritate the prospect. A little humor might ease the situation and maintain a positive atmosphere, but most of the time it would be better to use the indirect denial method. (Castleberry & Tanner 2011, 274; Manning et al. 2014, 313.)

The salesperson can also use compensation and revisit methods to address the prospect's objection. According to Rackham (1996, 134), in large sales the prospect might focus on small details rather than the problems that the offered solution can solve. If the prospect clings on to the smallest details, the salesperson should try to shift the prospect's focus to the value that the offered solution can create. By using the compensation method, the salesperson admits that there is a weakness, but compensates that weakness with a strength that is valuable enough to diminish the weakness. (Bergström & Leppänen 2015, 389; Castleberry & Tanner 2011, 276.) Conversely, when using the revisit method, the salesperson converts the objection into a reason to purchase the offered solution. This method requires care, because it can appear aggressive, but it can also help the prospect to see the benefits of the offered solution. (Castleberry & Tanner 2011, 277-278.)

To tackle objections, the salesperson can also use acknowledge and referral methods. The acknowledge method can be used when the prospect is seemingly just blowing off steam or clinging on to insignificant details. The salesperson should let the prospect talk, acknowledge the prospect's concern, pause and move on to the next topic. The acknowledge method might not answer the prospect's objection, but the referral method does. The referral method gives examples of customers who had similar objections. If possible, the salesperson can show a testimonial or supply the contact information of the previous customer. (Castleberry & Tanner 2011, 278-279.) Referral method is a great way to tackle objections and startup companies should try to obtain as many referrals as possible from satisfied customers. By successfully handling objections and addressing prospect's concerns, the salesperson is one step closer to closing the sale.

5.7 Step 7 – Closing

The objective of the sales negotiation is gain commitment from the prospect and close the sale. After a well-executed sales negotiation, it is natural for the salesperson to ask for closing the sale. The salesperson is responsible for taking the sales process forward and closing the sale. The whole sales process and all the time and resources spent will be wasted if the salesperson is unable to close the sale. The purchase decision is affected by several factors, such as the salesperson's knowledge of the solution and willingness to guide and help the prospect, a positive negotiation atmosphere and a rightly-timed attempt to close the sale. (Alanen et al. 2005, 89-93; Castleberry & Tanner 2011, 301-302.)

Table 4. Different closing methods (adapted from Bergström & Leppänen 2015, 391; Castleberry & Tanner 2011, 302-304)

Closing method	Example
Direct request method	• "Shall we sign the contract?"
Balance sheet method	• Together with the prospect, make a list of all the pros and cons of buying now and buying later/not buying
Alternative choice method	• Let the prospect to choose between alternatives • "Which one would you like to choose?" • "Would you like to start with 2-month pilot or…?"
Detail method	• Cover all the details of the sale step-by step and get the prospect's approval on each detail after which closing the sale is self-evident.
Limited opportunity method	• "This is the last one" • "The product is almost sold out" • "The offer ends today"
Benefit summary method	• Make a summary of the discussion, prospect's needs and wishes and benefits of the offered solution, and propose to close the sale.
Condition method	• Give the prospect a discount or an additional benefit and propose to close the sale. • "Shall we sign the contract if…?"

Different closing methods are listed in Table 4. The direct request method is a straightforward approach to closing the sale. Many prospects have limited time and therefore they value a direct approach. However, the salesperson should be careful, because the direct request method might make a prospect feel uncomfortable. Sometimes the prospect might be confused and cannot make a decision. To help the prospect and close the sale, the salesperson can use the balance sheet method. When using the balance sheet method, the salesperson draws a T (Figure 34) and, with the help of the prospect, lists all the pros and cons of buying now and not buying or buying later. The pros and cons can cover details such as price, purchase timing and terms of delivery. The balance sheet method helps the prospect understand the benefits that can be gained by purchasing the solution and the consequences if the prospect does not buy. (Castleberry & Tanner 2011, 303-304.)

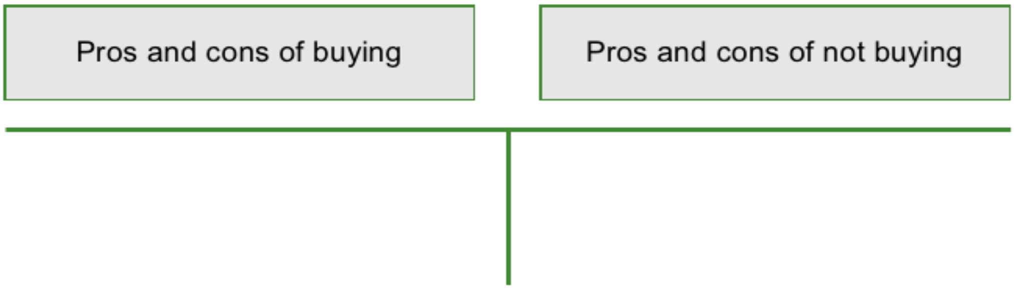

Figure 34. Balance sheet method (adapted from Castleberry & Tanner 2011, 304)

The alternative choice method can be an effective closing method if the salesperson has multiple solutions that can satisfy the prospect's needs. The salesperson can simply offer more than one solution and ask the prospect to express a preference. (Castleberry & Tanner 2011, 306.) The salesperson can also use the detail method to close the sale. When using the detail method, the salesperson covers all the relevant details of the solution presentation and asks for prospect's approval on each detail. If the prospect agrees on everything, the sale will be closed. (Bergström & Leppänen 2015, 391.)

The salesperson can also use limited opportunity, benefit summary and condition methods. When using the limited opportunity method, the salesperson tries persuade the prospect by emphasising the limited availability of the offered solution. The benefit summary method lists all the benefits that satisfy the prospect's needs and helps the prospect remember all the points discussed during the solution presentation. If possible, the salesperson can also use the condition method to close the sale. The salesperson can offer one-time a discount or additional benefit to close the sale. The prospect might feel that the opportunity is too good to pass up and will agree to close the sale. (Bergström & Leppänen 2015, 391; Castleberry & Tanner 2011, 303-304.)

After closing the sale, the salesperson should confirm the customer's choice and go over all the important details to avoid buyer's remorse. It is important to sign the contract and review the actions each party has agreed to take. A successful sales negotiation also includes additional sales. The prospect has turned into a customer by agreeing to make a purchase and is most likely pleased and willing to make additional purchases to complement the purchased product or service. Additional sales increase the value of the purchase and usually increase the sales margin. (Castleberry & Tanner 2011, 306-308.) The ability to create additional sales is important because the volume of additional sales correlates strongly with the profit made by the organisation (Lehmann & Srinivasan 2014).

5.8 Step 8 – After-care

The sales process does not end after the sale is closed. In many organisations, the increases in sales from one year to the next stem from increasing the revenue from not only new customers, but also existing customers. Good customer relationships and a high customer retention rate are important to all companies and correlate strongly with the success of a company. (Castleberry & Tanner 2011, 350.) It is also important to recognise which customers are profitable and which are not. Profitable customers drive net income and thus, a startup company should focus on retaining the profitable customers. Unprofitable customers create more costs than income and a startup company should try to develop unprofitable customers into profitable ones by raising prices or decreasing the resources spent on unprofitable customers. (McKinsey & Company 2001, 83.)

The sales organisation needs to start conducting sales after-care immediately after the customer has made a purchase. The sales organisation should keep actively communicating with the customer and not assume that the customer will return just because of the earlier purchase. The sales organisation should stay informed of the customer’s situation, offer new products or services and inform the customer of new updates and services. (Alanen et al. 2005, 116-117.)

Satisfied customers might make additional purchases and provide the sales organisation with new leads, which can turn into new customers. References are one of the most effective ways to gain new customers and close new sales. (Castleberry & Tanner 2011, 156; Rubanovitsch & Aalto 2007, 158.) To gain new references and achieve a favourable reputation and a high customer retention rate, a startup company should focus on building a well-designed and well-executed after-care protocol. A satisfied customer can be more effective and less expensive than any other advertisement and a favourable reputation can help attract shareholders, partners and talented employees. (Rogers 2007, 177; Rubanovitsch & Aalto 2007, 158.) Thus, a startup company can break into a market and build competitive advantage by executing a customer-oriented sales process and a well-designed sales after-care.

6 Summary of theory

The theoretical part of this thesis consists of four main components: B2B sales strategy, competitive strategy, pricing strategy and B2B sales process. The latter three combined form the basic structure of B2B sales strategy presented in this thesis. When building a B2B sales strategy, a startup company should understand organisational buying process and how to build a successful sales organisation. An effective sales organisation is especially important to startup companies that are looking to break into a market. The process of building a B2B sales strategy in a startup company is illustrated in Figure 35.

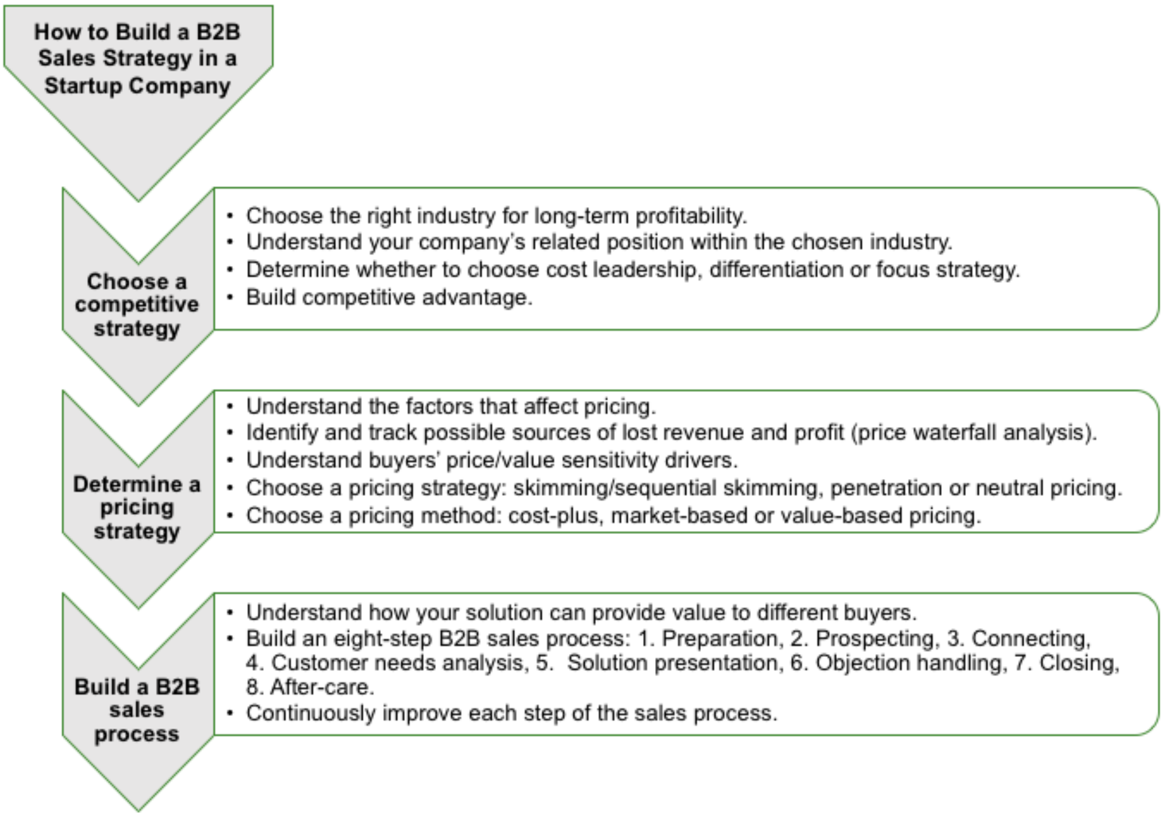

Figure 35. How to build B2B sales strategy in a startup company – summary of theory

To build a successful B2B sales strategy, a startup company needs to choose the right industry for long-term profitability and understand the company's relative position within that chosen industry. The fundamental factors of competitive strategy can be adapted in a similar way by both startup companies and already established companies. A startup company should determine its value chain and diagnose the competitive forces within the industry to determine whether it will choose cost leadership, differentiation or focus strategy. Cost leadership is a great way to build competitive advantage if a company can recognise the cost drivers of its value activities and control them successfully or reconfigure its value chain and/or downstream value. By sustaining a cost leadership strategy and relative cost position that is lower than that of competitors', a company will achieve competitive advantage.

Differentiation strategy is an excellent option for a company that seeks to gain competitive advantage by differentiating its product from competitors' products. A company should diagnose buyer's value chain and understand what impact the company can have on that value chain by analysing the sources of uniqueness in the company's own value chain. The company should also identify the ranked buyer purchase criteria, diagnose the cost of sources of differentiation and configure the value activities in a way that generates the most valuable differentiation for the buyer relative to cost of differentiating. The company should also test the sustainability of the chosen differentiation strategy and aim to continuously decrease the cost in those activities that do not impact the chosen forms of differentiation. Differentiation strategy is very useful especially for products that can be easily differentiated from competitors' products.

A company can also use cost focus or differentiation focus strategy to concentrate its efforts on one particular segment. With focus strategy, a company can achieve competitive advantage within that one chosen segment. However, the company cannot achieve cost leadership or differentiation industrywide. It is also important to remember that the focus strategy limits the overall market share that a company can gain. Therefore, focus strategy can be seen as a trade-off between sales volume and profitability.

Choosing a successful pricing strategy and pricing method can be tricky. A company should understand the factors that affect pricing and use analysis, such as price waterfall analysis, to identify and track the possible sources of lost revenue and profit. Understanding buyers' price/value sensitivity drivers is also crucial when determining the price of a product because the price should reflect buyers' perception of value. A company can choose to use skimming/sequential skimming pricing, penetration or neutral pricing strategy. The choice should be based on a company's objectives, buyers' perception of value and price sensitivity, competitors' prices and competitive environment.

To succeed at skimming/sequential skimming pricing, a company needs a right competitive environment. Skimming pricing strategy can be used as long as the product or service is so new or different that the buyers cannot determine whether the price is too high. Long-term profitability while utilising skimming pricing requires competitive protection that inhibits competitors from offering lower-priced alternatives. It is important to understand that once the company has "skimmed the cream" of buyers at the upper end of the demand curve, that market is saturated. The company can then use sequential skimming pricing and lower its price to sell to the next most profitable buyer segment and thus the company maintains its sales. Startup companies can benefit from using the skimming and sequential skimming pricing strategy in several situations. For example, if a company positions its new product as better than competitors' products, its price can be higher than that of competitors'.

Penetration pricing strategy aims to break into a market with a low-priced product that may have a lot of alternatives and may not differentiate from those alternatives. A company that utilises penetration pricing strategy sets a price low enough to attract and maintain a large customer base. This strategy can be beneficial for a startup company that seeks to gain market share as quickly as possible. Unlike penetration pricing, neutral pricing strategy aims to minimise the importance of price as a marketing instrument in favour of various other tactics that a company thinks are more cost-effective or otherwise better for a particular market. Neutral pricing strategy is commonly used in industries that have relatively value-sensitive buyers, ruling out skimming/sequential skimming strategy, and relatively volume-sensitive competitors, ruling out successful penetration pricing strategy.

A startup company should also choose a pricing method. The possible methods include cost-plus, market-based and value-based pricing. Cost-plus pricing is a simple method that allows a company to set a price that not only covers direct labour and material costs of a product, such as raw materials and production wages, and the overhead costs for the product, such as rent, but also adds a markup percentage to the sum of costs to create a profit margin. However, cost-plus pricing ignores buyers' needs and price sensitivity and competitors' prices. Thus, cost-plus pricing can, in most cases, be seen as inferior to market-based and value-based pricing.

Market-based pricing is based on continuous negotiation between buyers and sellers. A company will compare its product with competitors' products to set a price for the product. For example, if the product has better features than competitors' products, the company can set the price to same level as competitors, thus providing more value to buyers at the same price or set a higher price level because of better features. When setting the price, the company will consider buyers' price sensitivity and perception of value and may divide buyers in segments according to differences in price sensitivity. Because of these factors, market-based pricing can be a very useful for most companies and is usually a more profitable option that cost-plus pricing.

Value-based pricing is based on the value or benefit a product or service provides for a buyer and can be seen as the ideal choice of pricing method for most companies. Value for money is the fundamental factor in business and buyers often follow the same rule. Although different factors, such as cost price, competitors' prices, inflation or interest rates can impact a company's pricing decision, the value to the buyer should be the main concern. A company can utilise value proposition to communicate the value to buyers in an understandable way. Value proposition, which was developed to convert buyer value into quantified, monetary benefits, is an important instrument for value-based pricing. By quantifying value, a company converts competitive advantages its product or service creates into financial buyer benefits. Competitive advantages usually create either qualitative or quantitative benefits for buyers, or both. Quantitative benefits can be divided into risk reductions, revenue/margin improvements, capital expense savings and cost reductions, and are always related to financial benefits.

Qualitative benefits allow buyers to reach their goals in a more efficient way (process benefits). Qualitative benefits include process benefits such as relationship benefits and ease of doing business. The sum of qualitative and quantitative benefits equals total buyer value. Because of this, a company that utilises value-based pricing should use value proposition to demonstrate the total buyer value.

Total buyer value is also important for a customer-oriented B2B sales process that focuses on the different kinds of values that the product or service can create. The chance of finding the right solution and closing the sale is higher when a salesperson takes a customer-oriented approach on each stage of the sales process. B2B sales process can be divided into eight steps: 1. Preparation, 2. Prospecting, 3. Connecting, 4. Customer needs analysis, 5. Solution presentation, 6. Objection handling, 7. Closing and 8. After-care.

During the preparation stage, the sales organisation and salespeople conduct market research to find out everything they need to know about the current demand and supply. Besides understanding the current demand in the market place, the sales organisation needs to stay informed of not only the products and services of competition, but also the organisation's own products. The sales organisation should also prepare all the necessary sales materials and set up a database, such as CRM, for customer data.

The circumstances around the world are constantly changing and it is not uncommon for companies to lose a certain percentage of customers annually. Because of the customer turnover, it is important that the sales organisation focuses enough resources on prospecting to replace the lost customers. An efficiently conducted prospecting process will constantly generate new leads. A good prospect has a need that the sales organisation's product or service can satisfy. A good prospect also has the ability to pay and authority to buy. Besides these, a good prospect can be approached favourably and is eligible to buy. To find new leads, many startup companies utilise common methods such as telemarketing, internet, company website, networking, webinars and business fairs, social media platforms, and lists and directories.

The objective of the connecting stage is to draw the prospect's interest to the product or service and schedule a meeting with the prospect. Phone calls and different forms of messaging are often the simplest and cheapest ways to contact the prospect, and that is why those methods can be easily utilised by any startup company. The salesperson should be able to convince the prospect of the value of the product or service. It is important to remember that the prospect will want to meet with the salesperson if the prospect believes that the meeting is valuable.

During the first meeting, the salesperson should conduct customer needs analysis by asking specific question to find out more about the prospect's needs and problems. The questions should be designed to encourage the prospect to think about the problems and needs from a new perspective. Rackham's (1996) SPIN model is an effective model for customer needs analysis. The SPIN questions form a process of exploration and understanding focused on the prospect's difficulties, problems and needs.

After a well-conducted customer needs analysis, the salesperson knows what solution would create the highest value for the prospect. The objective of the solution presentation is to find the right solution for the prospect's problems. The solution presentation is not only about offering the solution, but also about answering the question: "Why should I purchase this product or service?". A good salesperson uses only those sales arguments that are important for the prospect. The arguments can be based on the Feature-Benefit-Impact table. Features are neutral facts that describe the characteristics of the offered solution. Advantages show how the offered solution or its features can be utilised or can help the prospect. Benefits describe how the offered solution satisfies the prospect's needs. A persuasive solution presentation should be straightforward and not too complicated. However, a buyer might have objections even after a perfectly executed solution presentation.

Objections are a natural part of the sales negotiation and are often an indicator of prospect's interest towards the offered solution. However, objections are not buying signals, but rather questions that the prospect is asking because there is something that makes the prospect unsure or doubtful. The salesperson's objective is to give the prospect a good reason for making the purchase decision and that is why it is crucial to answer the objections and win the prospect's trust. Objections can be based on rational, emotional, personal or tactical reasons and the salesperson can use several different methods to tackle objections.

The objective of the sales negotiation is gain commitment from the prospect and close the sale. After a well-executed sales negotiation, it is natural for the salesperson to ask for closing the sale. There are several different closing techniques that the salesperson can utilise. The salesperson is always responsible for taking the sales process forward and closing the sale.

The B2B sales process does not end after the sale is closed. A company should concentrate on customer after-care. In many organisations, the increases in sales from one year to the next stem from increasing the revenue from not only new customers, but also existing customers. Good customer relationships and a high customer retention rate are important to all companies and correlate strongly with the success of a company.

Building a successful B2B sales strategy can be challenging for a startup company. However, by making the right strategic choices during each step of the building process, a company can create a profitable business model and achieve sustainable competitive advantage.

7 Product: Handbook - How to Build a B2B Sales Strategy in a Startup Company

This chapter presents the project plan and schedule of the thesis process and describes the material and research methods used in the process. This chapter also describes how the thesis process was executed and how possible risks were assessed.

The idea for a project-oriented thesis originated from the combination of the author's work experience in international B2B sales and business development in a startup company and Haaga-Helia StartUp School's need for a sales strategy learning package for its students. The representatives of StartUp School emphasised that the students needed information and guidance on building a sales strategy in B2B business sector. The author's own personal experience and observations resulted in a B2B sales strategy model that consists of competitive strategy, pricing strategy and B2B sales process. Each of those subjects could act as a subject for an individual thesis. Thus, the thesis is longer than average. The subjects can be adapted in a similar way by not only startup companies, but also already established companies.

This thesis does not examine marketing strategy. The author and the client agreed that the B2B sales strategy itself is a broad subject and adding marketing strategy to the thesis would have made the thesis and the handbook unnecessary long. Furthermore, the requirement for the thesis was that it concentrates on B2B sales strategy. Although a marketing strategy supports B2B sales strategy, it is still a separate subject.

The objective of the thesis was to create a handbook that would be used as a study material at StartUp School. The handbook is primarily for students and entrepreneurs but can also be used by anyone who wants learn about the process of building a B2B sales strategy in a startup company. The handbook's main objective is to offer information and guidance. However, the handbook must not be seen as the be-all and end-all approach to building a B2B sales strategy. All the concepts described in the handbook can be applied directly or adapted to existing practices.

7.1 Project plan and schedule

The original project plan and schedule for the thesis process were created on a weekly level based on the precipitated thesis schedule created by Haaga-Helia University of Applied Sciences' thesis counsellors. The author's objective was to write the thesis during the spring 2018 so that he could graduate in June 2018.

The author divided the thesis process into five phases: planning, collecting source material, creating a framework of theory, writing theory and creating the product (handbook). This proved to be an effective strategy because the writing process was relatively straightforward after the thesis had a clear project plan, an adequate amount of valid and reliable source material, and a well-designed framework of theory. The author also estimated that the product part of the thesis should be done after the theoretical part because the theoretical part would support the product.

Table 5. Original project plan and schedule for the thesis process

Week	Date	Objective
2	8.1.2018	Creating the project plan and schedule
3-4		Collecting source material
5		Creating framework of theory
6		Writing introduction
7-8		Writing theory
9	2.3.2018	Writing theory and presenting the first version of the thesis
10		Receiving feedback and writing theory
11		Writing theory
12-13		Writing theory and working on the product part of the thesis
14	5.4.2018	Presenting the second version of the thesis
15		Receiving feedback and making the necessary adjustments
16-18		Making the necessary adjustments
19	1.5.2018	Handing in the thesis
20		Receiving feedback from the thesis supervisor
21-23		Evaluation and publishing of the thesis

The original schedule and weekly objectives are presented in Table 5. The author took notes of the progression of the thesis process and used the notes to assemble the final schedule of the thesis process, shown later in this chapter.

Besides creating the project plan and schedule, the author concentrated on risk assessment and management. Possible risks could have delayed or even derailed the whole thesis process and prevented the author from graduating in June 2018. Thus, this was an important part of the project plan. Table 6 presents the risk assessment and management during the thesis process.

Table 6. Risk assessment and management during the thesis process

Risk	How to minimise the risk	How to manage the risk
Getting sick.	Get enough rest and sleep.	Take a break and get better.
Other courses.	Do not take any extra courses.	-
Busy work schedule.	Ask to spend less time at work.	Schedule three “extra weeks” for writing the thesis.
Accident in the family or other force majeure.	Take any unexpected things into consideration when planning the project schedule.	Confront the issue and find time to continue the thesis process.
Problems with arranging the move to a new country.	Make sure to stay updated on important things such as housing and other arrangements.	Stay on schedule, work on the thesis according to the schedule and handle other arrangements when you find time.

When assessing the possible risks, the author considered not only the most probable risks, such as getting sick, but also improbable ones, such other courses or other force majeure. The author had made appropriate preparations before starting the thesis process to minimise the number of possible threats. A well-designed project plan and schedule also lowered the vulnerability of the thesis process.

7.2 Material and research methods

The research method utilised in the thesis process was active participant observation which was conducted during a 13-month employment in a startup company. The author also used literature and online sources. The theoretical part had a high importance in this project-oriented thesis because it supports the product part. A project-oriented thesis should be based on reliable, valid and versatile source material. For this reason, when choosing the source materials, the author emphasised the validity and reliability of the sources and evaluated the material based on the publisher, time of publishing, context and prominence.

Besides gathering source material, the author also utilised his own experience of working in a startup company. The author conducted active participant observation during his 13-month employment. Participant observation can be active or passive. In the active participant observation, a researcher can actively influence the research phenomena by actively participating in project or development work, for example. (Eskola & Suoranta 2000, 98-99.) The author utilised the active form of participant observation as a research method in his business development role. The information gained during the observation and the author's own hands-on experience influenced the structure of the B2B sales strategy presented in this thesis.

7.3 Execution

The final schedule (Table 7) differed from the original schedule because the author overestimated the time needed to finish the thesis process.

Table 7. The final schedule

Week	Date	Objective
2	8.1.2018	Planning the project schedule
3-4		Collecting source material and creating framework of theory
5		Writing introduction
6-8		Writing theory
9	2.3.2018	Presenting the first version of the thesis
10		Receiving feedback and writing theory
11-12		Finishing theory and working on the product part of the thesis
13	29.3.2018	Presenting the second version of the thesis
14		Receiving feedback and making the necessary adjustments
15	11.4.2018	Handing in the thesis
16-18		Evaluation and publishing of the thesis

The thesis process began on January 8th 2018 and the author spent week 2 by planning the project schedule. The schedule was designed in a way that the author would have three extra weeks (weeks 16-18) to make necessary adjustments if needed. Weeks 3 and 4 were used to collect source material. This phase turned out to be relatively quick and the author was able to create the framework of theory during week 4 as well as write the introduction during week 5. The author then spent weeks 6, 7 and 8 by writing theory. During week 9, on March 9th, the author presented the first version of the thesis to the thesis counsellors. After receiving feedback, the author finished the theoretical part of the thesis during week 11 and started working on the product part of the thesis. The product was finished at the end of week 12 and the author presented the second version of the thesis on March 29th (week 13). The thesis was finished on April 11th, approximately three weeks ahead of the original schedule.

8 Discussion

The product of this project-oriented thesis is based on the theoretical part of the thesis. The thesis achieves its objective of creating a handbook (the product) for StartUp School. The product is a more straightforward and easier-to-apply version of the thesis. Thus, the product achieves its objective of offering information and guidance.

The theoretical part examines different concepts behind the process of building a B2B sales strategy in a startup company and the product seeks to provide a more concise view of that process. The thesis and its product are beneficial to not only StartUp School and its students, but also entrepreneurs and everyone who wish to learn more about building a B2B sales strategy in a startup company. The thesis and its product can also be utilised in already established companies as the concepts presented in the thesis can be applied regardless of a company’s age or stage of development. The author chose to write the thesis in English so that the thesis would have a wider target audience and could benefit as many people as possible. Altogether, the thesis and its product achieve their respective objectives and can benefit various companies, students, entrepreneurs, academic programmes, teachers and people who are interested in B2B sales strategy.

During the thesis process, the author made sure that the thesis would stand the test of time as well as possible. Competitive strategy and pricing strategy will always be developed and slight changes or variances may appear, but the fundamental concepts presented in the thesis will most likely stay relevant in the future. However, B2B sales process is under a constant change due to digitalisation and ongoing change in buyer behaviour. Considering the future changes and keeping the B2B sales process presented in the thesis as durable and time-insensitive as possible was a challenge that the author wrestled with during the thesis process. As the end result, the author decided to use an eight-step B2B sales process instead of four- or six-step one so that possible changes to one of the steps would have a minimal impact on the process as a whole. The author also emphasised the buyer value and value creation throughout the thesis to build a customer-oriented view of B2B sales strategy.

Although small changes may occur in the future, the thesis and its product are not only relevant and beneficial to the intended target audience, but also relatively time-insensitive. The approachable and straightforward view on B2B sales strategy and its components make the thesis and its product easy to utilise. The product can also act as a standalone source of information and guidance, but it would be advisable to familiarise oneself with the thesis if one wants to gain a more comprehensive understanding of the B2B sales strategy.

8.1 Conclusions and suggestions for further research

Building a B2B sales strategy in a startup company requires an understanding of competitive strategy, pricing strategy and B2B sales process. Strategic choices should be aligned with the company's objectives and the company should concentrate on building buyer value on each area of the B2B sales strategy. Understanding the strategic choices involved in building a B2B sales strategy can be beneficial for any company in the B2B sector, regardless of a company's age or stage of development.

StartUp School offers a great coaching and mentoring for its students. However, to ensure the continuous development of its students, StartUp School could have a higher focus on strategy and especially on sales strategy. It is important to provide the current and future entrepreneurs with an in-depth knowledge of strategic choices needed to sell efficiently and create revenue. For example, combining theory of B2B sales strategy with challenging business case practices would most likely translate into tangible value for the students. The thesis and its product can be utilised on multiple study courses and in business case practices that involve B2B sales and strategy. The study courses and case practices would offer the students an excellent chance to deepen their understanding by solving a real-world business case. Thus, the students would be more competent to tackle the challenges that face the entrepreneurs who are aiming to build a successful B2B sales strategy.

8.2 Evaluation of the thesis process and personal learning

The author's project plan and schedule for the thesis process were based on the precipitated thesis schedule created by Haaga-Helia University of Applied Sciences' thesis counsellors. The thesis process was conducted successfully without any problems. Despite working and finishing his final study courses, the author finished the thesis ahead of the anticipated schedule and deadlines. The diligent approach to the process and good time management skills enabled the author to not only finish the thesis ahead of schedule, but also concentrate on the thesis' quality and usefulness. The author viewed B2B sales strategy as an extremely fascinating subject and enjoyed examining the subject from the viewpoint of a startup company.

The author had a relatively good understanding of competitive strategy, pricing strategy and B2B sales process before starting the thesis process. However, during the process the author gained a more in-depth knowledge on each of those subjects and a more comprehensive understanding of B2B sales strategy. The author also found that combining competitive strategy, pricing strategy and B2B sales process into one thesis was not as straightforward as what he had hoped for. Each one of the subjects could have been examined more extensively. However, the thesis needed to have a uniform structure and each of the subjects had to be connected in a way that would allow the reader to form a comprehensive understanding of B2B sales strategy.

The thesis process helped the author enhance his time management skills and understanding of strategic choices needed in building a successful B2B sales strategy. The thesis and its product can benefit multiple people and businesses by offering information and guidance. Startup companies face challenges right from the start and this thesis provides startup companies with the necessary information to enter into a market, gain competitive advantage and market share, and create revenue.

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Appendices

Appendix 1. Handbook - How to Build a B2B Sales Strategy in a Startup Company

How to Build a B2B Sales Strategy in a Startup Company

Konsta Laitinen

Preface

Starting a business can be easy. Selling your idea to others is not. Building your business and having success requires making the right strategic choices and conducting an efficient sales process while creating buyer value.

This handbook aims to help current and prospective entrepreneurs with starting their own business and creating revenue. I have worked in international B2B sales and business development in a startup company and this experience has taught me a lot. I have seen multiple successes and failures when finding ways to increase sales, and I know how difficult the challenge can be.

This handbook is the product of the thesis “How to Build a B2B Sales Strategy in a Startup Company” and is based on the theory presented in the thesis. This handbook is meant to help you understand how to start selling your product or service and how to gain competitive advantage by building an effective B2B sales strategy.

I hope you find the content of this handbook useful and informative. The B2B sales strategy presented in this handbook is designed to be easily implementable. You can immediately start to utilise the concepts presented in this handbook and build a B2B sales strategy for your company.

Best of luck,
Konsta Laitinen 2018

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1 B2B Sales Strategy

The simplest way to increase revenue is to increase sales and that is why it is important for a startup company to build an effective sales strategy. A modern B2B sales strategy focuses more on creating value for the buyers than just pushing products to the market. (Kaario 2009, 17, 28.) The B2B sales strategy can be divided into three main components: competitive strategy, pricing strategy and B2B sales process (Figure 1).

One of the most important things that a startup company needs to consider is how large is the market share and sales volume that the company can achieve during its first five years (McKinsey & Company 2001, 75). To break into a market and establish a successful B2B business, a startup company needs to build a successful sales strategy. To build a successful sales strategy, a company needs to know where and how to compete, and how to effectively price and sell the product or service. (Lambing & Kuehl 2000, 153.)

Figure 1. The B2B Sales Strategy.

Besides making strategic choices, a startup company should build a seamlessly cooperating sales organisation and understand organisational buying process. When building a sales organisation, a company should determine how many salespeople and what different roles are needed to achieve the sales targets. A sales organisation should have an appointed sales executive, who develops short and long-term plans and manages the sales organisation. (Castleberry & Tanner 2011, 442-443.)

A startup company should also create a basic compensation and evaluation system. The compensation system should encourage the salespeople to sell the products or services at a profitable price. A stable and well-designed compensation system rewards the salespeople for their efforts and results and attracts talented salespeople to join the company. In a basic compensation system, the salespeople can earn a base salary, which is not based on performance. The salespeople can also earn incentive pay, which is partially based on performance. Incentive pay can be a bonus or a commission. A bonus is paid for overall performance in certain areas. For example, for reaching a certain level of annual sales in euros. A commission can be a certain percentage of each individual sale. The compensation system is crucial when competing for the best salespeople. (Castleberry & Tanner 2011, 445.)

Figure 2. Organisational Buying Process (adapted from Bergström & Leppänen 2015, 131; Castleberry & Tanner 2011, 69)

To successfully sell to different organisations, a sales organisation needs to understand how organisations make purchase decisions. Organisational buying process can be divided into eight steps (Figure 2) to help the salespeople understand how B2B buyers make purchase decisions. (Bergström & Leppänen 2015, 131; Castleberry & Tanner 2011, 68-69.)

2 Competitive Strategy

At the heart of the success or failure of companies is competition. Competition dictates the usefulness of a company's actions that define its performance. Different industries are the arenas in which competition occurs and competitive strategy is the method for pursuing a profitable competitive position in an industry. The objective of competitive strategy is to build a sustainable and profitable position in which a company can successfully defend itself against the competitive forces that dictate industry competition. (Porter 2004a, 1-2.) The fundamental factors of competitive strategy can be adapted in a similar way by both startup companies and already established companies.

Competitive advantage helps a company differentiate itself from the competition. To achieve competitive advantage, a company needs to provide more value to the buyer than what the competition provides and that value needs to eclipse the company's costs of creating it. Superior value is generated by providing unique benefits that more than cancel out the price difference between a company's and its competitor's price or by offering lower prices than the competition with equal benefits. The two fundamental types of competitive advantage are differentiation and cost leadership. (Porter 2004a, 3.) The more competitive advantages a company has, the better chance it has to beat the competition (Lambing & Kuehl 2000, 153).

Porter (2004a, 1-2, 4, 11) has determined two central questions that determine which competitive strategy a company should choose. The first is the industries' attractiveness for long-term profitability and the different factors that determine that profitability. Different industries offer different opportunities for sustained profitability. The inherent profitability of the industry is an extremely important factor in determining the profitability of a company. The second central question that determines the choice of competitive strategy is a company's relative position within its industry. Whether a company's profitability is higher or lower than the industry average is dictated by positioning. A well-positioned company might be highly-profitable even if the industry structure is disadvantageous and the industry's average profitability is moderate. (Porter 2004a, 1-2, 4, 11.)

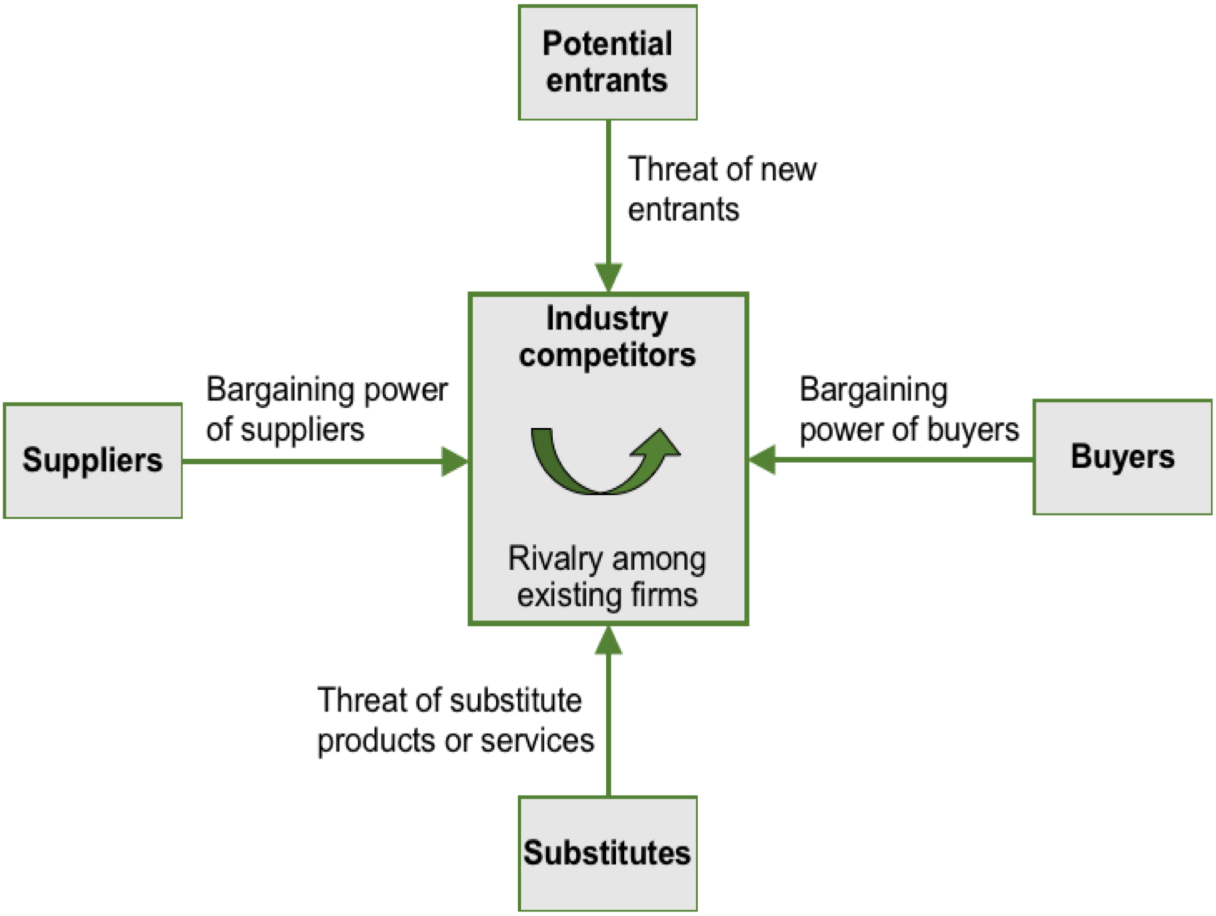


Figure 3. Five Competitive Forces that Determine Industry Profitability (Porter 2004a, 5)

Industry attractiveness is determined by rules of competition and competitive strategy arises from an understanding of those rules. The fundamental purpose of competitive strategy is to endure and shape those rules in a company's favour. In all industries, the rules of competition are manifested in five competitive forces (Figure 3), which are the rivalry among existing firms, the bargaining power of buyers, the threat of substitutes, the bargaining power of suppliers and the threat of new competitors. These five competitive forces form a collective strength that dictates a company's ability to earn rates of return on investment that exceed the cost of capital. (Porter 2004a, 4-5.)

The five competitive forces dictate the industry profitability due to the influence they have on the elements of return on investment: costs, prices and required investments of companies in an industry. The forces are also connected to each other. For example, the bargaining power of buyers and the threat of substitutes impact the prices that companies can charge and the bargaining power of suppliers influences the cost of materials. (Porter 2004a, 5-7.)

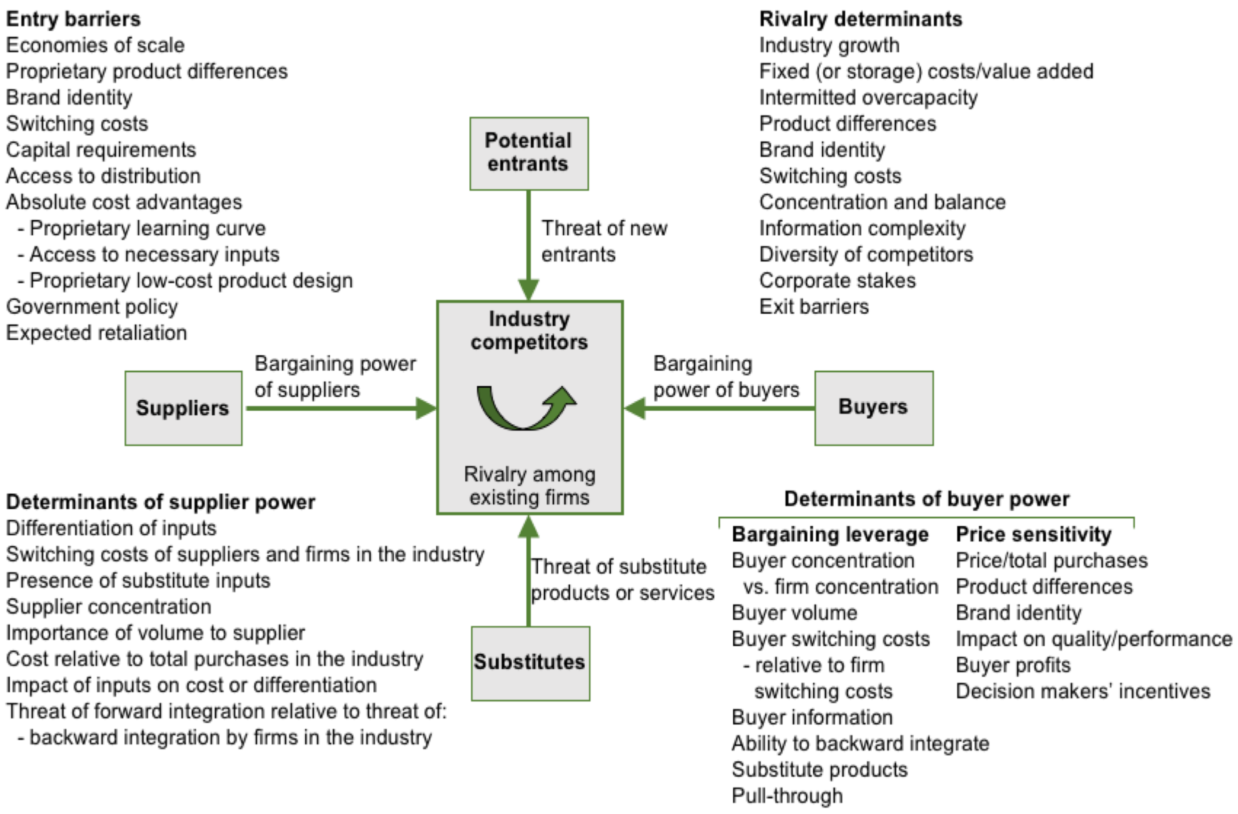


Figure 4. Elements of Industry Structure (Porter 2004a, 6)

The strengths of the five competitive forces are functions of industry structure, which describes an industry's fundamental economic and technical characteristics. The structural elements of industry structure are shown in Figure 4. Although industry structure is comparably stable, it can change over time if an industry evolves. The change of structure shapes the overall and proportional strength of competitive forces and can increase or decrease industry profitability. The most important industry trends for strategy are those that have the most impact on industry structure. (Porter 2004a, 5-7.)

2.1 Three Generic Competitive Strategies

Cost leadership and differentiation, the two fundamental types of competitive advantage, can be combined with the scope of activities for which a company aims to achieve them. This combination leads to three generic strategies, each of which aims to gain an above-average performance in an industry. (Porter 2004a, 11-12.)

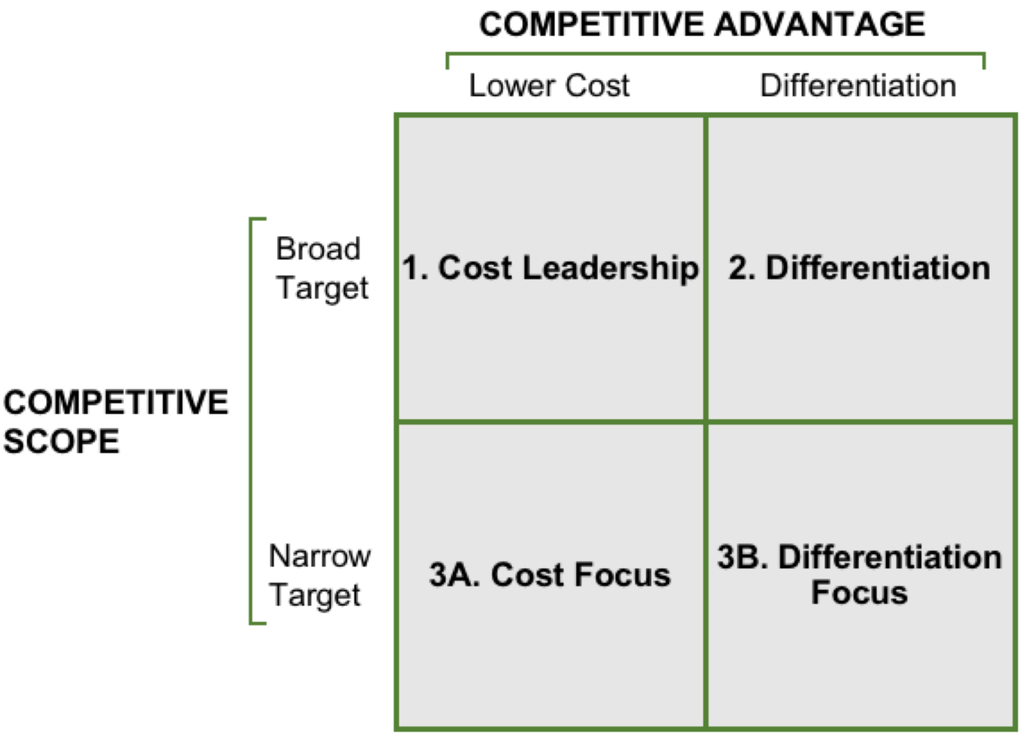


Figure 5. Three Generic Competitive Strategies (Porter 2004a, 6)

Each one of the generic strategies takes a different road to competitive advantage. They all combine the choice of competitive advantage type with the strategic target scope in which a company seeks to gain competitive advantage. The cost leadership and differentiation aim to achieve competitive advantage in a broad range of industry sectors. Conversely, the focus strategy concentrates on cost advantage (cost focus) or differentiation (differentiation focus) in a narrow sector. To achieve competitive advantage, a company must choose a competitive advantage it aims to achieve and the target scope that matches the company's objectives. (Porter 2004a, 11-12.)

2.1.1 Cost Leadership

When choosing cost leadership as a generic strategy, a company tries to become the producer with the lowest costs in its industry. The company has a broad scope and serves multiple segments within the industry. The company might even operate in other related industries. The sources of cost advantage depend on the industry structure. A company has a cost advantage when it can perform its value activities with a lower cumulative cost than the competition. A company's relative cost position is a function of not only its value chain's structure versus the structure of competitors' value chains, but also its comparative position versus the cost drivers of each value activity. (Porter 2004a, 12, 64, 97-98.)

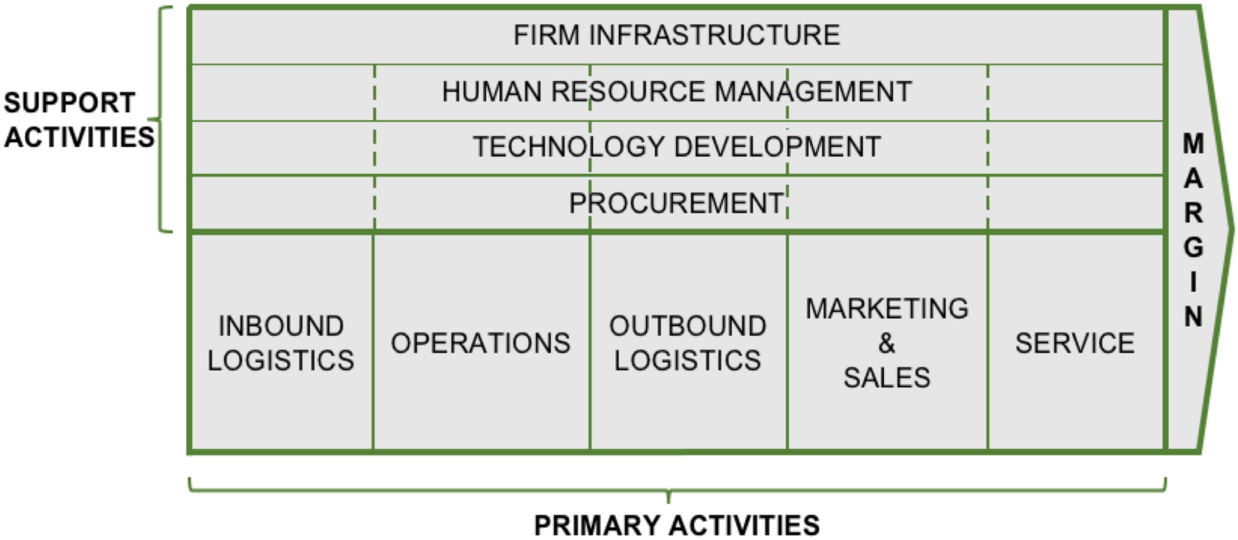


Figure 6. The Generic Value Chain and Value Activities (Porter 2004a, 6)

The objective of each generic strategy is to create value for buyers that exceeds the costs of creating that value. The value chain comprises value activities and margin and demonstrates the total value. Value activities are components which a company uses to build value for the buyers. Margin is the remainder after the collective cost of performing the value activities is subtracted from total value. Primary activities are involved in the physical creation of the product or service and its logistics, sales and after-sale service. Primary activities are supported by support activities, which provide companywide functions, human resources, technology and purchased inputs. Support activities also support each other. (Porter 2004a, 36, 38, 97.)

A company's costs and its relative cost position derive from the value activities performed by that company and the cost behaviour of those value activities. A *cost analysis* analyses the costs within the value activities and not the costs of the whole company. All value activities have their own cost structures. (Porter 2004a, 64-66, 70.)

At the start of cost analysis, a company's value chain is defined and operating costs and assets are assigned to value activities. A company should assign operating costs to the activities in which those operating costs are incurred and assets to the activities which control or most influence the use of those assets. After costs and assets have been allocated, a company can view the distribution of its costs from the value chain and may find areas for cost improvement. The value chain can separate operating costs into purchased operating inputs and human resource costs, and assets into liquid assets and fixed assets. (Porter 2004a, 64-66, 70.)

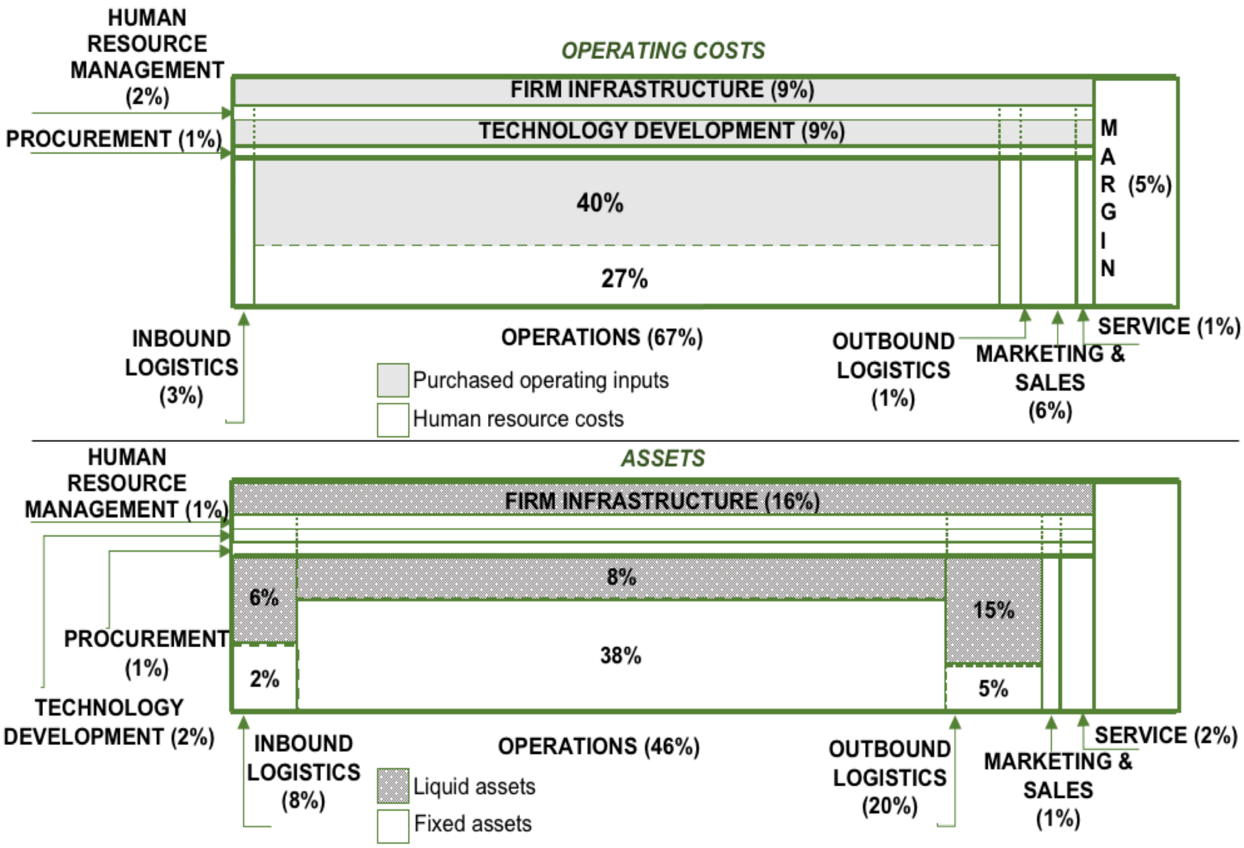


Figure 7. Distribution of Operating Costs and Assets (Porter 2004a, 68-69)

As previously stated, a company can gain cost advantage if it can perform its value activities with a lower cumulative cost than the competition. This can be achieved by controlling cost drivers or reconfiguring the value chain. The cost of each value activity can result from multiple cost drivers. The best opportunity for improving relative cost position is offered by those value activities that represent a major or an increasing portion of cost. (Porter 2004a, 70, 84, 98-100.)

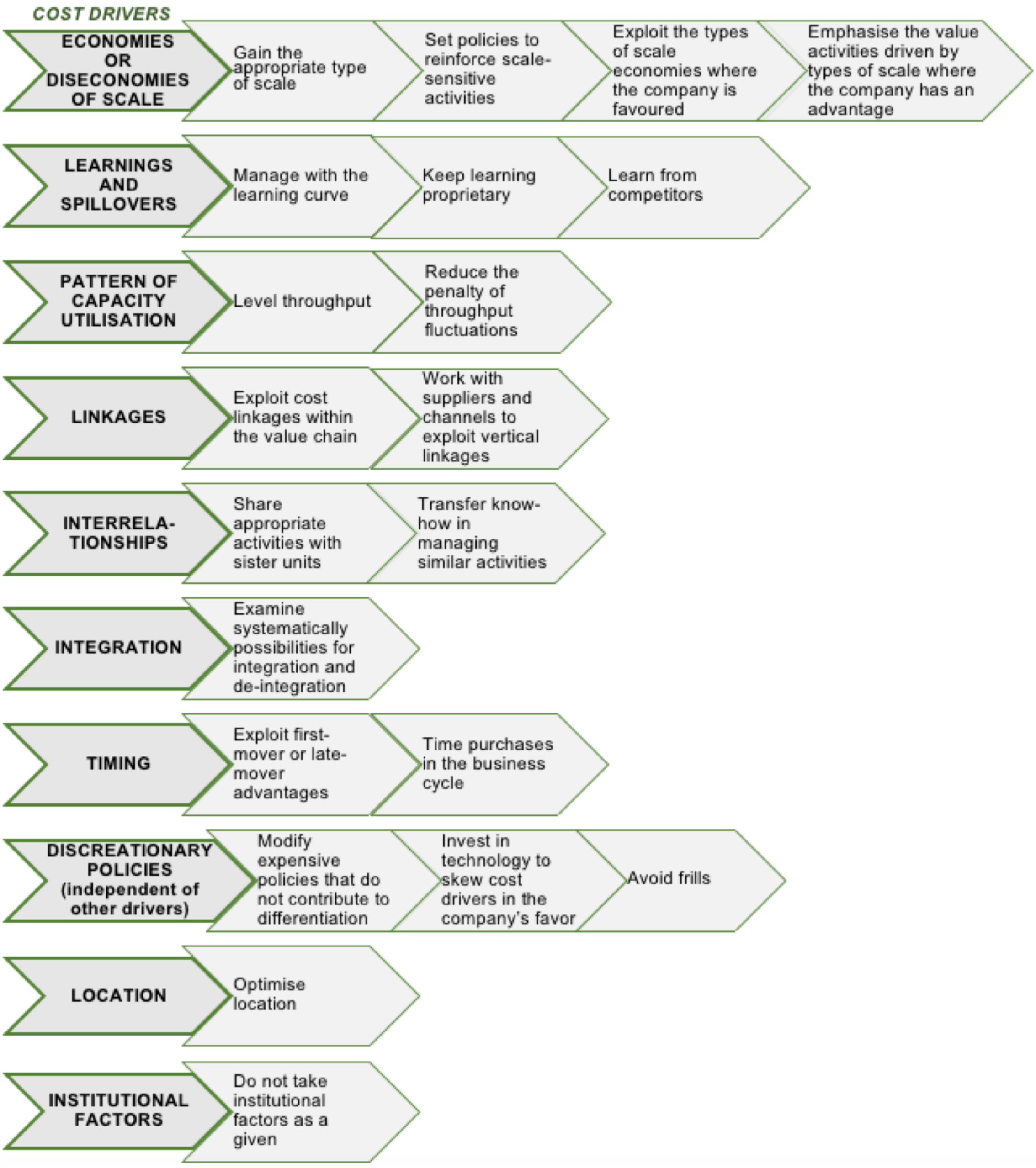


Figure 8. The Ten Major Cost Drivers and Examples of How to Control Them (adapted from Porter 2004a, 70, 73-75, 78-80, 82-83, 99-106)

Cost drivers interact with each other by reinforcing or counteracting each other. Cost drivers can reinforce each other in influencing cost. For example, a policy choice about how the company will perform a certain value activity can influence the extent of scale economies in the value activity. It is also possible for cost drivers to counteract each other and deteriorate or even cancel out each other's effects. Counteracting happens when the effort to improve relative cost position by controlling one cost driver makes the company's other cost driver worse. For example, the penalty of underutilising capacity can be increased by broad scale and constant vertical integration. (Porter 2004a, 84-87.)

A company's relative cost position depends on the cost behaviour of its value activities and the cost behaviour of a company's value activities is determined by cost drivers. A value activity's cost behaviour can result from multiple cost drivers. One cost driver might have the highest impact on the cost of a value activity, but multiple cost drivers usually interact to dictate the cost and a single cost driver cannot solely determine a company's cost position. (Porter 2004a, 84, 98-100.)

A company can diagnose the relative competitor costs by analysing the competitors' value chains and how competitors perform their value activities. A company uses the same process to analyse both its own and competitor's value chain. Lack of information can make diagnosing the competitors' costs difficult. A company can use public data and interview suppliers, buyers and others to directly estimate the cost of several of competitors' value activities. For example, a company can find out how many salespeople a competitor employs and the estimated compensation level and salary paid to those salespeople. By doing this, a company can use the information of costs of competitor's certain value activities to form an incomplete, but correct description of the competitor's costs. The company can also draw comparisons between itself and the competitor to find out the costs of competitor's value activities that cannot be directly estimated. The company needs to find out the competitor's position relative to the cost drivers of the chosen value activities and use the gained information of cost behaviour to build an estimated model the competitor's cost differences. (Porter 2004a, 98-99.)

It is often possible for a company to analyse multiple competitors simultaneously and thus increase the accuracy of competitor's cost estimates. The company can use the information it has about one competitor and cross-check that information against the information it has about other companies. By doing this, the company can to test the consistency of different value activity cost models such as scale curves. (Porter 2004a, 98-99.)

By reconfiguring its value chain, a company is able to adjust the cost drivers in a way that creates cost advantage for the company. Value chain can be reconfigured by adopting a more efficient way to produce, market, design, or distribute the product. For example, a company can create a more efficient production process, change to a new distribution channel or shift to a new advertising channel. A company needs to examine its own and competitor's value chains when determining a new value chain. For example, a company can ask three questions: 1. Is there a way to perform this particular value activity in a different way or can the value activity be eliminated? 2. Is there a way to regroup or reorder this group of connected value activities? 3. How can alliances with other companies decrease or eliminate costs? (Porter 2004a, 99-100, 107, 110.)

A company can also reduce costs by reconfiguring downstream activities. This is useful when different downstream costs, such as channel costs, make up a large portion of cost to the buyer. For example, a producer can choose to use distributor A's web store channel over distributor B's physical store channel for distribution because the web store channel has lower distribution costs than the physical store channel. By doing this, the producer has decreased the cost of getting the product to buyers. Besides choosing a more efficient downstream path to the buyer, a company can also promote consolidation or find other ways to increase the efficiency of downstream activities. In some situations, a company might integrate forward and take control of its distribution to achieve downstream efficiency. (Porter 2004a, 110-111.)

Sustainable cost advantage derives from multiple value activities and successful cost leaders reconfigure their value chains frequently to create cost advantage. It is important for all companies to pursue cost reduction in all activities that do not have a negative effect on differentiation. After identifying its value chain and diagnosing the cost drivers of important value activities, a company can grow cost advantage by controlling the cost drivers better than the competition. (Porter 2004a, 99-100, 107.)

According to Porter (2004a, 118), cost leadership strategy and strategic cost analysis can be summarised in the following steps:

1. Determine your value chain and assign costs and assets to that value chain.
2. Identify the cost drivers of each value activity and how those cost drivers interact.
3. Diagnose the value chains of competitors and find out competitors' relative costs and the sources of cost differences.
4. Build a strategy to decrease relative cost position by controlling cost drivers or reconfiguring the value chain and/or downstream value.
5. Make sure that your cost reduction efforts do not negatively impact differentiation or make a calculated decision to do so.
6. Test the sustainability of the chosen cost reduction strategy.

2.1.2 Differentiation

Differentiation is the second one of the three generic competitive strategies and the second competitive advantage a company can achieve. A company can differentiate itself from the competition by being unique at something that is valuable to buyers. Differentiation derives from a company's value chain (the value activities a company performs and what impact those value activities have on the buyer). Figure 9 shows examples of how activities in value chain can contribute to differentiation. (Porter 2004a, 62, 119-122.)

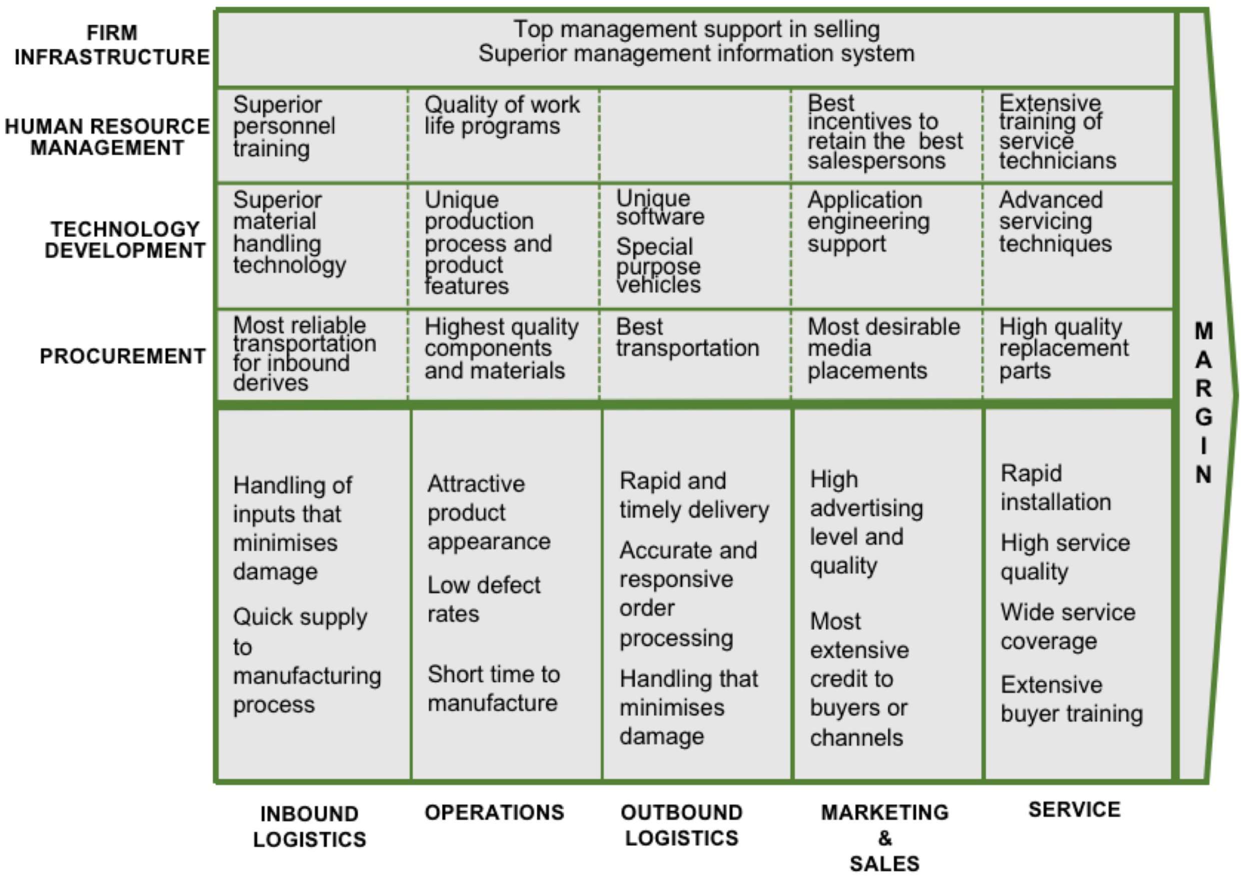


Figure 9. Representative Sources of Differentiation in the Value Chain (Porter 2004a, 122)

Each value activity can create uniqueness. Effective differentiators use various support and primary activities to create uniqueness. (Porter 2004a, 120-122.)

The uniqueness of a company in a value activity is dictated by uniqueness drivers, similar to the cost drivers introduced earlier. If a company is unable to identify uniqueness drivers, it cannot successfully create new forms of differentiation or analyse the sustainability of its current differentiation. (Porter 2004a, 124-125.) The major uniqueness drivers are listed in Figure 10.

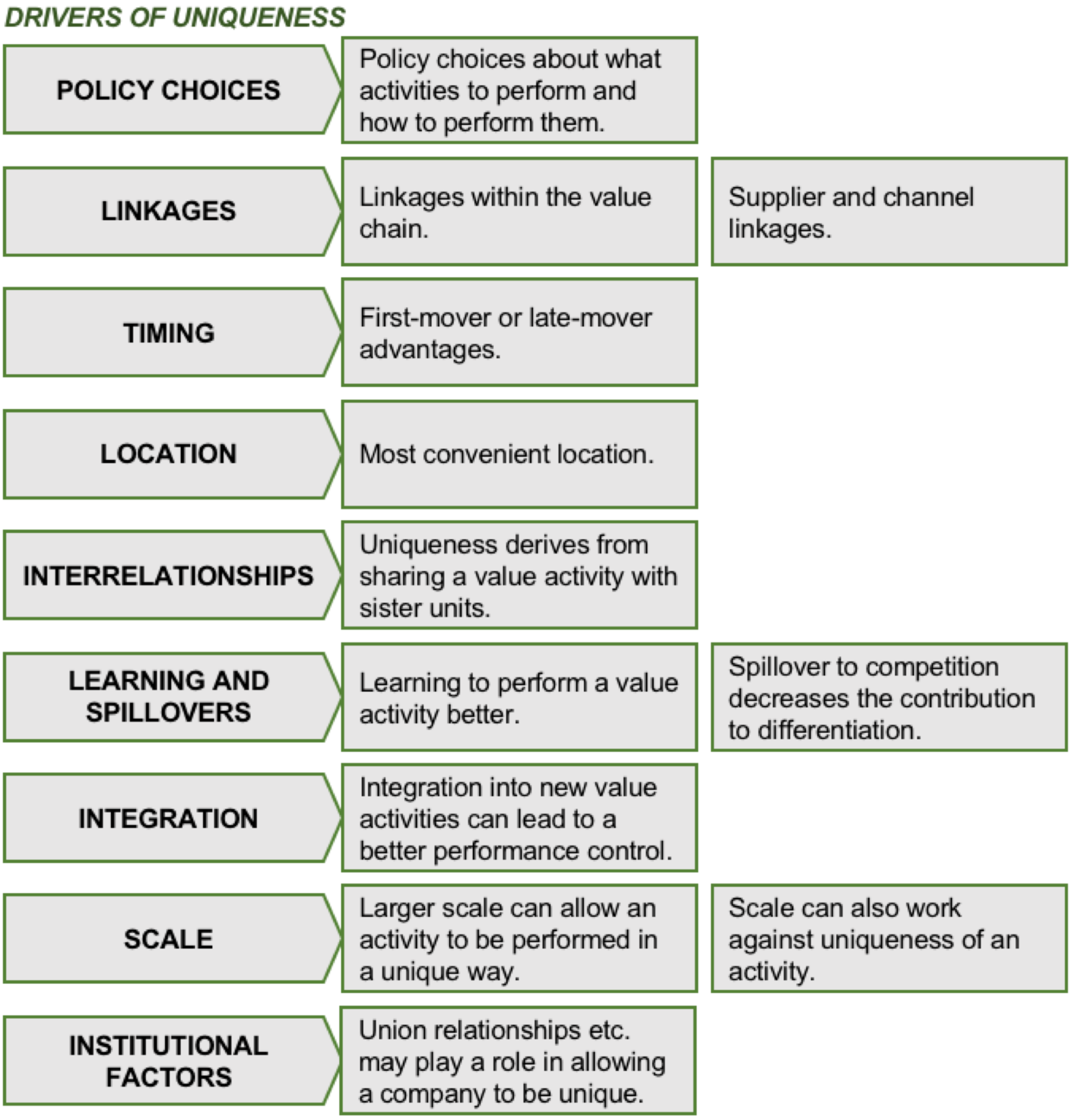


Figure 10. The Major Drivers of Uniqueness and Examples of Them (adapted from Porter 2004a, 124-127)

A company also needs to understand buyer perception of value and buyer purchase criteria to create uniqueness that leads to differentiation. A company is a successful differentiator if it is able to create value for buyers that generates a price premium that exceeds the cost of creating that value. (Porter 2004a, 130.)

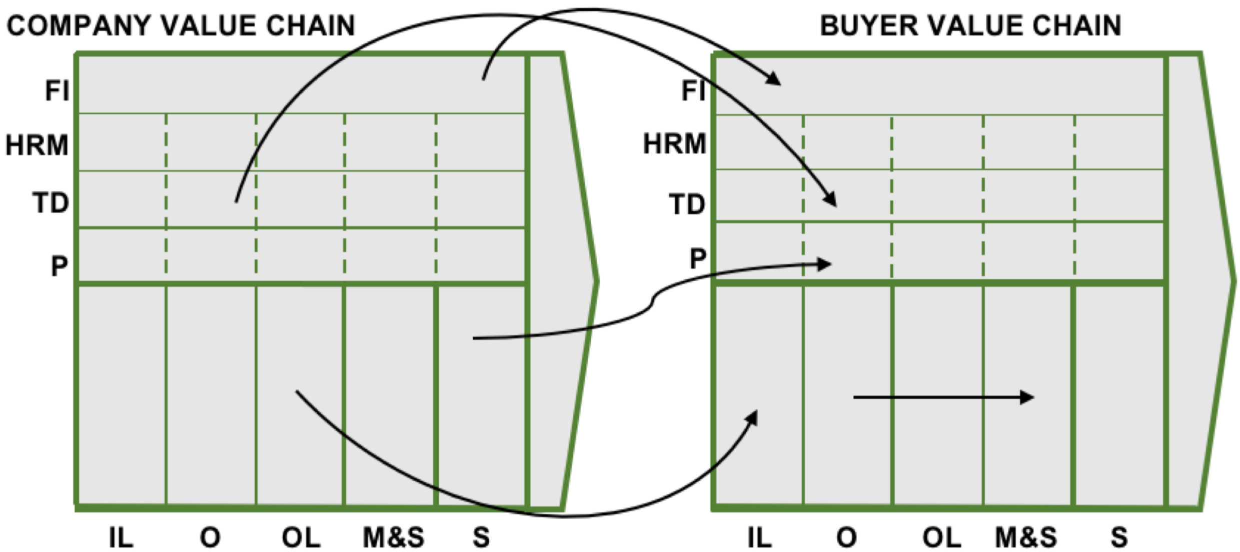


Figure 11. Representative Linkages Between The Company and Buyer's Value Chain (adapted from Porter 2004a, 133)

Differentiation derives from creating unique buyer value. By lowering the cost of a buyer or increasing the performance of a buyer, a company can justify a price premium and the buyer will agree to pay that price. The impact a company's value chain has on a buyer's value chain will decrease the cost of the buyer or increase the performance of the buyer. Thus, the links (Figure 11) between a company's value chain and a buyer's value chain determine the value the company creates for the buyer. (Porter 2004a, 131-133, 153-154.)

A company can provide direct input into one of the buyer's value activities or have an indirect impact on the value chain of the buyer. Indirect impact exceeds the value activity in which the product or service is meant to be used. For example, the weight of a laptop computer is important because it is moved around, but the weight does not matter if the buyer activity is viewed simply as creating presentations and typing. (Porter 2004a, 131-133.)

Buyers can have difficulties in evaluating the value a company provides to its buyers. For example, even a test drive and pedantic inspection of a transportation truck does not allow the buyer to completely evaluate the truck's fuel usage, comfort, repair frequency and durability. Furthermore, the buyer cannot know how the other value activities performed by the company will affect the total value of the truck. It is important to understand that the price premium a company commands is influenced by the value delivered to the buyer and how the buyer perceives the received value. Buyers will only pay for the value they can perceive. A company that provides an average value but is able to signal that value effectively can command a higher price than a company that provides a higher-than-average value but signals it less effectively. (Porter 2004a, 138-140.) This is illustrated in Figure 12.

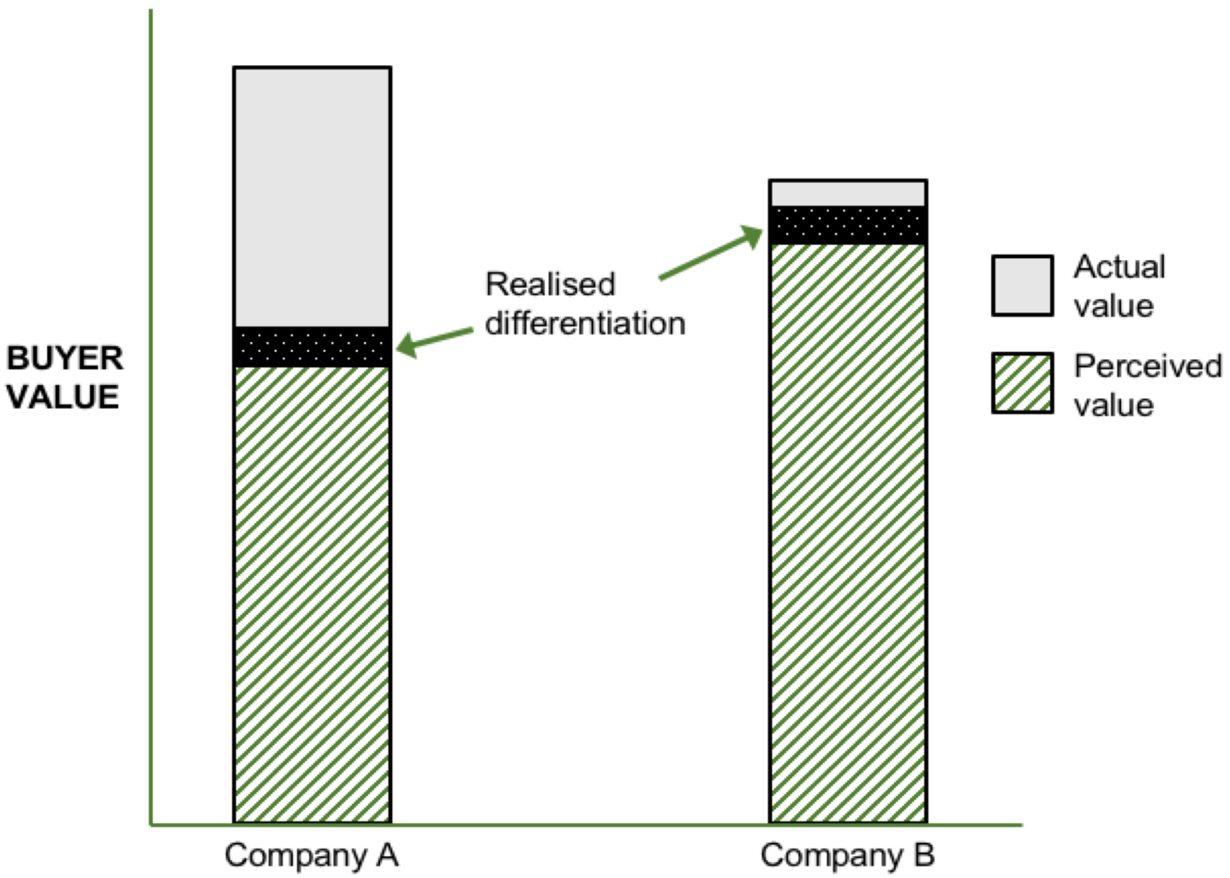


Figure 12. Actual Versus Perceived Buyer Value (Porter 2004a, 140)

Porter (2004a, 142) divides buyer purchase criteria into use criteria and signalling criteria. Use criteria describe purchase criteria that derive from the approach a company uses to increase the performance of the buyer or decrease the cost of the buyer. Use criteria can include different factors such as product features, delivery time and product quality. Thus, use criteria describe what generates buyer value and derive from the links between a company's value chain and the value chain of the buyer. (Porter 2004a, 142-144.)

Signalling criteria describe purchase criteria that derive from value signals or means that the buyer uses to judge or infer what a product's actual value is. Signalling criteria can include different factors such as reputation and advertising. Signalling criteria stem from the value signals that impact the buyer's perception of the company's ability to satisfy the buyer's use criteria. For example, the value activities a company performs or reputation or image can be a part of signalling criteria. (Porter 2004a, 142-144.) Figure 13 presents an example of buyer purchase criteria for a chocolate chip cookie product.

	Use criteria	**Signalling criteria**
End user	Taste Nutritional value Texture Appearance *Price* Availability Package size	Advertising Shelf positioning In-store displays Availability
Channels	Speed of order processing *Channel margin* Reliability of service Promotional support	Frequency of sales calls

Figure 13. Ranked Buyer Purchase Criteria for Chocolate Chip Cookies (Porter 2004a, 148)

Both use criteria and signalling criteria need to be identified as accurately as possible so that they can be used in developing differentiation strategy. Because use criteria measure buyer value sources and usually determine signalling criteria, a company should identify use criteria first. When analysing buyer purchase criteria, a company should always include direct contact with the buyer. To understand buyer purchase criteria, a company needs to identify the value chain of the buyer and perform analysis of all the current and potential linkages that exist between the company's value chain and the buyer's value chain. A company can identify signalling criteria by understanding the process the buyer uses to form opinions and judgements about the company's ability to satisfy use criteria. The buyer purchase criteria identifying process should produce a ranking and sorting of purchase criteria. (Porter 2004a, 146-148.)

Price should be placed according to the ranking the buyer places on it. To emphasise the different factors of buyer purchase criteria and to explain the actions that need to be taken to satisfy each criterion, the use criteria and signalling criteria need to be separated. Both channel's and end user's use criteria can by divided into factors that increase the performance of the buyer and decrease the cost of the buyer. The use criteria can also be divided into easily measurable ones and those that a buyer has difficult time perceiving (Figure 14). It is possible that satisfying a use criterion increases performance and decreases cost, but usually one of the value creation modes is predominant. For example, in the chocolate chip cookie example in Figure 13, taste relates to the performance of a buyer and availability is a measure of the shopping cost of a buyer. (Porter 2004a, 146-149.)

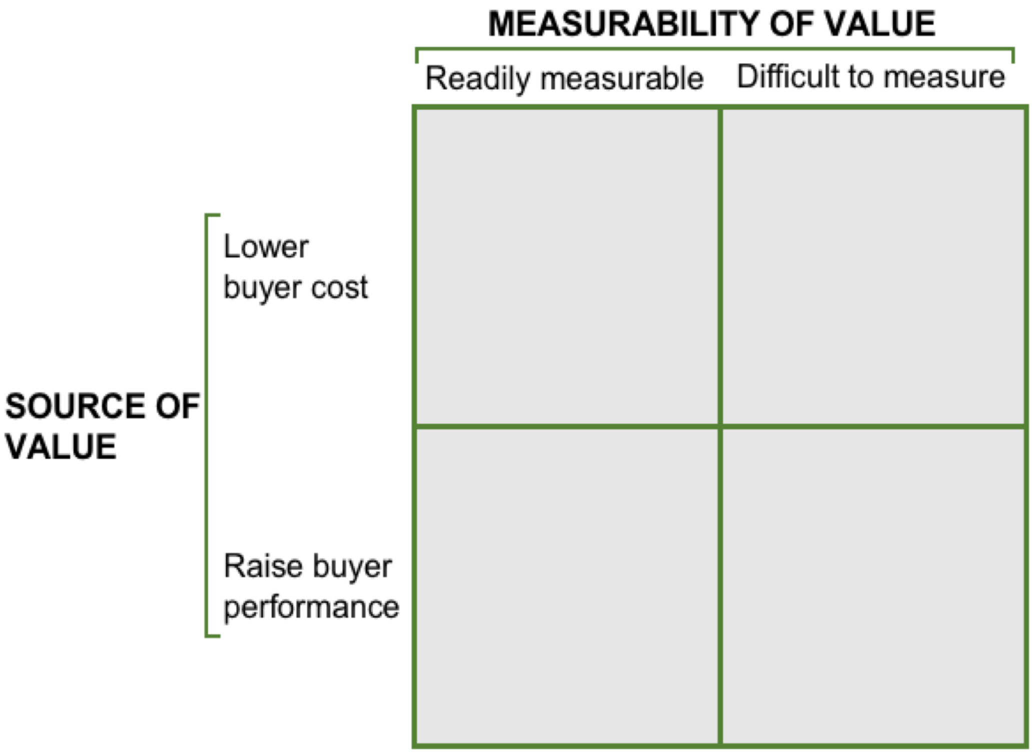


Figure 14. The Relationship Between Use Criteria and Buyer Value (Porter 2004a, 149)

A company should recognise the differences in use criteria (Figure 14) because differentiation that decreases buyer's cost can be a stronger justification for paying a price premium than performance raising differentiation. For example, financial pressures can make buyers willing to pay premium exclusively to companies that can successfully demonstrate that they can decrease the cost of a buyer. Differentiation that can be linked to the value of a buyer is easier to translate into a price premium than differentiation that creates value by means that are difficult to perceive or measure. Differentiation on the right side of Figure 14 is often expensive to communicate and might require a large investment in signalling. (Porter 2004a, 149-150.)

It is important to understand that differentiation can be costly. Achieving uniqueness often requires that a company finds ways to perform its value activities better than its competition. The cost drivers of the value activity in which a company seeks to achieve uniqueness create the cost of differentiation. There are two related types of the relationship between cost drivers and uniqueness: 1. Cost drivers may be influenced by drivers of uniqueness (what makes a value activity unique). 2. The cost of uniqueness can be affected by the cost drivers. When trying to achieve differentiation, a company may deliberately add costs. For example, the effect of location cost driver can increase cost when a company moves an activity closer to the buyer. However, it is also possible that making an activity unique decreases cost. For example, integration can create uniqueness but also decrease cost if integration is a cost driver. Thus, the cost drivers have not only a significant impact in determining the differentiation strategies' success, but also substantial competitive implications. (Porter 2004a, 127-129.)

Differentiation strategy needs to be sustainable. Sustainability of differentiation is based on its constant perceived value to buyers and the absence of replication by competitors. A company needs to understand that buyers' needs or perception of value can change and thus erase the value of differentiation. Another risk is that competitors replicate the company's strategy or bypass the bases of differentiation chosen by the company. A company can achieve sustainability if differentiation is based on durable sources of uniqueness that competitors cannot replicate. The most sustainable form of differentiation results from meeting both use criteria and signalling criteria. If sources of differentiation remain valuable to the buyer and cannot be replicated by competitors, differentiation will always lead to a price premium even in the long run. (Porter 2004a, 150, 158-159.)

A company can also increase the sustainability of its differentiation by having cost advantage in differentiating or multiple sources of differentiation or by creating switching costs while differentiating. A sustainable cost advantage in performing the value activities that create differentiation will provide a company with a high sustainability. (Porter 2004a, 150, 158-159.)

If differentiation derives from multiple sources of uniqueness, the sustainability of a differentiation strategy is generally at its greatest. Fixed costs incurred by the buyer when the buyer changes suppliers are called switching costs. Switching costs enable a company to sustain a price premium even if the company's product is equal to competitor's product. If differentiation leads to switching costs, the sustainability of differentiation grows. (Porter 2004a, 150, 158-159.) Figure 15 provides an example of how the sustainability of a company's sources of differentiation can be determined.

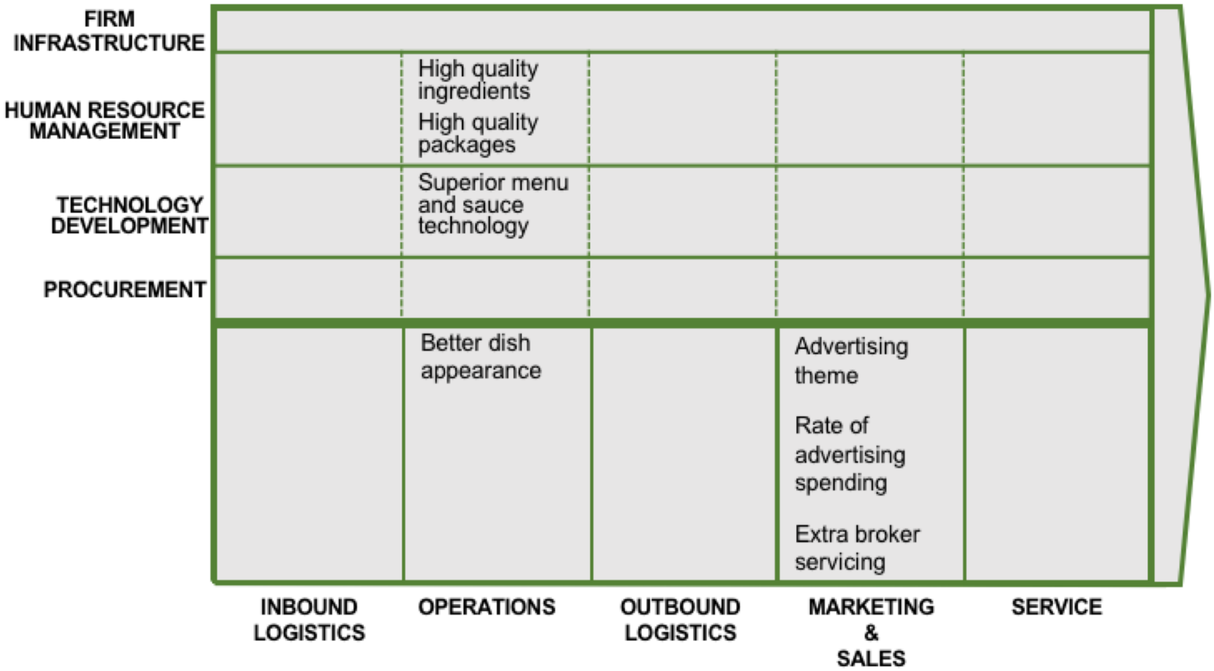


Figure 15. Sources of Differentiation in a Frozen Food Company (adapted from Porter 2004a, 152)

In Figure 15, a frozen food company's differentiation level equals the cumulative value it generates for its buyers by satisfying all purchase criteria. There are usually multiple sources of differentiation in a company's value chain as can be seen from Figure 15. The frozen food company has successfully differentiated itself in both use criteria and signalling criteria. By investing heavily in development of menu, the company has achieved the highest relative number of unique dishes and the best sauce technology. Carefully planned selection of ingredients and preparation has made the company's dishes attractive to buyers. The company's superior packaging is a strong value signal and provides an appearance of quality. (Porter 2004a, 150-153.)

The company in Figure 15 has also spent much more on advertising than its competition and selected an advertising theme that is attractive to buyers. Lastly, the company has invested in food brokers to acquire fast restocking, retail shelf displays that are attractive to buyers and quick removal of damaged products. The multiple sources of uniqueness in the company's value chain earn a considerable price premium over the company's competitors. (Porter 2004a, 150-153.)

Porter (2004a, 162-163) summarises the process of diagnosing the bases of differentiation and selecting a differentiation strategy into eight analytical steps:

1. Identify who is the real buyer.
2. Identify the value chain of the buyer and the impact the company can have on that value chain.
3. Identify the ranked buyer purchase criteria.
4. Analyse the current and potential sources of uniqueness in the value chain of the company.
5. Determine the cost of current and potential sources of differentiation.
6. Select to configure the value activities in a way that produces the most valuable differentiation for the buyer relative to cost of differentiating.
7. Test the sustainability of the chosen differentiation strategy.
8. Aim to decrease cost in activities that do not impact the forms of differentiation that you have chosen.

2.1.3 Focus Strategy and Choosing The Right Strategy

Focus strategy is the third one of the three generic strategies and can also help a company achieve a cost advantage or differentiation. Focus strategy is divided into cost focus and differentiation focus. (Porter 2004a, 12, 111.) A company can focus on a specific geographic market, buyer group or segment of the product line. While cost leadership and differentiation strategies aim to achieve their targets industrywide, focus strategy is developed to serve a specific target extremely well, and each function of focus strategy is based on this. The presumption behind a focus strategy is that it enables a company to serve its narrow strategic target more efficiently or effectively than more broadly competing competitors. Thus, the company can achieve differentiation by better satisfying the needs of the specific target or cost leadership by decreasing costs of this particular target, or both. Although the focus strategy cannot achieve cost leadership or differentiation industrywide, it can achieve one or both of those positions in its specific market target. (Porter 2004b, 38-39.) Figure 16 shows the difference between the three generic strategies.

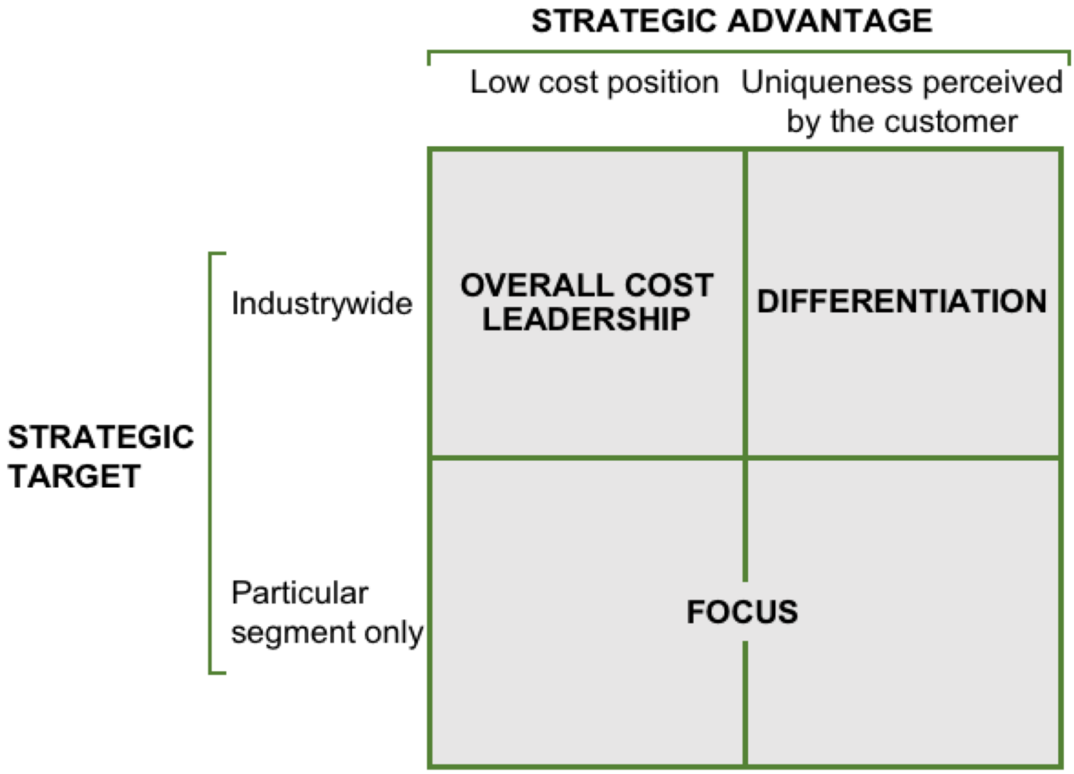


Figure 16. The Difference among The Three Generic Strategies (adapted from Porter 2004b, 39)

A company that achieves focus can also earn higher-than-average returns for its industry. A company can have a low cost position or high differentiation, or both. Those positions help a company defend itself against the five competitive forces. A company can also use focus strategy to select targets that are unlikely to have substitutes or where competition is the weakest. For example, a paper company can avoid consumer products that are vulnerable to swift new product introductions and advertising battles by focusing on a narrow target of industrial-grade papers. In another example, a food distributor can achieve a low cost position by serving a narrow target of eight leading fast-food chains. The food distributor's focus strategy is to satisfy the needs of those eight customers by moving warehouses close to those customers' locations, stocking only the narrow product lines of those customers and shaping order taking procedures to match the purchasing cycles of those customers. The food distributor is the cost leader in that specific segment and has higher-than-average profitability but is not the industrywide cost leader. It is important to remember that the focus strategy limits the overall market share that a company can gain. Thus, the focus strategy can be seen as a trade-off between sales volume and profitability. (Porter 2004b, 39-40.)

Each of the three generic strategies offers a different route to achieving and sustaining a competitive advantage. If a company does not clearly choose one of the three generic strategies, it might get "stuck in the middle". "Stuck in the middle" describes a situation where a company tries to simultaneously engage in each of the three generic strategies but fails to achieve even one of them. This position most often leads to lower-than-average performance and thus a startup company should usually choose to engage in one competitive strategy. A highly-favourable industry structure (or a high number of competitors that are stuck in the middle) may allow a company that is stuck in the middle to earn good profits, but the company will still most likely be less profitable than competitors who are able to achieve one of the three generic strategies. (Porter 2004a, 16-17.)

If a company is serving a broad range of segments, it cannot gain the benefits of focus strategy. Two clearly separate business units, one with differentiation strategy and one with cost leadership strategy, can sometimes be created within one corporate entity. For example, a hotel company can have two separate hotel chains and assign one chain to serve target segment A and the other chain to serve target segment B. (Porter 2004a, 17-18.)

Differentiation is often costly and for that reason achieving both differentiation and cost leadership is usually an inconsistent situation. According to Porter (2004a, 18-20), a company can simultaneously pursue both cost leadership and differentiation if:

1. Competitors are stuck in the middle and no competitor has a strong enough position to pressure a company so much that differentiation and cost would become inconsistent.
2. Interrelationships or share strongly impact the cost. For example, if cost position is largely dictated by market share. If a company gains a substantial market share advantage, the cost advantages of share in certain value activities can enable the company to incur added costs in another place and preserve its net cost leadership. Unmatched interrelationships may also decrease the differentiation cost or cancel out the higher cost of differentiation.
3. A company is the first and only company to pioneer a major innovation. For example, a substantially beneficial technological innovation can enable a company to simultaneously increase differentiation and decrease cost and possibly achieve both strategies.

A company should continuously try to seize cost reduction opportunities that do not erode differentiation and differentiation opportunities that are not costly. However, a company should prepare to choose the competitive advantage it aims to achieve and solve the trade-offs accordingly. (Porter 2004a, 20.)

3 Pricing Strategy

When determining a pricing structure and strategy, a startup company needs to consider both external and internal factors that influence pricing. The market and competitive situation, potential customers, and the company's objectives and costs need to be evaluated when determining a price for a product. (Bergström & Leppänen 2015, 237-239.)

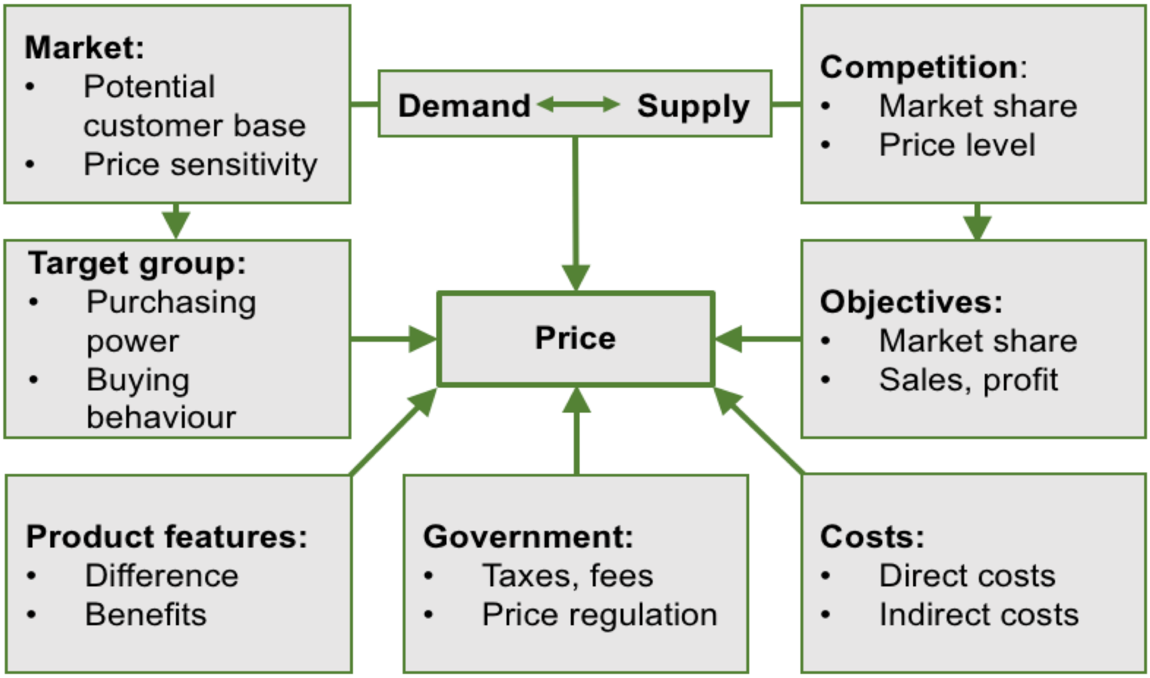


Figure 17. Factors That Affect Pricing (adapted from Bergström & Leppänen 2015, 238)

A company's objectives underlie its pricing. For example, a company's sales, profitability and market share objectives influence the pricing structure and determine the pricing policy. Government can also influence pricing. For example, different legislative changes can create fluctuation and sudden shifts in demand and thus force companies to adapt to those changes. (Bergström & Leppänen 2015, 237.)

Price level may vary between different markets and products, and is influenced by not only competition, but also the relationship between supply and demand. When determining a price, a company should examine the size of the market, and target group's purchasing power, buying behaviour and price sensitivity. (Bergström & Leppänen 2015, 237.)

Price/Value sensitivity driver	
SIZE OF EXPENDITURE	Buyers are less sensitive to the prices of small expenditures.
SHARED COSTS	Buyers are less price sensitive when some or all of purchase price is paid by others.
SWITCHING COSTS	Buyers are less sensitive to the price of a product the greater the added cost (both monetary and non-monetary) of switching suppliers.
PERCEIVED RISK	Buyers are less price sensitive when it is difficult to compare suppliers and the cost of not getting the expected benefits of a purchase are high.
IMPORTANCE OF END-BENEFIT	Buyers are less price sensitive when the product is a small part of the cost of a benefit with high economical or psychological importance.
PRICE-QUALITY PERCEPTIONS	Buyers are less sensitive to a product's price to the extent that price is a proxy for the likely quality of the purchase.
REFERENCE PRICES	Buyers are more price sensitive the higher the product's price relative to the buyers' price expectation.
PERCEIVED FAIRNESS	Buyers are more sensitive to a product's price when it is outside the range that they perceive as "fair" or "reasonable".
PRICE FRAMING	Buyers are more price sensitive when they perceive the price as a "loss" rather than as a forgone "gain". They are more price sensitive when the price is paid separately rather than as part of a bundle.

Figure 18. Buyers' Price/Value Sensitivity Drivers (Nagle & Hogan 2006, 130)

A company also needs to consider its product and costs. The price needs to provide an acceptable profit margin while covering all costs. For example, if a company sells a product or provides a service, it will have costs to purchase materials from its suppliers or labour costs to provide the service. These are called direct costs. Other costs incurred in running a company, such as utilities and rent, are called indirect costs. (Lambing & Kuehl 2000, 142.) When determining its pricing, a company must evaluate the features of its product and the possible benefits that the product can create for the buyers. The higher the differentiation of a product, the more freedom a company has on pricing that product. (Bergström & Leppänen 2015, 237.)

3.1 Price Waterfall Analysis

Besides identifying buyers' price/value sensitivity drivers, a company needs to identify and track the possible sources of lost revenue and profit. A company should not just estimate profitability of an account by the invoice price, because there can be several different sources of profit leakage. (Nagle & Hogan 2006, 112.) An example of this leakage is illustrated in price waterfall analysis in Figure 19.

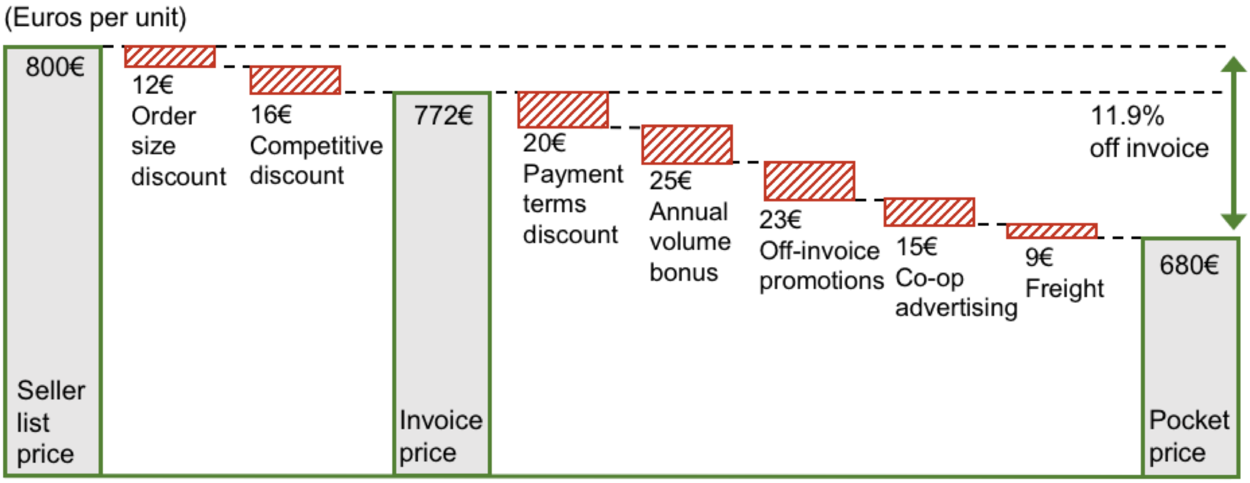


Figure 19. Price Waterfall Analysis (adapted from Nagle & Hogan 2006, 113)

Pocket price is the revenue that is earned after all the discounts are subtracted from the original price and invoice price and is usually a lot less than the original price. The amount of profit leakage can vary from very low to very high. It is even possible that a company has customers that result in higher leakages than the gross margin at list price. Different variables, such as letting the buyer to pay later or place a smaller order and giving the buyer an extra service free of cost, all add up and result in lower pocket price than the invoice price. However, discounts are sometimes necessary to close the sale. A company should closely monitor the discounts and pocket price and apply clear policies on the use of discounts. (Nagle & Hogan 2006, 112.)

Price waterfall analysis can be a very helpful tool for new entrepreneurs who may not yet have a comprehensive understanding of different variables that affect the final pocket price. The example shown in Figure 19 provides a basic example of different sources of lost revenue and profit.

3.2 Product Life Cycle

When introducing a new product to the market and choosing a pricing strategy, a startup company needs to understand the typical stages of a product's life cycle. A company that understands the general life cycle pattern of a product may be more capable of anticipating the future of the product and determining profitable pricing strategy than competitors are. (Nagle & Hogan 2006, 265.)

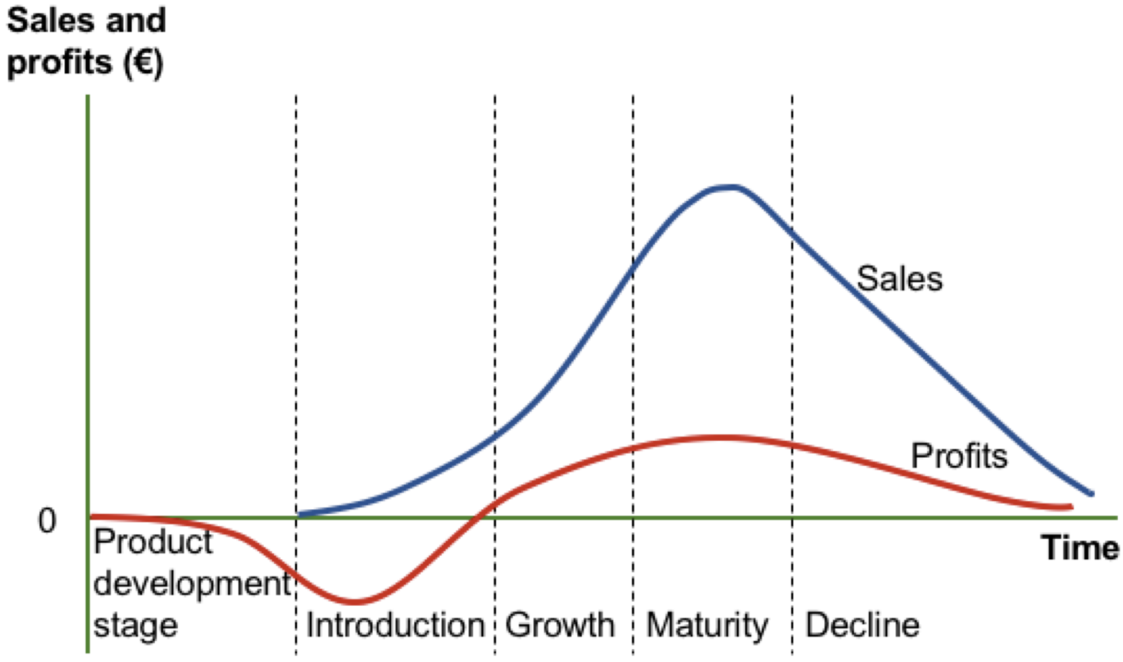


Figure 20. Sales and Profits over a Product's Life Cycle from Inception to Demise (adapted from Nagle & Hogan 2006, 266)

A company can adjust its pricing in each stage of a product's life cycle. For example, during the growth stage, the company can price its product according to buyer's perceived value of the product. During the maturity stage, the company can adjust its pricing according to the demand level of the product. The company can also try to attract buyers to other products during the decline stage by pricing the product below cost. (Kuratko & Hodgetts 2007, 302.)

The length of each stage may vary between different products. Entrepreneurs should estimate and identify the length of each stage. For example, product X might have a longer growth stage than product Y, but product Y might have a much longer maturity stage and may therefore earn higher overall profits.

3.3 Skimming and Sequential Skimming Pricing Strategy

Skimming pricing strategy is constructed to achieve high profit margins at the cost of high sales volume. Skimming prices are relatively high compared to what most buyers are willing to pay. The strategy is aimed to optimise immediate profitability by earning a profit from selling to relatively price-insensitive buyers that exceeds a profit that could be earned from selling to a bigger market at a smaller price. (Nagle & Hogan 2006, 131.) Startup companies can benefit from using the skimming pricing strategy in several situations. For example, if a company positions its new product as better than competitors' products, its price can be higher. Higher price will result in higher margin and can enable a startup company to finance its growth. New investments can be funded with profits and the company may not need outside investments. (McKinsey & Company 2001, 77-78.)

Sometimes a company that provides intangible value for its buyers can gain more profit in the long run by starting with high initial prices and decreasing those prices over time. This is called *sequential skimming pricing* and it is usually a better pricing strategy for those products that have low repurchase rates. (Nagle & Hogan 2006, 132.)

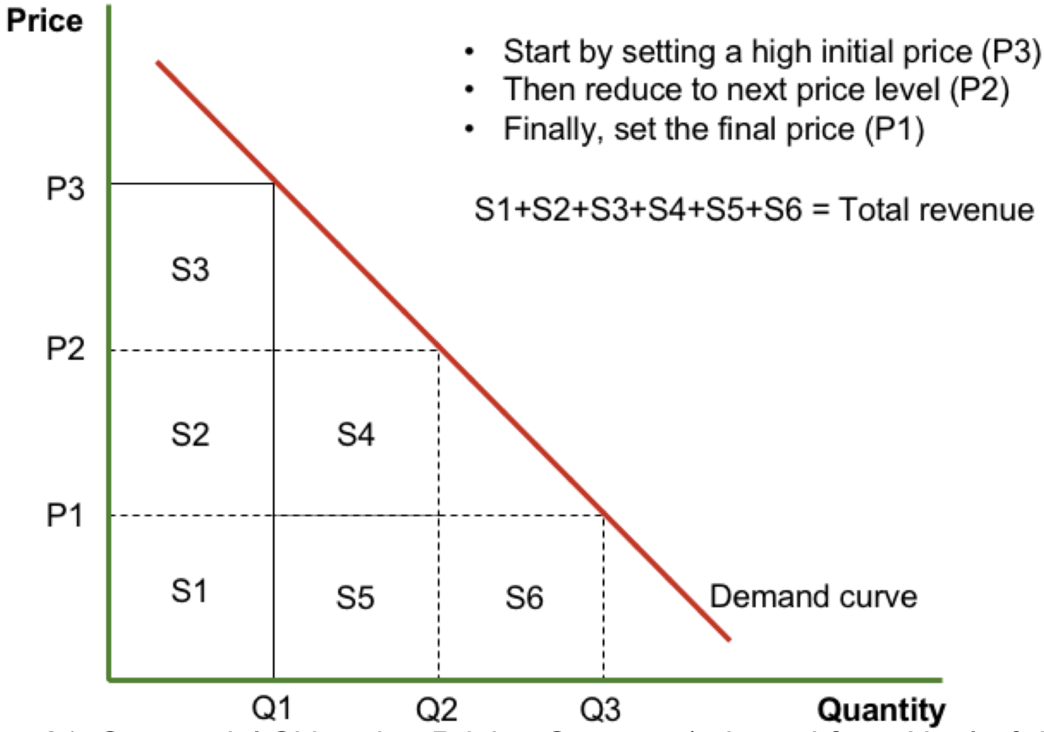


Figure 21. Sequential Skimming Pricing Strategy (adapted from Nagle & Hogan 2006, 133-134)

Sequential skimming begins when a company offers a price that attracts the least price-sensitive buyer segment first. It is important to understand that after the company has “skimmed the cream” of buyers at the upper end of the demand curve (Figure 21), that market is saturated. The company then lowers its price to sell to the next most profitable buyer segment and thus the company maintains its sales. The company continues sequential skimming and moves down the demand curve until it has used up all skimming opportunities. All skimming opportunities have been used when the company has decreased the price so much that even the most price-sensitive buyers are attracted or when the company cannot decrease the price further without losing profitability. (Nagle & Hogan 2006, 132-133.)

It is theoretically possible for a company to sequentially skim the market for a one-time purchase or a durable product or service by decreasing the price one small step at a time. By doing this, a company could charge every buyer segment the maximum price that segment is willing to pay for the product or service. However, potential customers will most likely understand the situation and start postponing their purchase decisions. A company can reduce this risk by decreasing the price less frequently or introducing less attractive product models when reducing the price. (Nagle & Hogan 2006, 132-133.)

When entering a new market with a non-durable, high repurchase rate product, a company can utilise sequential skimming pricing strategy in two different ways. First, if a company has a product or service that has several potential uses and all those uses call for a costly marketing effort, the company can introduce the product or service more efficiently by concentrating on one specific use at a time. By doing this, a company can seize the most profitable markets faster without stretching its resources too thinly. Second, a company can utilise sequential skimming pricing to gradually build production capacity. By doing this, the company can improve its manufacturing process while expanding. For example, the company can fund its production with the cash flow already generated by the product or service. Furthermore, since the company originally built less capacity, it has less risk if demand does not reach expectations. (Nagle & Hogan 2006, 133-134.)

3.4 Penetration Pricing Strategy

Penetration pricing strategy aims to break into a market with a low-priced product that may have a lot of alternatives and may not differentiate from those alternatives (Bergström & Leppänen 2015, 240). A company that utilises penetration pricing strategy prices its product low enough to attract and maintain a large customer base. This does not mean that the product is cheap, but the price is lower than the perceived value in the target segment. (Nagle & Hogan 2006, 134.)

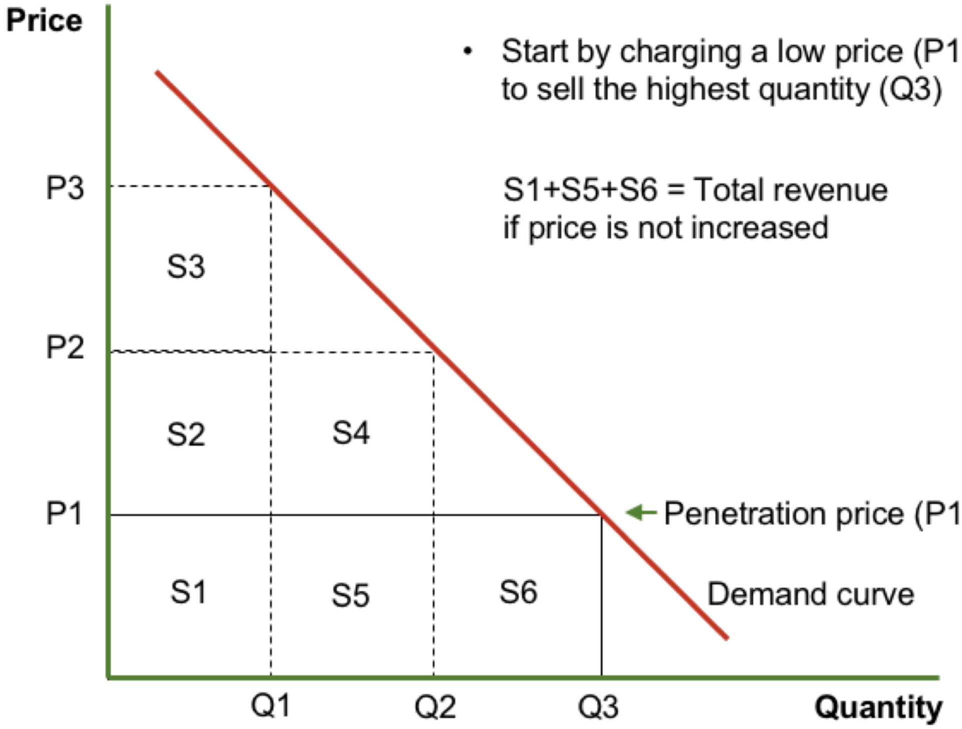


Figure 22. Penetration Pricing Strategy (adapted from Nagle & Hogan 2006, 134)

For penetration pricing strategy to be successful, a significant share of the market needs to respond to lower prices by changing suppliers or brands. It is important to understand that not every market will respond to lower prices. Several companies have been unsuccessful in their penetration pricing attempts because they miscalculated the response of a market. (Nagle & Hogan 2006, 134-135.) Penetrating a market with a low price might not create enough profit or gain enough market share and a company might be forced to increase its prices after the initial launch. However, this might be difficult because buyers may already be used to a certain price level and are not willing to pay more. (Bergström & Leppänen 2015, 240.)

Penetration pricing strategy can be successful even if all buyers are not price-sensitive, as long as an adequate share of the market is sufficiently price-sensitive to validate the company's decision to set a low price (Nagle & Hogan 2006, 134).

A company should also recognise the cost environment when analysing how much sales volume the company needs to generate to validate penetration pricing. Penetration pricing strategy is more likely to succeed when incremental costs form a tiny portion of the price and thus each additional sale has a high contribution to profit. In this situation, a lower price will not significantly decrease the contribution from each sale. For example, if a company aims to attract a large buyer segment by lowering its prices by 10%, penetration pricing would still be profitable if the product or service has a high contribution to margin. If the company wants to be profitable with a 90% contribution margin, its increase in sales would have to exceed only 12.5%. The lower the contribution each additional sale has to profit, the higher the increase in sales needs to be before penetration pricing becomes profitable. (Nagle & Hogan 2006, 134.)

It is important to remember that competitors can always undercut a penetration pricing strategy by decreasing their own prices and thus prohibiting the company from providing a superior value to the buyers. Penetration pricing strategy can be viewed as a practical strategy for acquiring and maintaining market share only if competitors do not have the ability or incentive to stop the company. (Nagle & Hogan 2006, 134-135.) There are different situations in which this can usually occur and Nagle & Hogan (2006, 135) have listed the three most common ones:

1. When a company has such a considerable cost advantage or/and a resource advantage that its competitors assume that they should not begin a price war because they would likely lose.
2. When a company has a wider range of complementary products, enabling the company to use one product as a penetration-priced "loss leader" to drive sales of other products.
3. When a company is small enough to grow its sales substantially without prompting a response from its competitors.

3.5 Neutral Pricing Strategy

A company that chooses a neutral pricing strategy decides not to use price to acquire market share and does not allow price to be the only factor that determines market share. Neutral pricing strategy aims to minimise the importance of price as a marketing instrument in favour of various other tactics that a company thinks are more cost-effective or otherwise better for a particular market. However, neutral pricing strategy is not necessarily easier than other pricing strategies. It can be easier to set a price that is high enough to skim or low enough to penetrate than to set a price that achieves a near perfect balance. (Nagle & Hogan 2006, 135-136.)

A company commonly chooses a neutral pricing strategy by default if market conditions do not support neither a penetration pricing nor skimming/sequential skimming pricing strategy. For example, a company might not be able to utilise skimming or sequential skimming pricing strategy if buyers perceive the products in the market to be so substitutable that none of the important buyer segments will pay a premium. That same company might not be able to utilise a penetration pricing strategy because buyers would not be able assess the quality of the product before making a purchase decision and would assume that the product has a low quality since it has a low price (the price-quality effect) or because competitors prevent penetration pricing by responding forcefully to prices that are lower than the established price structure. Neutral pricing strategy is commonly used in industries that have relatively value-sensitive buyers, ruling out skimming/sequential skimming, and relatively volume-sensitive competitors, ruling out successful penetration pricing. (Nagle & Hogan 2006, 136.)

A well-executed neutral pricing strategy is no less important or difficult to profitability than penetration or skimming/sequential skimming pricing, although it is less proactive. Neutral prices can be different than competitors' prices and are not always near the median price of the market. In theory, a neutral price may be the lowest or highest price in the market and still be considered as neutral. For example, a product can be regularly priced above competitors, but can still seize large market shares because of the high perceived value buyers associate with that product. Just like a penetration or skimming/sequential skimming price, a neutral price is defined relative to the product's perceived economic value. (Nagle & Hogan 2006, 136.)

3.6 Cost-Plus Pricing Method

Cost-plus pricing method is based on costs. A company will add together direct labour and material costs of a product, such as raw materials and production wages, and the overhead costs for the product, such as rent. After that, the company will add a markup percentage to the sum of direct labour and material costs and allocated overhead costs to create a profit margin and determine the price of the product. (Bergström & Leppänen 2015, 243.)

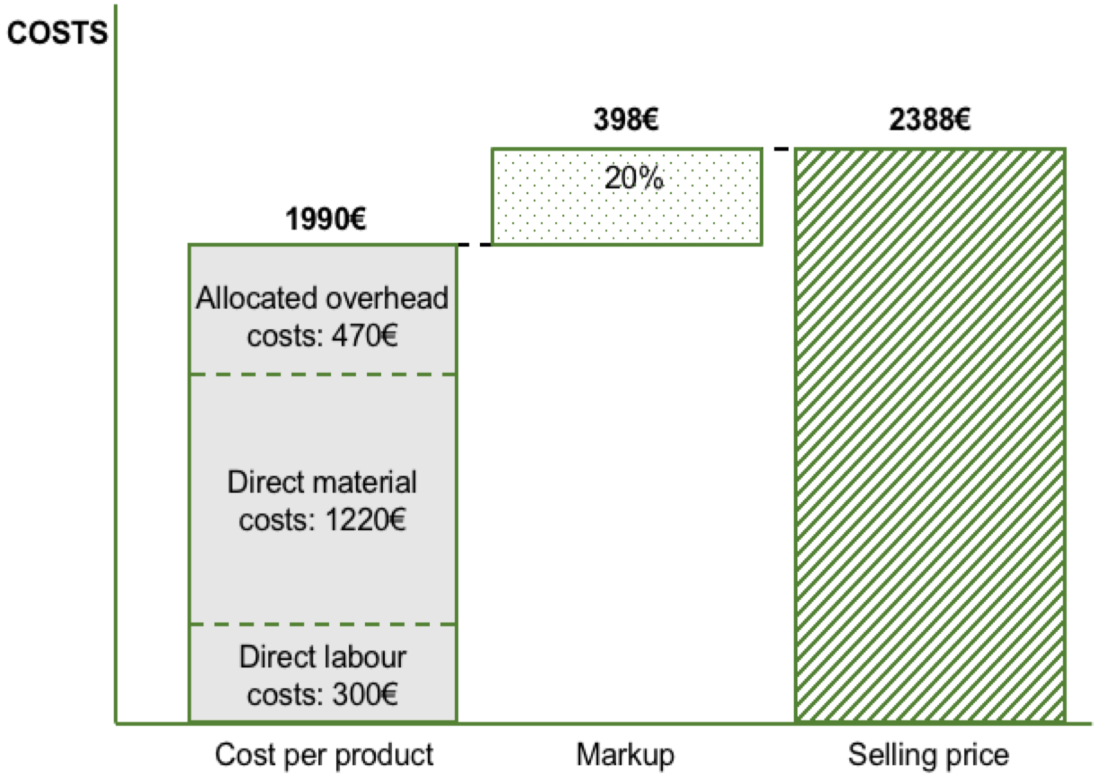


Figure 23. Cost-Plus Pricing Method

The weakness of cost-plus pricing method is that it does not consider what buyers want and ignores competitors' prices. This can lead to overpricing or underpricing, both of which lead to low profits. (Bergström & Leppänen 2015, 243.) By using cost-plus pricing method, a company might weaken its competitive position by leaving itself vulnerable to competitors' strategic pricing choices.

3.7 Market-Based Pricing Method

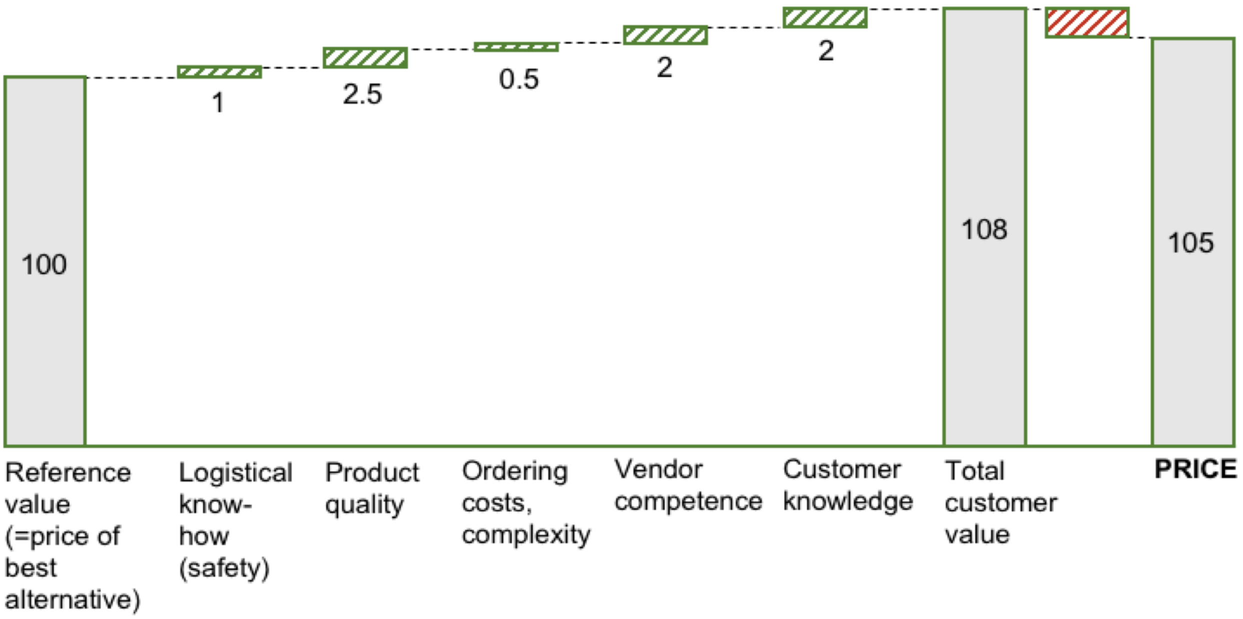
The right price is not the price that just covers the costs and generates a profit margin. The right price is the one a buyer is willing to pay. However, this does not mean that a company should not seek to cover its costs when setting a price for a product. Market-based pricing is based on the current market conditions. The factors that affect market-based pricing are buyer needs and price sensitivity, supply and demand, the product and competition. (Bergström & Leppänen 2015, 244-245.)

When using market-based pricing, a company will compare its product with competitors' products to set a price for the product. For example, if the product has better features than competitors' products, the company can set the price to the same level as competitors, thus creating more value for buyers at the same price, or set a higher price level because of better features. When setting the price, the company will consider buyers' price sensitivity and may divide buyers in segments according to differences in price sensitivity. (Bergström & Leppänen 2015, 245.)

A company should also consider buyers' perception of value. If more buyers are willing to purchase the product (high demand), a company can set a higher price and if demand is low, the company should decrease the price. For example, a highly-anticipated product may have a higher price when its launched due to higher demand. Once the demand decreases, the price too will be decreased. In essence, market-based pricing is based on continuous negotiation between buyers and sellers. (Bergström & Leppänen 2015, 245.)

3.8 Value-Based Pricing Method

Value-based pricing is based on the value or benefit a product or service creates for a buyer. A buyer can gain use-value, exchange-value and symbolic-value. For example, use-value can appear as cost savings or easiness. Exchange-value of a product is based on equivalences which are discovered when the product is introduced to a market. Exchange-value of a product can transpire when the product is exchanged to a new one. Symbolic-value appears as an immaterial value that is attributed to a product. For example, symbolic value can appear as admiration from other people. (Bergström & Leppänen 2015, 246.)



Key points

- Commodities can/need to be differentiated.
- Sum of many small differences makes a big difference.
- Price premium of 5% leads to dramatic differences in profitability.
- Price and value premiums need to be sustained

Figure 24. Value-Based Pricing and Value Creation for B2B Commodities (Hinterhuber & Liozu 2016, 15)

Value-based pricing is generally seen as the ideal choice for most companies (Hill 2013, 60). A company should be able to communicate the value to buyers in an understandable way. To succeed at this, a company can utilise value proposition. Value proposition, which was developed to convert buyer value into quantified, monetary benefits, is an important instrument for value-based pricing. (Hinterhuber & Liozu 2016, 16.)

The sum of qualitative and quantitative benefits equals total buyer value. By quantifying value, a company converts competitive advantages its product or service creates into financial buyer benefits. Competitive advantages usually create either qualitative or quantitative benefits for buyers, or both. Quantitative benefits can be divided into four types: risk reductions, revenue/margin improvements, capital expense savings and cost reductions, and are always related to financial benefits. Qualitative benefits allow buyers to reach their goals in a more efficient way (process benefits). Qualitative benefits include process benefits such as relationship benefits, the value of the brand, ease of doing business, knowledge and core competencies. (Hinterhuber & Liozu 2016, 16-17.)

Table 1. Checklist for Developing a Best-practice Value Proposition (Hinterhuber & Liozu 2016, 16-17)

Check	Product	Key issue	Rate
	Is the target buyer group clearly defined?	Segment	
	Is the key business issue we resolve a real pain-point for this segment?	Relevance	
	Is it clear that the value proposition is superior for this buyer group?	Better	
	Does the value proposition reflect our competitive advantages?	Advantage	
	Is the value proposition relative to the buyer's best available alternative?	Competition	
	Are buyer benefits quantified? Is the quantification the result of quantifying both financial and quantitative benefits?	Quantity	
	Is the value proposition based on proper buyer and market research?	Research	
	Does the value proposition reflect changing buyer priorities? Is it relevant… tomorrow?	Update	
	Can you substantiate the value proposition in case studies or evidence of quantified performance improvements delivered?	Substantiate	
	Can you articulate the value proposition in 1-2 minutes?	Short	

As previously stated, the sum of qualitative and quantitative benefits equals total buyer value. Because of this, a company that utilises value-based pricing should use value proposition to demonstrate the total buyer value. (Hinterhuber & Liozu 2016, 17.) An example of a quantified value proposition is illustrated in Figure 25.

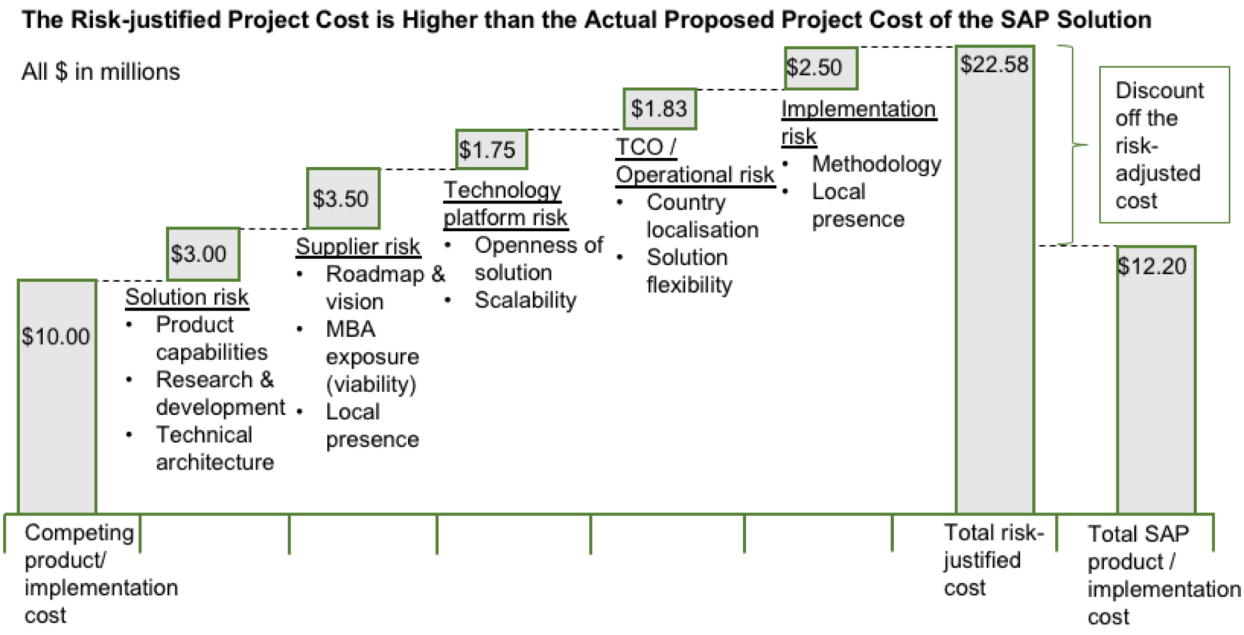


Figure 25. Quantifying the value proposition – the example of SAP (Hinterhuber & Liozu 2016, 21)

SAP is an enterprise software provider. In the example illustrated in Figure 25, SAP's price is 22% above the comparable competitor's price. SAP claims that the real cost of the competing product is higher than what SAP charges because risks have not been factored in. The company determines different risk categories: solution risk, supplier risk, technology risk, operational risk and implementation risk. SAP argues that these risks should be quantified and added to the price of the competing product. After risk adjustment, the initial lower-cost offer price of the competing product is clearly higher than the price of SAP's product. SAP's experience has proven that by adding risk-adjusted price the company can win deals even if the list price of the product is clearly higher (in this example by 22%) than price of the buyers next best option. (Hinterhuber & Liozu 2016, 21-22.)

4 B2B Sales Process

A process can be described as a set of activities designed to achieve a certain result and it can be repeated, multiplied and modelled. A modern B2B sales process is a systematic approach that can add a lot of value when utilised as an organisational asset rather than an uncontrollable art form. (Alanen, Mälkiä & Sell 2005, 65; Kaario 2009, 17.) B2B sales process can be divided into eight steps (Figure 26).

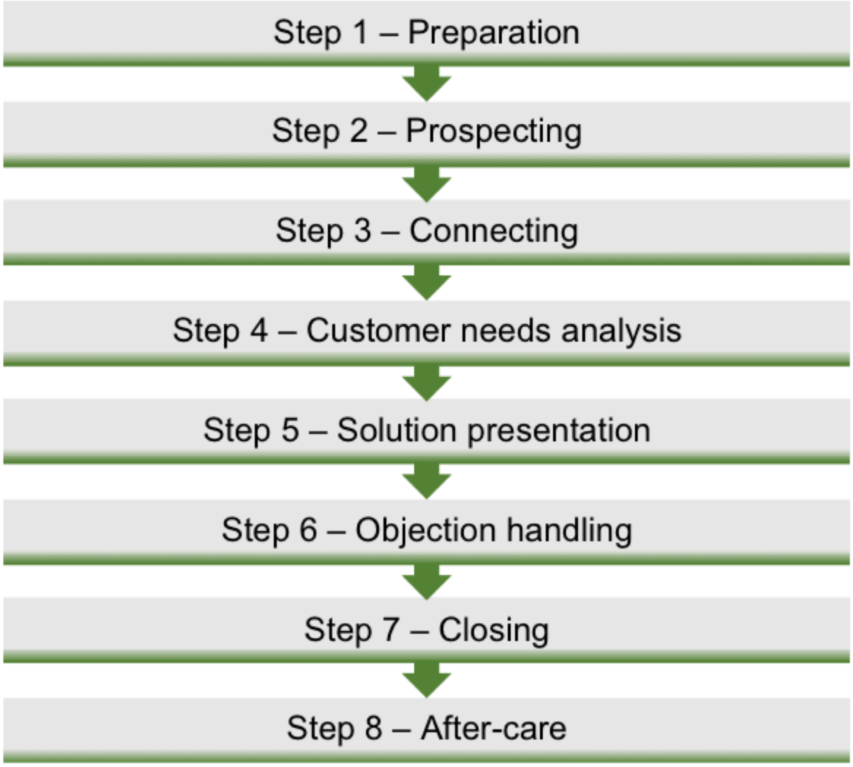


Figure 26. The Eight-Step B2B Sales Process (adapted from Castleberry & Tanner 2011, 151)

During the sales process, the salesperson uncovers the needs and problems of the potential customer and tries to assure the potential customer that the solution offered by the salesperson is the right choice. The objective of sales process is to create a demand and close the sale by finding a solution which both the customer and provider are satisfied with. (Alanen et al. 2005, 65.)

4.1 Step 1 – Preparation

During the preparation stage, the sales organisation and salespeople conduct market research to find out everything they need to know about the current demand and supply. Besides understanding the current demand in the market place, the sales organisation needs to stay informed of not only the products and services of competition, but also the organisation's own products. (Alanen et al. 2005, 73; McKinsey & Company 2001, 71.) By understanding the current demand and the differences between product offerings, the salespeople are ready and informed when connecting the potential customers (Rubanovitsch & Aalto 2007, 52).

The sales organisation should do all the necessary preparatory work to enable a successful sales process. Preparatory work can include sales support materials such as PowerPoint presentations, product models, presentation videos, test results and references. A well-prepared sales process can increase the chance of closing the sale and helps build trust between the customer and the sales organisation. A well-executed preparation can also give off a trustworthy and professional image, which can help the sales organisation build long-term competitive advantage. It is also important to remember that the objective of preparation stage and all the following stages of the B2B sales process is to close the sale and build a long-lasting customer relationship. (Alanen et al. 2005, 73-75; Rubanovitsch & Aalto 2007, 42.)

The sales organisation should also set up a database to store all the relevant sales process data. Startup companies often start with simple Excel worksheets, but it is easy to start using CRM (Customer Relationship Management) tools to store lead, prospect and customer contact information, and sales opportunities into one location. The data is often stored into a cloud storage and is accessible in real time by everyone in the sales organisation. However, the customer database should not be overflowed with data. Instead, the sales organisation should clearly define what is relevant data to keep the database simple and easy to navigate through. There are several free CRM systems which a startup company can choose from. Once a customer database is set up, the salespeople can always add information to the database or check for information that might help the sales process. (Bergström & Leppänen 2015, 426; Castleberry & Tanner 2011, 164.)

4.2 Step 2 – Prospecting

Once the sales organisation has gathered enough information by conducting market research, and made the necessary preparations, it can start prospecting the potential customers (Alanen et al. 2005, 73).

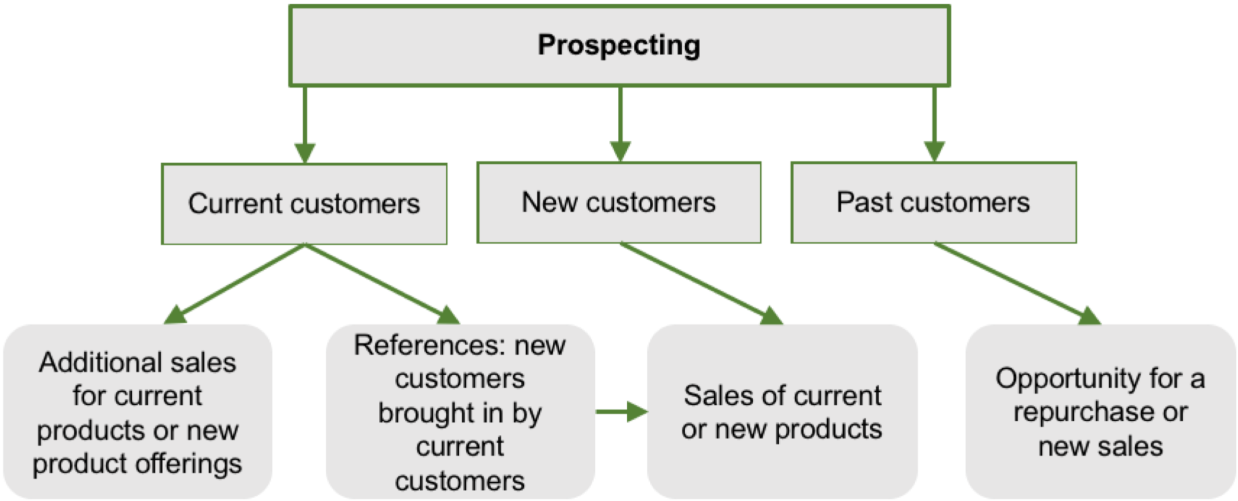


Figure 27. Prospecting and Additional Sales (adapted from Bergström & Leppänen 2015, 424)

A potential prospect is often defined as a lead. To determine if a lead actually is a prospect, the responsible salesperson qualifies the lead. If a lead is determined as a potential opportunity for a sale, it is called a prospect. A good prospect has a need that the sales organisation's product or service can satisfy, the ability and authority to pay, can be approached favourably and is eligible to buy. (Castleberry & Tanner 2011, 150-151.)

To find new leads, many startup companies utilise common methods such as telemarketing, internet, company website, networking, webinars and business fairs, social media platforms, and lists and directories. A quick way to start generating leads is the internet. For example, relevant information can be found from company websites, forums and other sources. Internet is also a great platform to discuss and publish specified content, for example in blogs or on social media platforms such as LinkedIn and Twitter. A company can also buy lead lists, which can be specified according to the purchaser's requirements, for example by industry, company size and revenue. Although they might sometimes be partially outdated, lead lists can still save a lot of time and make the lead generation process more efficient. (Castleberry & Tanner 2011, 160-162.)

4.3 Step 3 – Connecting

The objective of the connecting stage is to draw the prospect's interest to the product or service and schedule a meeting with the prospect. The salesperson can use phone calls, emails, text messages and messages on social media platforms to reach the prospect and schedule a meeting or a phone call. (Alanen et al. 2005, 72.) Phone calls and different forms of messaging are often the simplest and cheapest ways to contact the prospect, and that is why those methods can be easily utilised by any startup company.

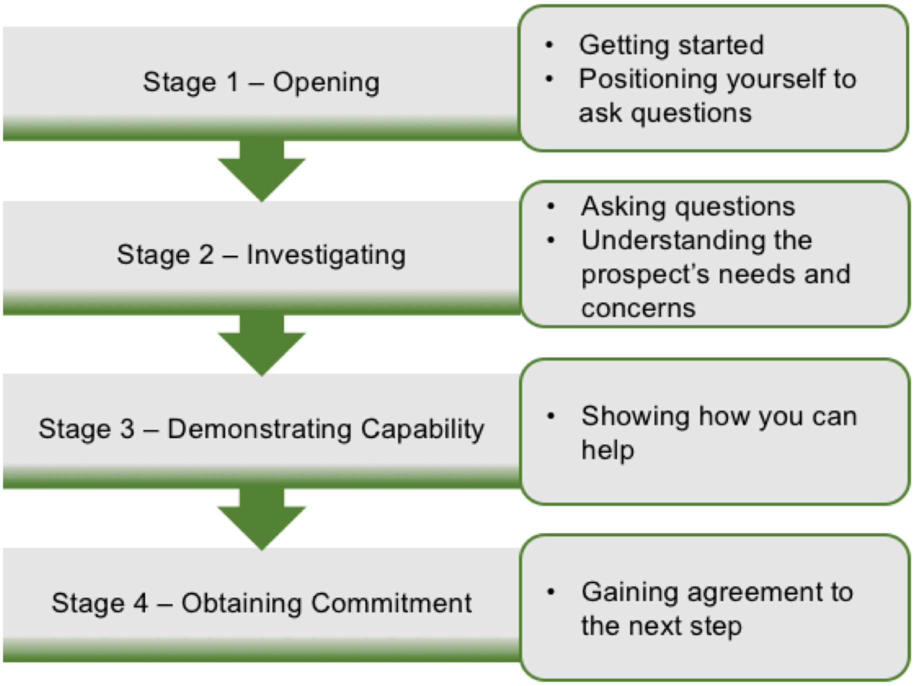


Figure 28. The Four Stages of a Sales Call (Rackham 1996, 37)

A well-planned sales call is well-articulated and straightforward and gives the prospect a vision of added value that the offered product or service can provide. Some B2B services can be sold during the first phone call and therefore it is important have a clear value proposition. People also have limited time and that is why it is crucial to win the prospect's trust as quickly as possible. During the call, the salesperson's voice and message are important, because the prospect can neither see the salesperson nor see or touch the product. The salesperson should be calm and efficient, and have trust in the offered product or service. It is important to ask relevant questions and let the prospect talk about possible problems and needs. (Castleberry & Tanner 2011, 180-181; Rubanovitsch & Aalto 2007, 54-55.)

4.4 Step 4 – Customer Needs Analysis

Rackham's (1996) SPIN model (Figure 29) is a widely used model for customer needs analysis. The SPIN questions form a process of exploration and understanding focused on the prospect's difficulties, problems and needs.

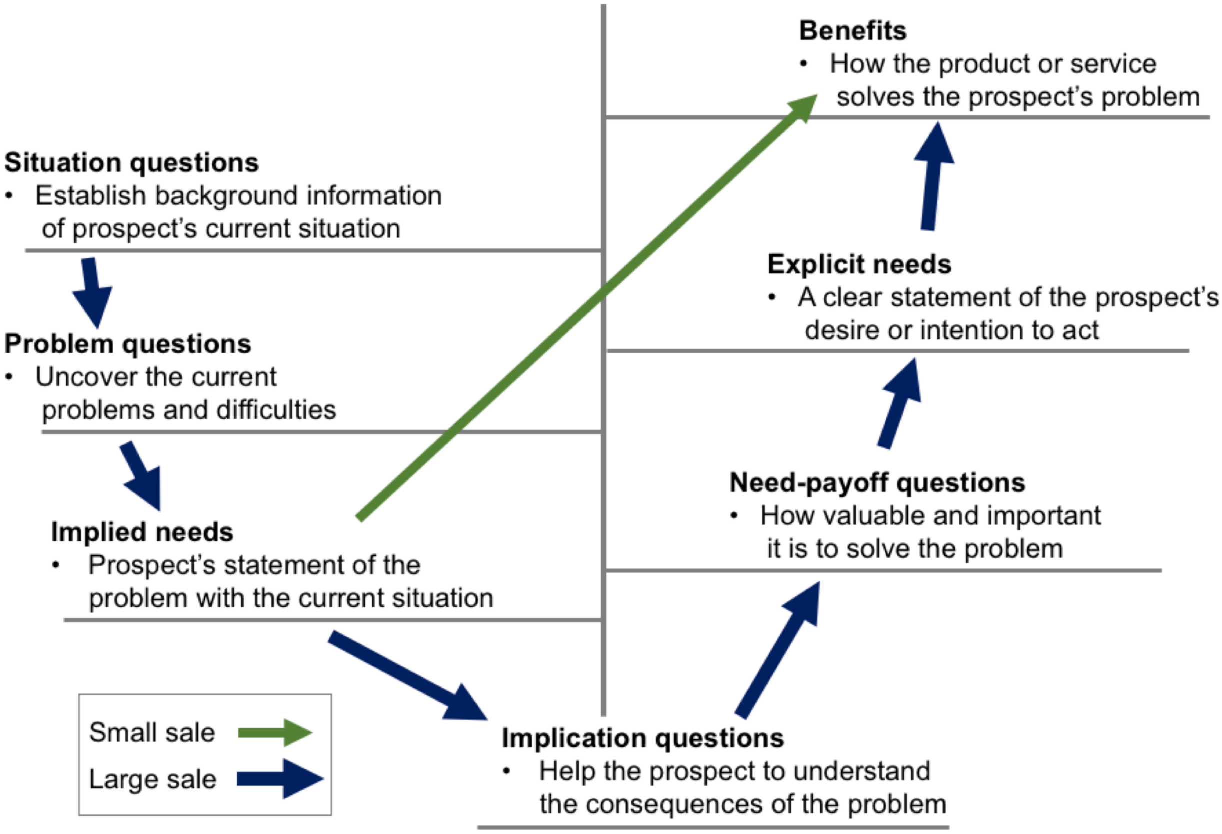


Figure 29. The SPIN Tree – Customer Needs Analysis in Small and Large Sales (adapted from Rackham 1996, 10-12, 15-17, 21)

Prospects are rarely 100 percent satisfied with the current situation and the more they think about the current problems, the more dissatisfied they become. If dissatisfaction keeps growing, the prospect will eventually feel that there is a need for a solution. A skilful salesperson can control the conversation by asking the right questions but will not provide answers to those questions. Instead, the salesperson will listen to the prospect and help the prospect to develop needs. The salesperson uses the customer needs analysis as a base for the solution presentation and can always use the customer needs analysis for tackling possible objections. The customer needs analysis can also be utilised to create different solution models which the prospect can consider. (Alanen et al. 2005, 104-106; Rackham 1996, 67; Rubanovitsch & Aalto 2007, 77.)

4.5 Step 5 – Solution Presentation

The solution presentation is not only about offering the solution, but also about answering the question: “Why should I purchase this product or service?”. A good salesperson uses only those sales arguments that are important to the prospect. The arguments can be based on the Feature-Benefit-Impact table (Table 2). (Bergström & Leppänen 2015, 387; Rackham 1996, 149.)

Table 2. Feature-Advantage-Benefit Table (adapted from Rackham 1996, 149)

Feature	Advantage	Benefit
“We provide full implementation support.”	“… so the system is quickly available with no downtime.”	“The system provides the necessary power and security you have said you will need.”
“We have 62 branch offices.”	“… so our international staff can meet your requirements in all time zones, at any time.”	“The service matches the exact specifications you have given us for FCA compliance.”
“There is a 10-year warranty.”	“… which means that it is a safe investment.”	“The FILTEM system provides you with the pollution filter you have said you will need.”

Features are neutral facts that describe the characteristics of the offered solution. From a prospect’s point of view, each additional feature adds to the cost and that is why the salesperson should avoid listing too many features without mentioning advantages and benefits. Advantages demonstrate how the offered solution or its features can be utilised or can help the prospect. However, the salesperson should know the prospect’s needs before listing advantages, because advantages that do not create value for the prospect will most likely raise objections. Benefits describe how the offered solution satisfies the prospect’s needs. Benefits will impact the prospect’s decision-making throughout the sales process and the salesperson should make sure that the benefits are emphasised during the sales process. (Rackham 1996, 149-154, 158.)

Data, statistics and references from satisfied customers are good ways to demonstrate the benefits of the offered solution. A successful solution presentation is informative, will arouse the prospect’s interest and makes the prospect feel that the offered solution provides enough value to justify the price. (Castleberry & Tanner 2011, 234-235.)

4.6 Step 6 – Objection Handling

Objections are a natural part of the sales negotiation and are often an indicator of prospect's interest towards the offered solution. The prospect needs to have a good reason for making the purchase decision and that is why it is crucial to answer the objections and win the prospect's trust. Objections can be based on rational, emotional, personal or tactical reasons. (Alanen et al. 2005, 104-106; Hänti, Kairisto-Mertanen & Kock 2016, 149; Rackham 1996, 161.)

Table 3. Examples of The Answer Methods for Objection Handling (adapted from Bergström & Leppänen 2015, 390; Castleberry & Tanner 2011, 280)

Objection	The answer method	Salesperson's answer
"This looks very small"	Indirect denial	• "Yes, this is the smallest model, but it actually has more…"
"I don't think there is demand for this"	Direct denial	• "On the contrary, it was the most sold model of the first quarter because…"
"The price is higher than your competitor's"	Compensation	• "Our price is not the cheapest one, because it includes… and that is why it is…"
"The quality is lower than in your other products."	Revisit	• "The slightly lower quality and price are actually the reasons why you should buy these products. As you said, your customers are looking for low-priced solutions…"
"I don't think the product is worth this much."	Acknowledge	• "I understand your concern. I also like to compare the cost and benefit of the product. [pause] Now, we were talking about..."
"I don't think the product is worth this much."	Referral	• "I understand how you feel. Company X felt the same way, but after buying and using our service, they found out that it substantially increased their savings…"

Startup companies should try to obtain as many referrals as possible from satisfied customers as this method is a great way to alleviate doubts about a new company or its product.

4.7 Step 7 – Closing

The objective of the sales negotiation is gain commitment from the prospect and close the sale. After a well-executed sales negotiation, it is natural for the salesperson to ask for closing the sale. (Castleberry & Tanner 2011, 301-302.)

Table 4. Different Closing Methods (adapted from Bergström & Leppänen 2015, 391; Castleberry & Tanner 2011, 302-304)

Closing method	Example
Direct request method	• "Shall we sign the contract?"
Balance sheet method	• Together with the prospect, make a list of all the pros and cons of buying now and buying later/not buying
Alternative choice method	• Let the prospect to choose between alternatives • "Which one would you like to choose?" • "Would you like to start with 2-month pilot or…?"
Detail method	• Cover all the details of the sale step-by step and get the prospect's approval on each detail after which closing the sale is self-evident.
Limited opportunity method	• "This is the last one" • "The product is almost sold out" • "The offer ends today"
Benefit summary method	• Make a summary of the discussion, prospect's needs and wishes and benefits of the offered solution, and propose to close the sale.
Condition method	• Give the prospect a discount or an additional benefit and propose to close the sale. • "Shall we sign the contract if…?"

After closing the sale, the salesperson should confirm the customer's choice and go over all the important details to avoid buyer's remorse. It is important to sign the contract and review the actions each party has agreed to take. A successful sales negotiation also includes additional sales. The prospect might be willing to make additional purchases to complement the purchased product. Additional sales increase the value of the purchase and usually increase the sales margin. The ability to create additional sales is important because the volume of additional sales correlates strongly with the profit made by the organisation. (Castleberry & Tanner 2011, 306-308; Lehmann & Srinivasan 2014.)

4.8 Step 8 – After-Care

The sales process does not end after the sale is closed. In many organisations, the increases in sales from one year to the next stem from increasing the revenue from not only new customers, but also existing customers. Good customer relationships and a high customer retention rate are important to all companies and correlate strongly with the success of a company. (Castleberry & Tanner 2011, 350.) It is also important to recognise which customers are profitable and which are not. Profitable customers drive net income and a startup company should focus on retaining the profitable customers. Unprofitable customers create more costs than income and a startup company should try to develop unprofitable customers into profitable ones by raising prices or decreasing the resources spent on unprofitable customers. (McKinsey & Company 2001, 83.)

The sales organisation needs to start conducting sales after-care immediately after the customer has made a purchase. The sales organisation should keep actively communicating with the customer and not assume that the customer will return just because of the earlier purchase. The sales organisation should stay informed of the customer's situation, offer new products or services and inform the customer of new updates and services. (Alanen et al. 2005, 116-117.)

Satisfied customers might make additional purchases and provide the sales organisation with new leads, which can turn into new customers. References are one of the most effective ways to gain new customers and close new sales. To gain new references and achieve favourable reputation and a high customer retention rate, a startup company should focus on building a well-designed and well-executed after-care protocol. A satisfied customer can be more effective and less expensive than any other advertisement and a favourable reputation can help attract shareholders, partners and talented employees. Thus, a startup company can break into a market and build competitive advantage by executing a customer-oriented sales process and a well-designed sales after-care. (Rogers 2007, 177; Rubanovitsch & Aalto 2007, 158.)

5 Summary

By understanding where and how to compete, and how to price and sell the product or service, a startup company will be able to make the right strategic choices. Strategy is affected by various different factors and is never simple. Figure 30 summarises the process of building a successful B2B sales strategy.

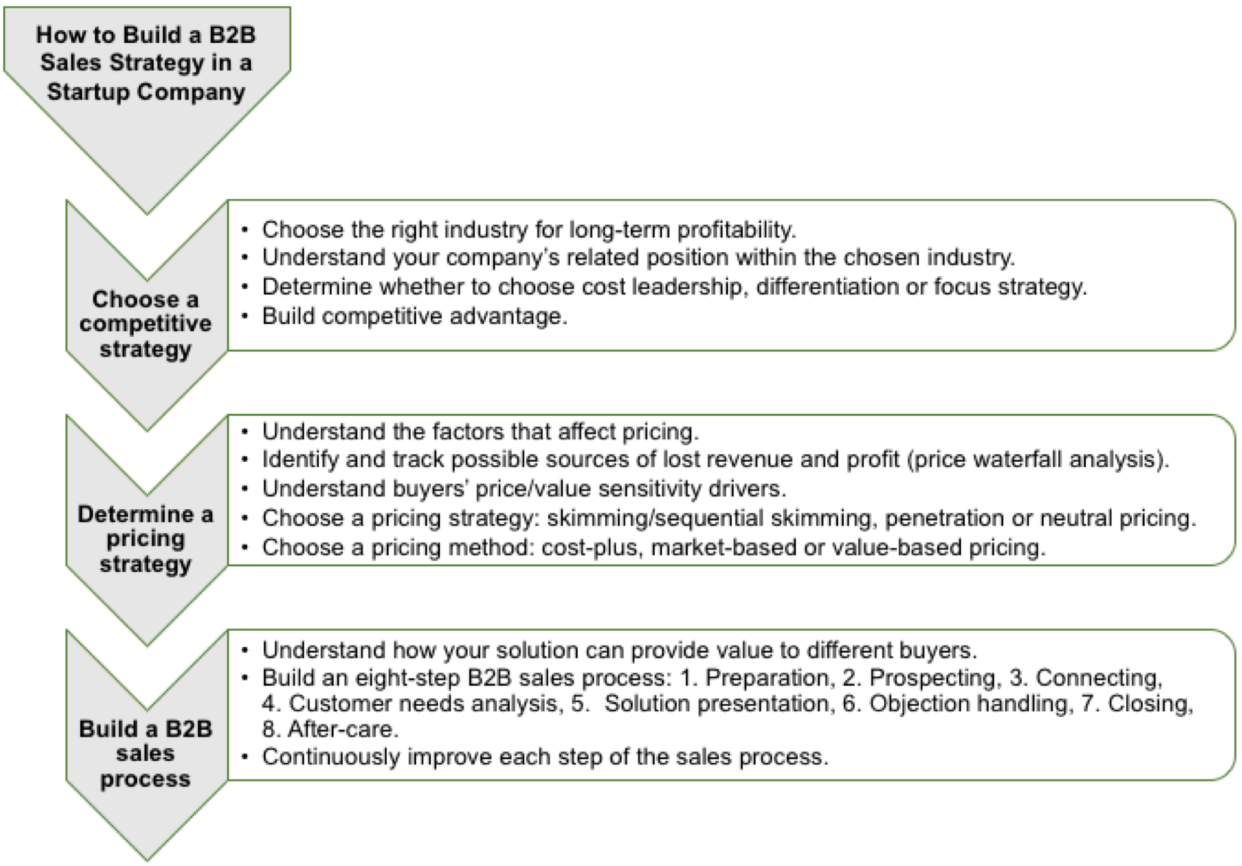


Figure 30. How to Build a B2B Sales Strategy in a Startup Company

Building a successful B2B sales strategy can be challenging for new companies that are looking to break into a market. The information and guidance provided in this handbook can be applied directly or adapted to existing practices. However, it would advisable to have a clearly defined, structured plan which you can follow. By making the right strategic choices during each step of the building process, a company can create a profitable business model and achieve sustainable competitive advantage.

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Konsta Laitinen
Haaga-Helia University of Applied Sciences
Bachelor’s Degree Programme in Professional Sales
2018

START UP SCHOOL
Haaga-Helia