

KYMENLAAKSO UNIVERSITY OF APPLIED SCIENCES

University of Applied Sciences

Master's Degree Programme in International Business Management



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VALUE FINDING PROCESS OF COMMODITY PRODUCTS IN B2B SALES

Master's Thesis 2013

ABSTRACT

KYMENLAAKSON AMMATTIKORKEAKOULU

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HARRI NIEMELÄ Value Finding Process of Commodity Products in B2B Sales

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This research project aimed to study different variables in B2B negotiations that are likely to have direct or indirect impact on product price. The goal was to determine the ways that buyer and seller can have in negotiations in order to find as righteous price and value for product or service. The research was conducted with deep interviews with group of buyers and sellers. The results showed that in order to find right price for product, some basic criteria has to be fulfilled. Buyers and sellers have different views of the building blocks that create price for product. Therefore structural information exchange is as crucial between the parties even exceeding actual product or company based values. Still it was also shown that values and strategies of the company are also playing remarkable role in value finding between the parties. Parties on the negotiations table are always representing values and visions of the companies. Brands of the companies are sitting in negotiations and therefore impacting on value finding process in good or bad way.

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1 INTRODUCTION

1.1 Background to the study

Adding value to commodity product in B2B environment is very challenging. Recent regression in world economics has definitely not done it any easier. Procurement has taken steps away from networking and partnership. In worst case scenario, old business partners have been forgotten or sacrificed in order to achieve short term cash flow. However, in the future total cost of ownership and product value has to build up and find again together with supplier relationships. After all good and strong relationships bring value and are repairable through bad times.

1.2 Customer value and information flow

In several publications that are directed to sales negotiations training, the most common tool is to ‘add value’ to customer process and get monetary benefit or increased price from this ‘add on’ from customer. Perhaps instead of talking about ‘adding value’, one should prefer to speak with term ‘finding value’ for product or service transaction. In literature there are several definitions for customer value. One of the best and most simplifying is definition from Woodruff (1997). ‘Customer value is created when the perceptions of benefits received from a transaction exceed the cost of ownership’. In equation form:

$$\textit{Customer value} = \textit{Perceptions of benefits over Total cost of ownership.}$$

Again one comes to a point where there is need to give a number for perceptions. This is a two-way street. Probably it is best interest also for

purchaser to share information together with sales in order to clarify customer value for seller. Therefore we come to exchange of information. The seller and the buyer have to play the same game. As nicely pointed out by Hakala and Michelsson(2010) originally in Finnish, my translation:.’’ If the seller is playing African Star and the buyer playing Monopoly there is very limited flow of information between players.’’

In this thesis, first theoretical aspects or finding the product value from sales perspective is discussed. Then results are compared to see how well ideas reach the buyer’s point of view. As presented in Figure 1, information flow in order to find customer value depends on both parties. Buyer is in decisive position in order to find customer value by exchanging information, where seller’s role is to find right questions and build up customer value based from information received.

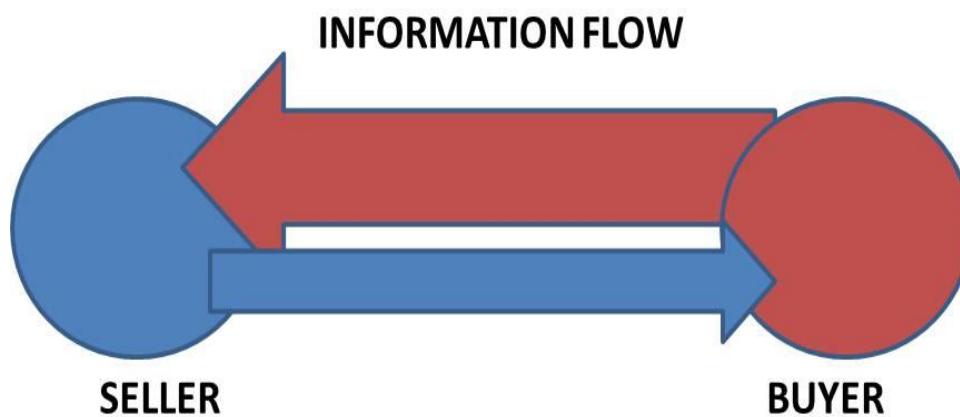


Figure 1. Buyer and Sellers position and role in information exchange

1.3 Objective and limitation of study

The objective of this study is to examine aspects that has impact on value finding'' process, further also to help seller and buyer to reach same level of information in order to be able to reach consensus in selling situation.

When both parties want to find solutions and customer value, then the following aspects have to be taken into account. In other words, lack of these aspects can lead to unsuccessful value judgment. Three major aspects are also presented in following:

BtoB sales skills are essential in order to play the game in business situation and also in the future. The buyer role is actually easier, because normally buyer try to achieve maximum value with minimum cost. The seller has to differentiate product and gather information for achieving the value proposal for buyer. Buyer is interested only TCO of the product and the presented (negotiated) value. If we would discuss pure commodity here like energy or equivalent, the best way for negotiations would probably be total ISCM view, were actually purchasers from both companies are negotiating together in order to find value for end product.

The second important piece of a puzzle is marketing and branding, even one have heard many times, that Branding does not matter in BtoB sales. I would take a different view and think Branding as a promise of quality. Also as long as people are conducting negotiations there is always some human factor involved and Branding can effect round the corner. Branding is a little factitiously considered as part of marketing management here.

The third aspect in investigation is to find a perfect added value is of course buyer and purchasing tools and goals that are used. That can be equally called purchasing skills. Nowadays one of the biggest pitfalls for buyer is management pressure for money. For example, if purchase performance is determined only by monetary savings, it will be close to impossible to have objective picture from products total value for company.

The last part of this research are questions asked first for sellers and then to buyers. In order to find out if sellers and buyers are having equal opinions or beliefs from value finding and improve knowledge of finding value together. Overall situation in value finding can be present at Figure 2 where two players are playing with their own cards and lot of external and internal functions are affecting the result of their game.

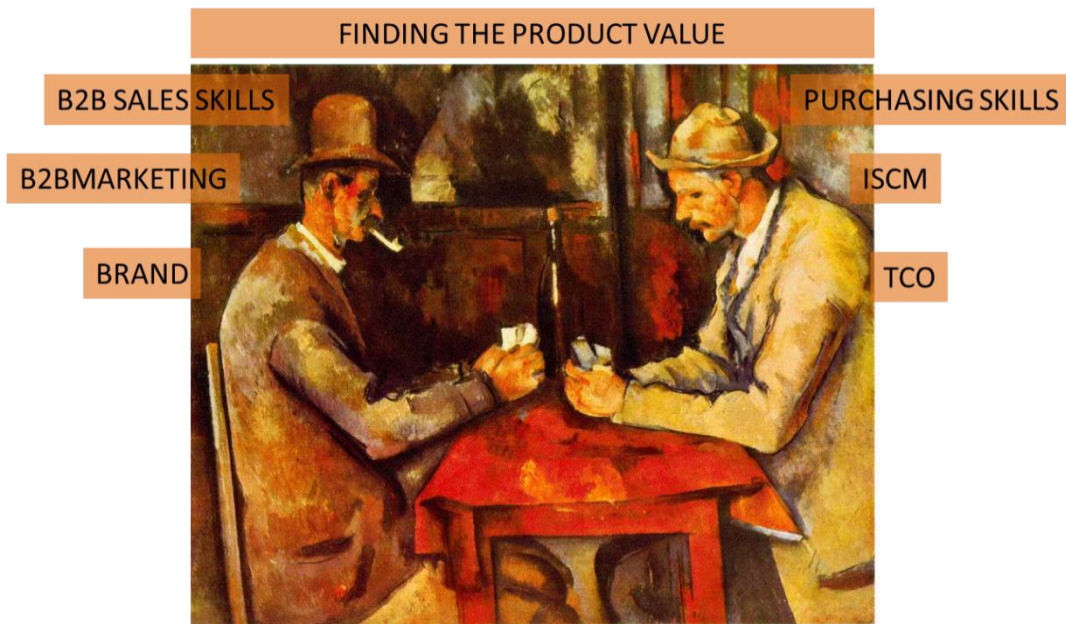


Figure 2. Paul Cézanne's picture from card players combined with important elements of finding the product value

2. BUYERS INTERESTS

Purchasing has changed a lot during last ten years. All major companies have concentrated their purchasing in order to fight against raising material costs. Purchasing power has transferred from user level to higher management level in corporations. Within this change there has been a need for increased team work inside of buyers organization when professional buyers have no glue by themselves for product value or criteria and therefore this information has to be brought for them for example in form of different category teams.

2.1 Buyer's strategy

All sellers sell products and all customers are still buying, but customers are not buying everything from everybody anymore. Customers are aware of their improved position and try to get all out of it. Suppliers are categorized not only by the product price, but also their possibility to bring future value for company in whatever form. Purchasing departments have developed different preferred supplier models for categorize sellers.

Customer's development of purchasing process can be categorized according to Hutt and Speh(2008) to four. I would like to see this stages also as different strategic plans eq. purchase can use stage 1 for non- strategic product same time when highly strategic product or service is handled according to stage 4.

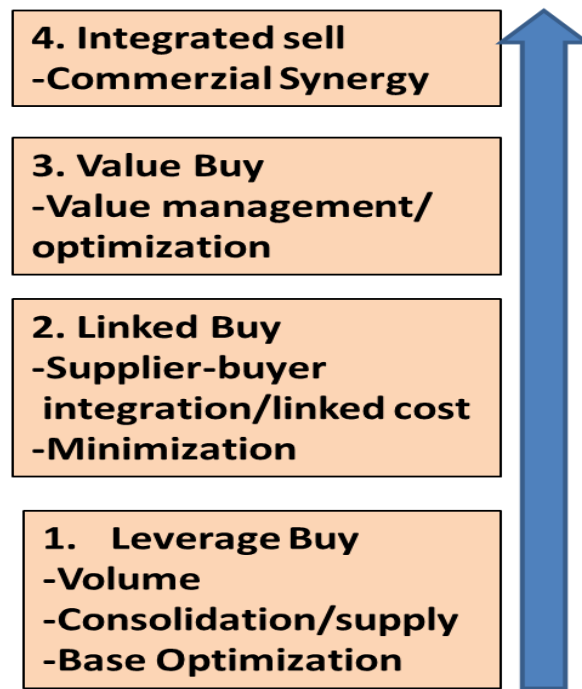


Figure 3. Four stages development of purchasing relationships stages (Source: M.D.Hytt&T.W.Speh2007)

Commodity customers in paper/board Industry rarely want or can develop relationship past stage three. Getting to stage two, when one is a chemical or pigment supplier can consider to be “work well done.” Nevertheless, in order to grow and find common value for the products position in higher ladders is a must for seller. Also remarkable observation is that when purchasing is adding strategic elements to value finding, as presented in picture, higher management in customer side will be involved and therefore seller has to be prepared to build up connections above daily base selling connections.

2.2 Buying process

As described earlier, buying process has become more complex and longer. Buying decisions have changed to business decisions. Process has its own strategic and political aspects together with versatile team members, which have

influence to business situation. Ellis (2011) has listed basic types of process participants. They are presented in Figure 4.

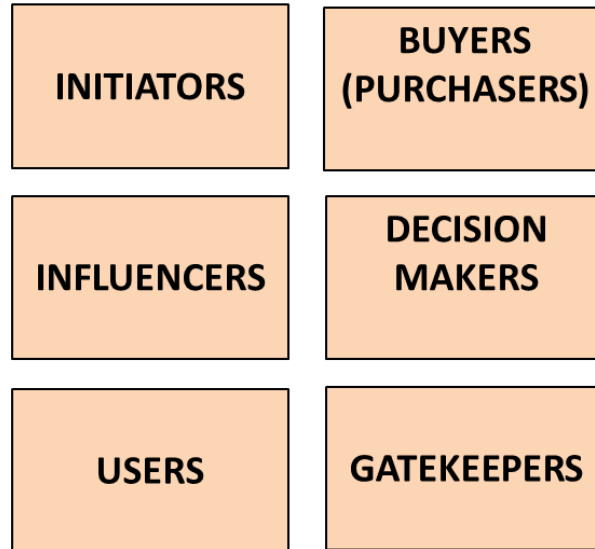


Figure 4. Potential members of Decision making unit (DMU) (Source:Ellis 2011)

In the following, the roles of each members are described according the Ellis(2011) and discussed.

-**Users** are the people who will ultimately use product or service. The role of the user can be continuous, especially in providing feedback on the performance of purchase. Selling firms will often try to influence these employees by the after sales support.

-**Initiators** are those who make the first request for the purchase of a product. They work as primus motor for buying process. Role can be taken by one of the other members of DMU listed below, such as the user. A single individual can occupy more than one of these roles simultaneously.

-**Buyers** are those who are actual buyers/purchasers with formal authority to order products from a supplier. They are often based in a specialist purchasing

department within the customer organization. Buyers are key players with a strategic view and possibility to make buying recommendation to both senior management and for final users.

-**Influencers** affect the decision making process by providing information and sometimes criteria for evaluating alternatives. They can be internal or external to client firm. Typically influencer is a person with special knowledge of competitive offers and solutions.

-**Decision makers** are those with the authority to approve purchases. In a normal case buyer or purchaser is often decider. In complex cases authority may not always be formalized. It can be difficult for B2B marketers to identify these members of DMU. Especially in strategic aspects decision making power is often in a hands of higher management in technically demanding product, sometimes to such a degree that these concerns can override issues like price and delivery times for the DMU. This is very an important way to build up product value to customer.

-**Gatekeepers** can control the flow of information to other managers in buying organization. Typical gatekeepers include buyers who have the authority to prevent sales people from seeing users and deciders, as well as technical personnel or personal secretaries. Industrial market will thus often attempt to build relationships with organizational gatekeepers.

In order to successfully find and produce added value to customer, Seller in B2B sales has to know all players in the field at least they role in purchasing process. Internal Organizational process itself can be presented in form of flow chart in figure 5.

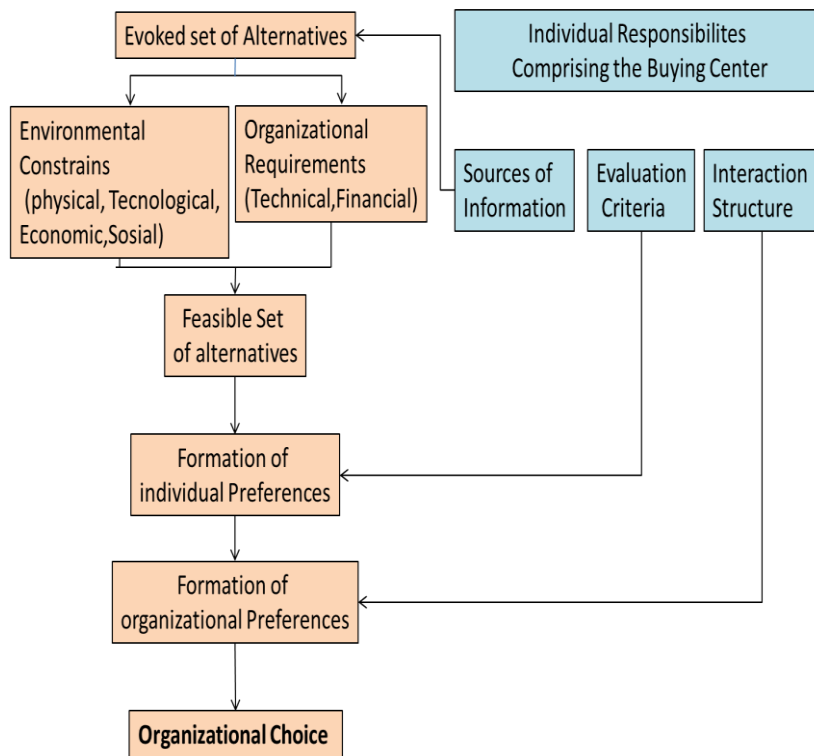


Figure 5. Major elements of organizational buying behavior
(Source:D.,Hutt&T.W.Speh,2007)

Even when we are talking Business to Business all the time, there is always a human factor present in decision making process. Personal evaluation criteria and customers interaction structure will ultimately have effect on organizational choice. We also have to keep in mind that products are not competing directly only against each other rather than competing against other business solutions. These solutions do not need to have anything to do with products but for example their value for customer is so much higher that they eat up space and time from secondary project. In paper chemicals business this is a common problem with retention aids. Direct customer benefit is so low that production people have no time or will to test them, when carrot in other high volume chemicals is bigger.

2.3 ISCM for increasing customer value.

In ISCM it is still hard to fill gap or build a bridge between company supplier's management and customer's relationship. As Peltola (2008, page 20) in her study mentioned: "Knowledge cannot be transferred without people transferring." Therefore closer co-operation between sales and purchase department is needed in order to decrease the gap. People are experts only their own field but customer is seeing and weighing company by its actions and not by individuals. Customer value can be clear to an individual salesman, but not known for purchasing department.

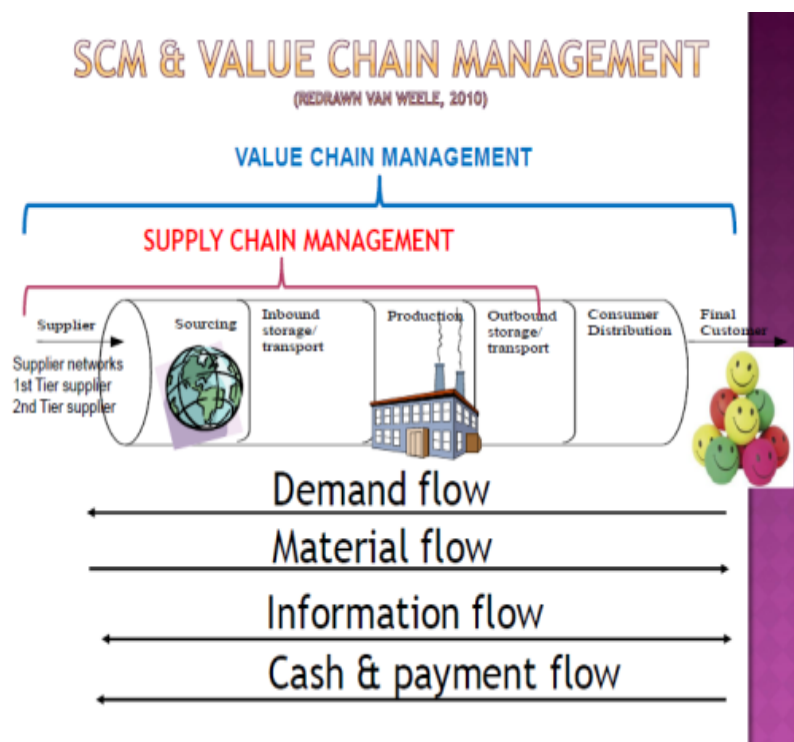


Figure 6. Flows of the value chain presented by Peltola (2010)

Therefore if we think different flows presented in Introduction to purchasing and supply chain Figure 6 , the most important flow is to be Information. In the end customer pays somehow to get what he/she wants and seller is delivering it. How deep this go is of course dependable on industry. However even in most common products, where customer values are limited to delivery security and price, ISCM can bring competitive edge by influencing to one or another. Customer gets lower price or perhaps is secured for deliveries. The more complex business transactions become, the bigger role ISCM gets to increase value to delivering process and therefore also for the customer.

2.4. New technology impact

IT technology development has opened a new toolbox for buyers. This is valuable not only by having different kind of direct auction or BID tools, but also for overall efficient information gathering from the market. Very often the first contact to a new partner is established with Google or similar search machine. Even when there are no direct needs for new and alternative products there is always easy and fast way to find one in pocket. Still deeper and most important, valuable information is rarely free and available. Therefore after the first contact, the buying process will go on its traditional path, where seller has to offer needed information.

Available use of technology depends on which business is chosen. Web also opens possibilities simply to 'Google' needed resources from a globe. Competition from customers is globalizing more and more all the time. SAP or similar RMP integration from end customers to raw material purchasing can connect subcontractors tightly to purchasing company and create cost savings for both at its best scenario. New technology is there and it is spreading but It do not necessary bring more value to commodity products automatically

3. SELLER'S INTEREST

Not only buyer's function has changed during the past decay. Also seller's and sales force tasks have been renewed. Sellers have responded to a corporate buyer development by adding more complexity to actual sales work. Number of sales person has decreased but same time also operating area has widened up. In order to differentiate selling company or commodity product role, of the sales person in B2B marketing has increased. Roles and tasks of the modern sales representative have been demonstrated below.

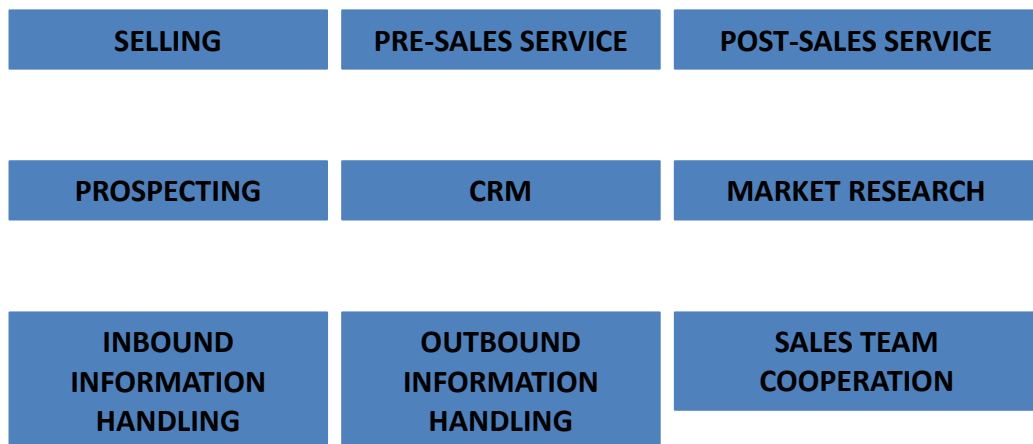


Figure 7. Typical tasks of the sales representatives (Guenzi, 2002)

From figure 7 it is easy to conclude that sales force is still a key to successful marketing, Securing branding and delivering right kind of Information flow to customer organization. Sales force has developed from carpet bombing to a precision strike era.

3.1 Sales strategy

Sales strategy is always important part of company's main strategy as a tool to survive and flourish. First of all, a sales strategy has to create added value for customer, especially in commodity products. Secondly it has to keep some of that value in own company and therefore create sales margin and profit.

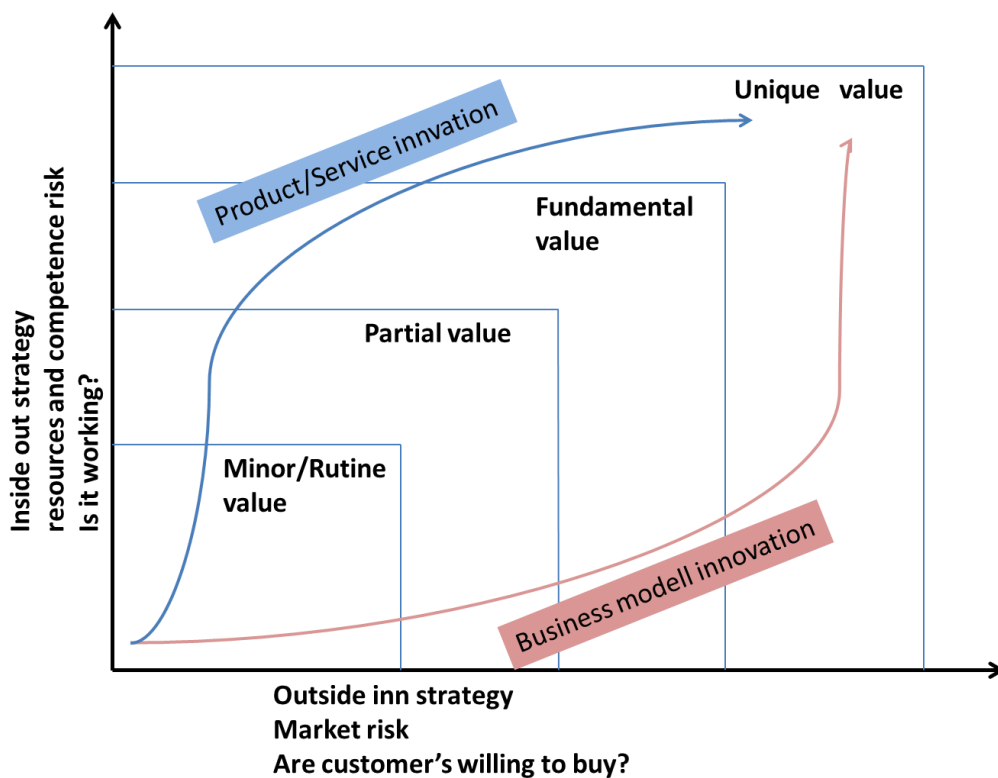


Figure 8. Different strategic paths, innovation and risk in value finding process (Santalainen 2005)

According to Figure 8 we can separate two major approaches to strategy forming theories. First is "outside in" strategy's and second one is called "inside out" strategy's. First one emphasis company's own competences,

unique possibilities and strengths and build's company strategy in that foundation. In second one strategy is build more according to business environment and company's positioning there. In sales strategy both are needed and combinations are used to deepen each company's values and core strategy's. Still if we truly want to rise customer to be number one in company's vision and values, strategic path should be curving more towards outside inn strategies. In figure 8 is presented strategic development and increase of risk versus added value achievement.

This model indicates that business risk will increase until the unique customer value is achieved. This is logical because if customer receives unique value from one of the suppliers, it is quite sure that this particular supplier will get the business. This claim is of course valid only if customer recognizes value. Therefore we come back to value finding process and information flow between seller and customer.

3.2 Brand effect to Product value

First discussions with sales professionals reveal thoughts that brand is not efficient tool in B2B trade. This probably is true if we think branding as a short term. If we think brand as overall promise things get little more complicated. When reading books about successful branding, it is good to keep in mind that going to ultimate raw material like fuel, it can be easily be bought from different sources from best offer seller. If one wants to establish longtime relationship for the future, game is totally different. Nowadays long term relationships are beneficial and wanted goal also for buyer, nevertheless this seems to be more exception, than common rule. Therefore let us have an impression or hypothesis that brand matters also in B2B.

The next question is how brand matters.

As described with Dunn & Davis (2004)

- A brand is a promise, therefore one should not expect brand to live along with you in sales rather than you have to live according to brand in your business.
- A brand is the totality of perceptions –everything one see, hear, read, know, feel, think etc. about a product, service and business.

Now we come to basics of our thoughts: If we determine value of our product as discussed earlier:

Customer value = Perceptions of benefits over Total cost of ownership.

At least in theoretically there are possibilities for starting to melt brand- and value thinking together. Generally one cannot have added value for commodities without branding.

- A brand holds a distinctive position in customers' mind based on past experiences, associations and future expectations. This will go through the whole buyer's organization and category teams. Again we are also coming closer to issues of people relationship and as top of all we again come together with common future of the seller and customers, as described earlier.
- A brand is a short-cut of attributes, benefits, beliefs and values that differentiate, reduce complexity, and simplify the decision making progress. Making sellers strong brand efficient tool for both partners in seek of partnership.

This goes well hand in hand with most important brand functions according to Caspar, Hecker, and Sabel(2002).

- Increase Information efficiency
- Risk reduction
- Value Added/ Image benefit creation

Customers' own brand can even demand certain type of sellers brand in order to function properly or to fulfill its own brand promise to end customers. If customer gives out promises as: 'We use only best raw material possible.' , 'Our raw materials are free from genetic engineering.' or 'Not tested with animals' This kind of statements can be easily found from companies advertising. Therefore changing supplier with strong brand has to be more risky that changing supplier with weaker brand. A totally different aspect comes when raw material producers brand is linked to weaker customer brand. These kinds of examples are of course more common in B2C environment, but sometimes commodity product is also more than just a raw material and that is the point when Brand steps in to a ring.

There are couples of examples of successful commodity branding presented by Dunn and Davis(2004) One from a brick industry and another from steel. In both cases value of commodity product has been 'upgraded' by branding. Therefore customer perceived value \neq commodity price. It is actually much higher than the price. This situation has been achieved by holistic branding approach, where everything from the development, design, to the implementation of marketing programs, processes, and activities is recognized as intersecting and interdependent.

Seller Company's brand is a mirror image from people expectations in customer organization. In other words of Kotler & Pfoertsch(2006 pp241-245):

Sellers brand is promise, the totality of perceptions-everything customer hear, read, know, feel, think, etc. –about a product, service, or business. it holds a distinctive position in customer’s minds based on past experiences, associations and future expectations. It is a short cut of attributes, benefits, beliefs and values that DIFFRENTIATE, reduce complexity and simplify the decision-making process.

Another advantage having services as a part of a strong brand comes from services nature itself. You can give as lousy service as you dare if 1) Customer accepts it due to a lower price 2) Your competitor is not giving any service. In both cases customer has good impression from your service whatever the truth is. Again the value is formed by the customer and not by the seller.

Above all sellers brand has to be professional and clean. Dealing and executing sales plans with people in buyer’s organization is easier then. If people have already pre-understanding for example feeling or impression that this company is old fashion, not service oriented or outdated. It will be very hard to change this vision inside people head and convince them from your product value. Furthermore the desired information feed will not get through the customer organization to buyer/decision making level in a form that one wants.

Most typical way to try to increase product value is service offers. Offers are given despite the fact that the service may not be needed at all. Seller anyhow tries to wrap product to a service and expect it to increase product value in coming price negotiations. Service is part of a brand. In commodity business it must be essential part, if customer buys it, but it is only a part and need to be once again determined by customer.

According to (studies made by) Anderson and Narus (2004), brand can make a difference in customer mind setting in following way:

- Greater willingness to try a product or service
- Less time needed to close the sale of an offering
- Greater likelihood that the product or service is purchased
- Willingness to pay a price premium
- Less sensitive in regard to price increase
- Less inducement to try a competitive offering

Therefore also in commodity sales, brand can have impact in product value and what is most important to increase the price band of product.

3.3 Sales planning

Field Marshall Erwin Rommel stated; “Sweat saves blood, blood saves lives, but brains save both.” This is also true in business planning. This time companies are not saving blood but time and money. In most cases resources for sales are limited. Sometimes for one reason or another even decreased below actual needs. Therefore we should save time whenever we can even over money savings up to a certain level.

Another important factor is how sales planning is connected to value finding process is product value in customer organization. It is crucial to spread internal and external knowledge from product value as fast as possible. Here timing is everything and all pieces have to be put together just before final meeting with purchaser, there is no point to have a lot of technical or some other action long before sales meeting. Good example can be found from athletics: All work done during the year has a purpose, however condition peak for athletics has to be in world championships and normally one can only have two good condition peaks during the year. Therefore work done around a year is very important for basic level of performance where sales negotiations are championships. Make sure your customer sees your company and product then at your peak of performance.

Figure eight presents changes in product value due to sales actions marked as green arrows. The last green arrow is after sales action and main sales actions are planned and executed just before sales negotiation. However arrow at the right far before negotiation is also important as keeping knowledge from product in customer's organization up. Another important remark is that product knowledge and value increase only after sales action regardless whatever that sales action might be. As presented in figure 9. It can also be one of the famous P:s but it has to be planned beforehand. I strongly believe that you can let your product value in commodity products and in B2B environment to fall after sales negotiations. First as explained earlier it will fall anyhow because customer considers this product pricing project completed. There are other important matters coming in and customer is (hopefully) happy. Therefore after contract closure information and value are not going hand in hand anymore.

The secondly main aspect to keep in mind is not to reach the sky all the time but rather keep basic knowledge from product value in a higher level than competition. If your competitors keep value low you should do so also, because you do not want to invest time and money if you cannot get them back as better preemie. After all, high preemies are not for highly competed commodity product. This applies only of course if you sell commodity instead of brand.

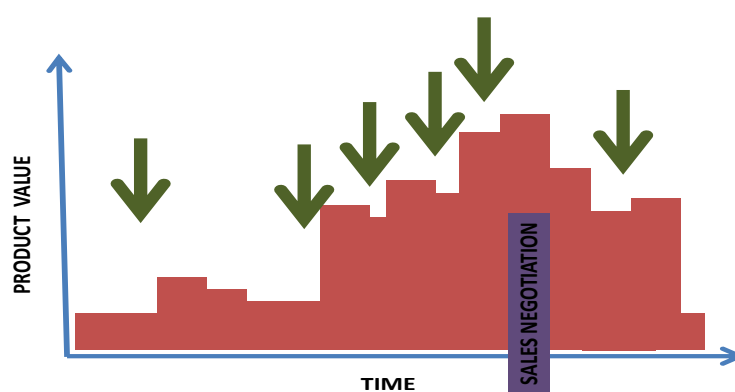


Figure 9. Planned sales actions in sales and marketing process

Previously has been presented different roles for different people in customer organization. Different roles have to be dealt in different time in sales and marketing process. If one fails to convince the gate keeper of customer organization you are pretty much roasted. Playing games with people around customer organization in order to evade gatekeeper is very seldom successful and should be avoided, but of course if there are no other options left that can be done as well. Therefore contacts to gatekeepers have to be in first priority especially in business development and pre marketing phase. One should not forget them even when the product is accepted in and business is smooth. Initiators have very often role of gathering new information and new products for customer. They are very dangerous to existing business if left alone too long. Very often it is better to drown them to information every time possible.

Influencers and users are creating most of the product value information for buyer's needs. They create base level of value inside of customer's organization and therefore especially influencers have to be dealt and meet more intensive as closer time for price negotiations come.

Buyers and decision makers are sometimes the same person, other times not. What is common in a big organization this people rely mostly on information given them by they own organization. Meeting this people more than once per year by having price negotiations or not is needed. Meeting this people allows seller to compare knowledge from product value to customer's information. Seller is able to see how and where biggest differences between the sights are. Afterward we have to adapt our sales plan accordingly in order to influence these people through they own organization. It is needed to keep in mind that each organization has different roles even to such extension that one person is gate keeping decision making purchaser with initiator status. There is lot of cultural differences.

One example when to contact different people in different time frame is presented at figure below. There is always a risk that product value is lower than expected, also people do not like to be wrong. As shown in figure 10. It is important to share information after sales negotiation also to gatekeepers and initiators so that they can in best case increase their own professionalism and competence value in customer's organization.

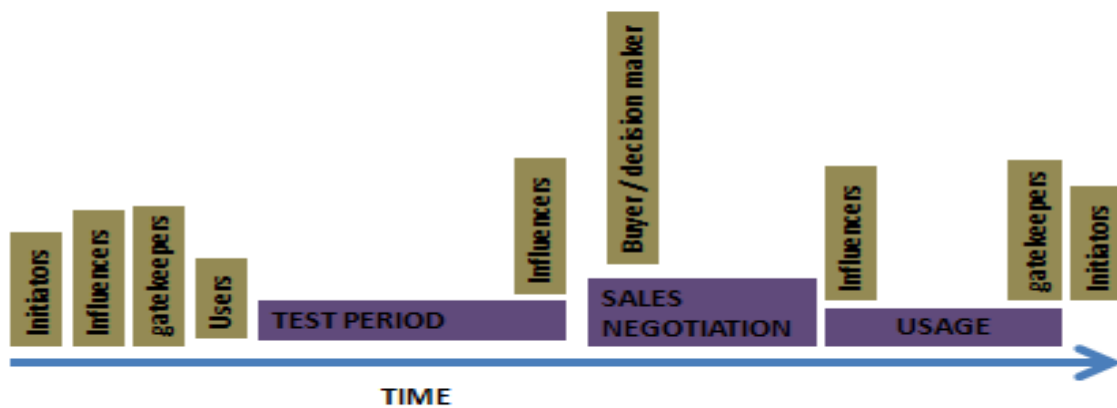


Figure 10. Meeting different people in different stages in sales and marketing process

3.4 Negotiations and value finding

Good negotiation skills can never replace sales work well done. This sales work is done months or years before actual price negotiations start. When negotiations start all needed information have to be in the table if one wants to close a deal on a spot. Secondly we are negotiating with a human and buying center. To clarify the complexity behind a buying center (and behind our possible deal), its influential dimensions are presented below in Figure 11.

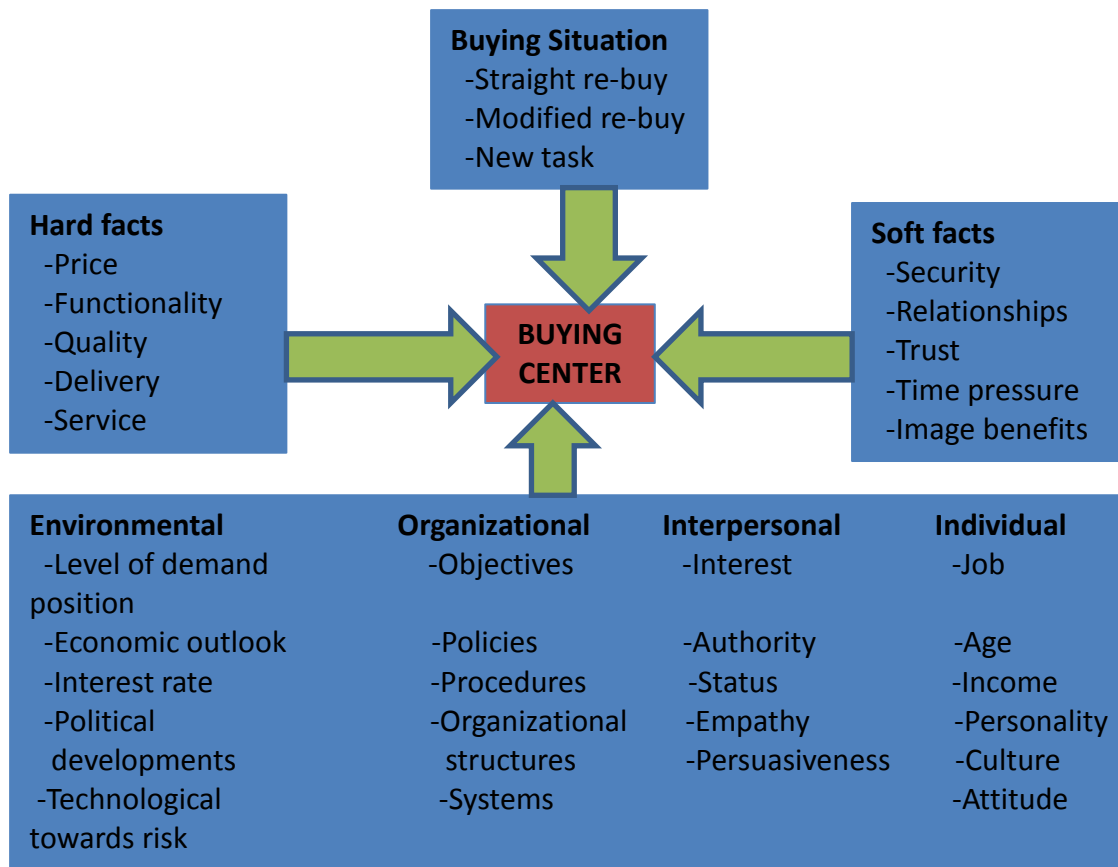


Figure 11. Influential dimensions on the buying center(Source: Kotler & Pfoertsch 2006)

Negotiating buyer is presenting buying center and consciously and unconsciously carrying all the information and expectations from organization. Negotiation situation is very often presented as price bands. In the buyer's point of view is to find out sellers low end of the band. In other words sellers walkaway price. Of course Sellers interest is to get highest possible price from a buyer as close but below buyers walk away price.

There are a lot of studies around this topic where different authors courage to find another solutions or package deals with different by product. Other authors promise results by creating open atmosphere and fishing yes's together with some other psychological approaches. Problem in B2B is that buyers have gone same courses and very often see through this kind of circus acts.

At the end in commodity business it is all about the price. It all fall to a price, value and information on situation. Instead of comparing seller and buyer price band it is important to compare buyers' price bands. Situation is presented in Figure 12.

The buyer and seller are in a best case scenario not competing each other. A buyer's different choices are competing. These choices consist of different product solutions packages, with all different internal and external information. If we compare solutions C and B from figure below, it is easily seen that even with good negotiations solution or commodity C can never reach same kind of pricing than our solution or commodity B. Solution C provider have no other choice than try to add other different solutions to package in order to achieve a package deal. This, however, leads to a more complex situation for both seller and buyer. After all, solution value band consists of prices that customers are willing to pay. If one single customer's price level is far below average, it can mean that this customer or buying center is not fully aware the value of the commodity or solution. It is the seller's best interest to bring this information to customer organization. From this thinking pattern comes also other obvious opposite example

If customer is constantly negotiating in a top of seller's price band, this usually means that customer has found more value from the product than seller. In this case and in a long run it is also the buyer's interest to share information and pay higher price. In short term this kind of behavior is of course insane, but value lies also in relationships and how seller sees potential sales growth and development in the future.

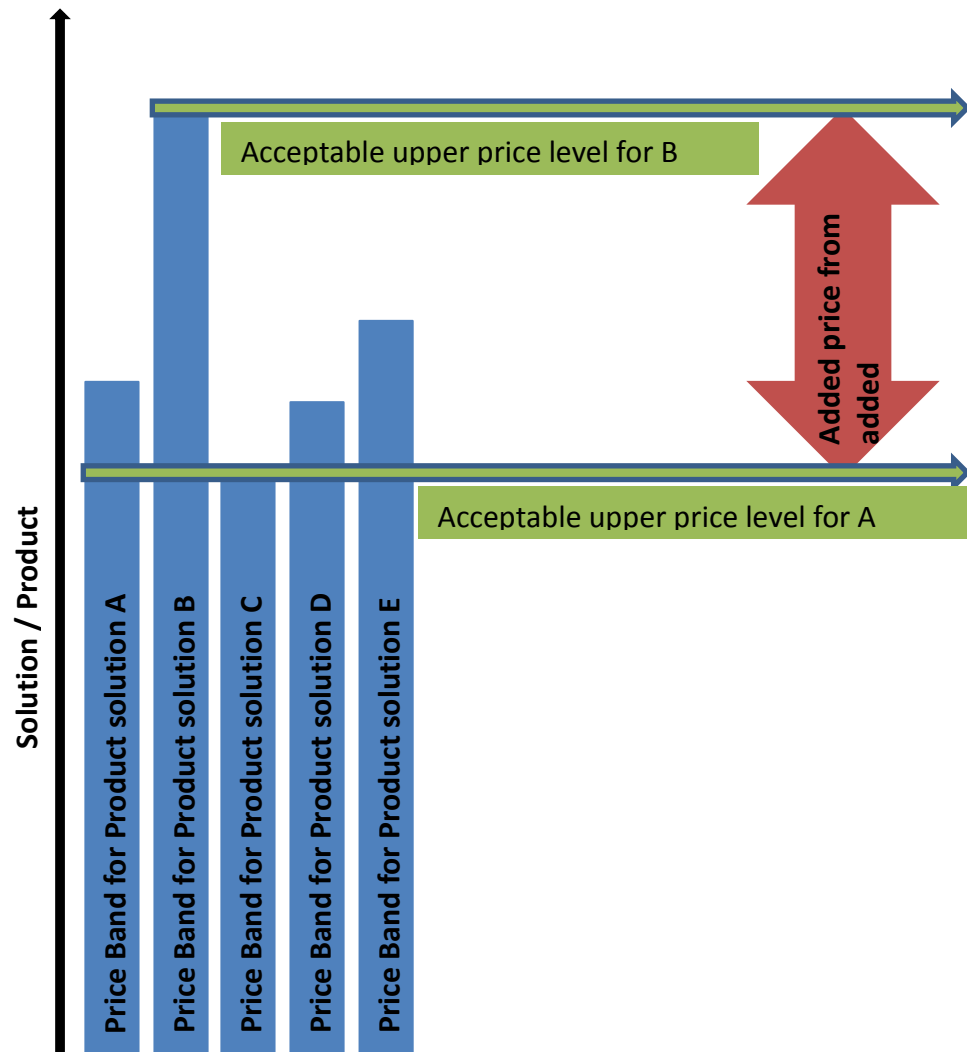


Figure 12. How marketing and sales efforts impact on buyers price bands in price negotiations

There are also situations where bids tend to fail in order to bring savings (not value) to customer. If the bid itself does not bring extra information to the negotiation table and information is not available or in tacit form in customer organization, the danger to reject best valued offer because of the price is imminent.

4. VALUE FINDING IN COMMODITY PRODUCTS EXPERIMENTAL PART

After small walk throw and framework of buyers and sellers motives and theoretical inputs in negotiations process in chapters 3. and 4. The following chapters aim to give more practical approach for the seller and buyer game.

4.1. Research method and approach

Value of the product or/ and service is also very subjective feeling. Everybody has slightly different opinion and key value points. In order to get statistically reliable results, also industry and products should been limit very carefully. This was not possible therefore interviewed people present different industries and results giving perhaps wider and more fundamental results.

Ten sale people and equal number of buyers from different multinational corporations were interviewed. Main idea was to have simulation from topics that sales can use in order to create value for product together with purchasing partner. During questionnaire some deep discussions and major points were taken into account and remarked. Deep discussions and analyses were in a major role in order to evaluate trends and general lines were seller and buyer relationship or buying game was heading. This was done on the common level and conclusions are reflecting more guidelines than exact statistical truth. Areas of negotiations are differing from person to product until corporate issues. Due to a small number of interviews quantitative research has to be considered not to be statistically reliable. It still gives good support for discussions and results revealed in qualitative part of research. The empirical data is a source for emerging theory rather than a tool for theory testing. (Bryman – Bell 2007).

Deep discussions were conducted in a classical funnel method. More general discussion were completed first as they were based on multiple choice questions and led discussion to more topics around the actual value finding process.

In next phase participants were asked to reveal three major points in value finding. Discussion sharpened to core of value finding process and idea was to then crystallize discussion for final question and main factor in the process.

4.1 Questionnaire

Sales and purchase people were asked to give ranking from 1 to 5, if topic has an effect on product value in negotiations. Number one (1) was with no relevance into a value and number five (5) had significant impact on value creation. The following table 1 reveals the topics that seller and buyer could use in negotiations to add some value for product value finding process.

Table 1. Overall playing marks for value adding in negotiations presented as options in deep interview.

Company values		Sellers value chain monitoring		
Company strategy		Plan B		
Company good reputation		Domestic company		
Product performance(internal)		Good condition of logistical equipment		
Product performance(external)		Buyers knowledge from sellers product and logistics		
Long business relationship		Overall flexibility		
Technical competence		Tie syndrome		
One stop shop		Fast company response		

Due to a fact that in questionnaire value 1 means no impact we can draw conclusion that values 2-3 represent low impact and 4 to 5 high impact. Further, we can make assumption that sum value from all answers give similar limit were total figure below 15 means low impact and above means high impact for product value. This is very robust and violent but gives as at least idea of what

kind of cards to collect in our stacks to play along in value finding card game.

We will consider high impact topics as a court cards with ace at the top.

Looking at answers we get following court card decks for purchasing and sales:

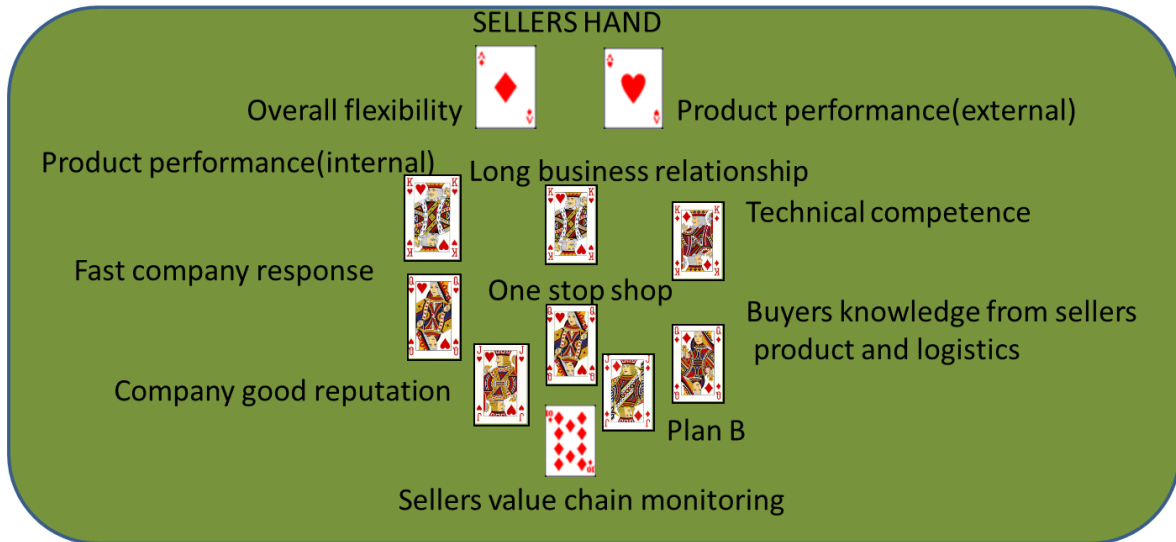


Figure 13. Selected court cards that have highest impact on product or service value from the seller’s point of view

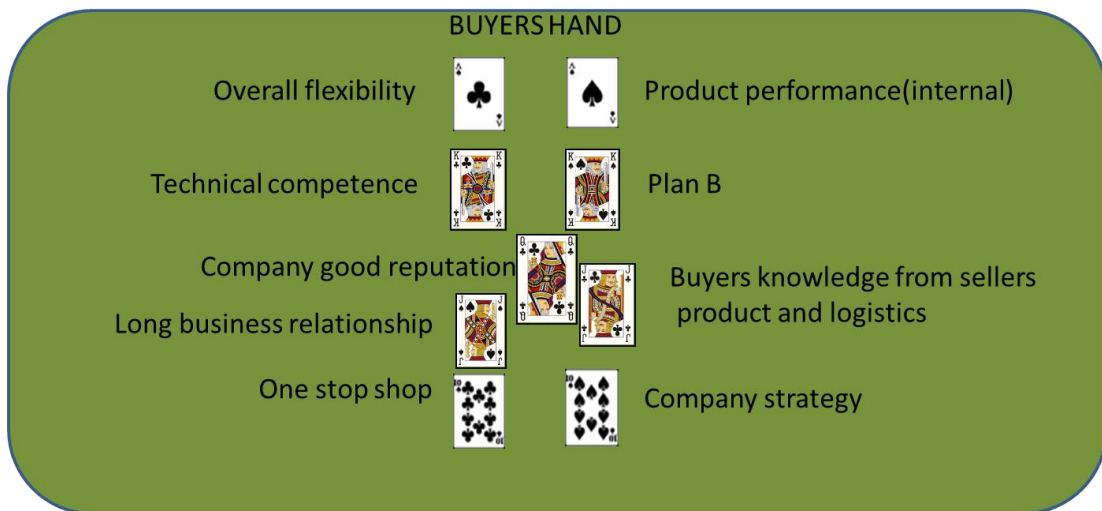


Figure 14. Buyers hand of court cards that should bring value to negotiations

Challenge is now to get buyers and sellers decks to comply with each other at least with most value creating cards like Aces Kings and queens. Keeping mind same time, that even tens have impact on value finding process. Argument cards valued below 10 have marginal effect and therefore are considered not to be so important for the process. Now let us have a closer look for results.

4.2 Sellers company prestige

First, three claims were connected to Sellers Company and how buyer sees it versus its competitors. Company values were presented as been slightly higher values from seller's point of view. The basic line was to fulfill basic demands of buyer organization like for example: No usage of child labor in production. Seller's expectation from importance of organization values were exceeding those of buyers demand and expectations overall not going to details but in general level.

The company strategy question is presented so that it fits perfectly to the buyer's industry or company being almost like mirror image or answer to the buyer's long term needs. Surprisingly buyers see company strategy as much more value creating tool than sellers seems to think.

Reputation of the seller company was also presented in general level and generally higher than competitive company's reputation. Competitive company's reputation was on neutral level and was neither good nor bad. Reputation was considered to be soft value or well-known fact from seller's perspective. Reputation was ranked high and equal in both camps. Buyers seem to respect it slightly higher than Sales do. Sellers Company's goodwill's impact on value creating of product is shown below in figure 15.

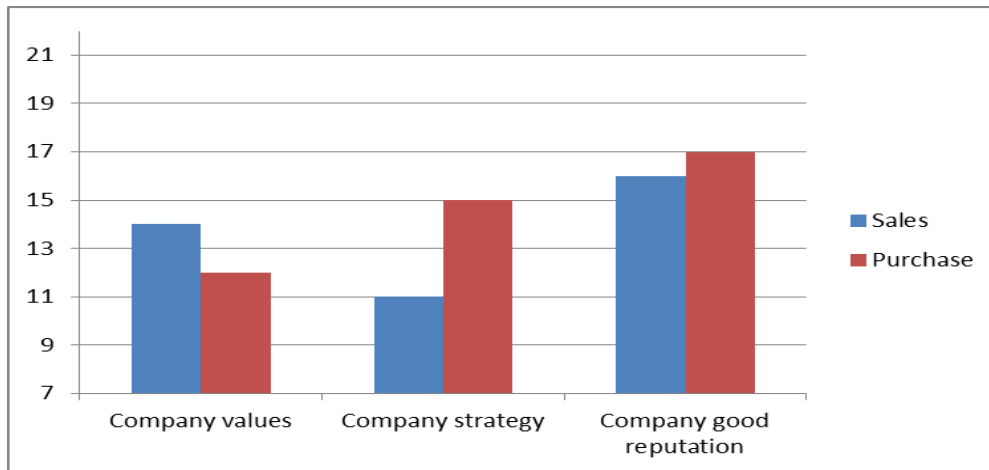


Figure 15. Seller's company goodwill's importance in product value finding

It can be seen that only good reputation and strategy compliance of company are considered as major playing card's to find product value. From buyers perspective values have more impact than strategy and purchase sees things totally other way around. In commodity business purchase has much more influence in negotiations therefore we should give court cards to both strategy and reputation.

4.3. Product related value

The second two claims are normal sales arguments of product performance. Often used as essential parts in value proposals. The third is technical competence presented as knowhow of customer's (Buyer) process and end customer's needs. Product performance was presented as information flow in negotiations either coming from inside buyer's organization (Internal) or presented from sales (external). Technical competence was presented as knowhow but also as technical service that is needed. In this case there was no possibility to differentiate price of technical service from product price and some technical service was required.

Product performance is easiest way to add value to product. This remains true even when purchasing is aiming for Total cost of ownership or simply for quick and dirty savings for short term purposes. Although even when product performance is the most valuable asset, there is still huge difference in valuing of information. Information from product performance comes from internal channels it is more valuable than coming from sales person. In this study sales persons have very strong confidence for their sales skills. This can be seen in the fact that sales people appreciate external information channel in negotiations higher than the customer company's internal information. On the other hand, purchase sees information coming from salesperson far less valuable than actual internal knowledge from product performance. Nevertheless both have ranked product performance information very high in value finding process. Technical competence is clearly extremely dependable from product and its usage. In both parties it is seen as major component in finding value to product, still sales part tends to value its ability to increase product value more than purchasing.

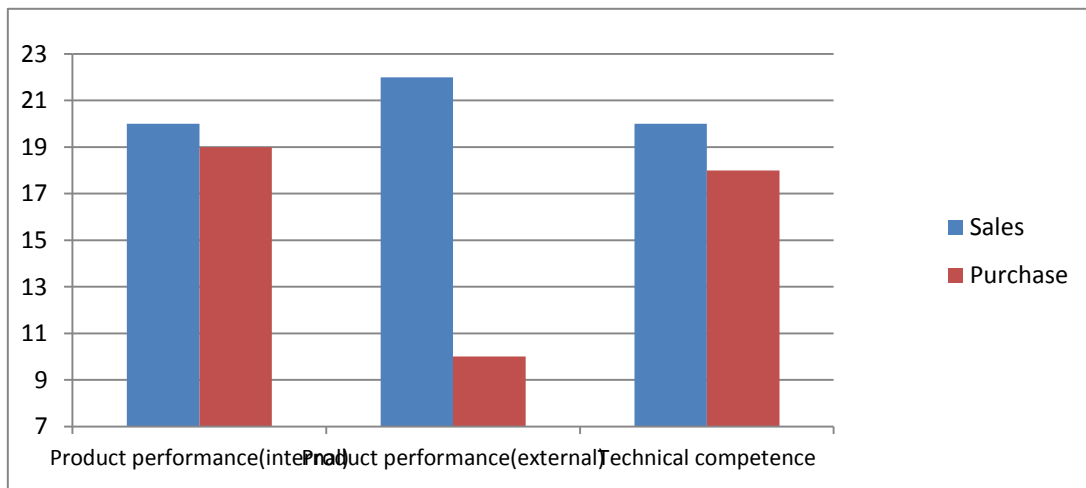


Figure 16. Product related and technical competence importance for value finding

4.4. Value of business relationship

An old phrase says: 'It takes five times more money and time to get the new customer'. However good business relationships count and it is possible to evaluate it in B2B world. This was actually asked quite directly as a question of its own. Flexibility is seen as part of good business relationship. Third slightly loosely bound topic for this category is possibility to offer back up plan for negotiations if something goes wrong with original plan. This is called here as plan B.

In discussions and in questionnaires it became quite clear that value of long relationships has fallen in face of purchasing. They generally thought that to be unfortunate because as one purchaser described 'Long business relationship eases up negotiations, you have less surprises when you know seller and are speaking kind of same language.' The difference in opinions is clear: sales partner is promoting and valuing good relationship far higher than purchasing.

Flexibility has been ranked to be top influencer in value finding process hand in hand with product performance. Somewhat surprisingly purchasing part is valuing flexibility even over product performance. Most likely this is caused by too small take in research, but it tends to show how important it is seen by purchasing now days. Flexibility is also seen as reliability. Topics that were connected to flexibility in purchasing point of view in discussions were 'keeping the promises, seeing the total picture and clear and understandable contracts.' From first glance perhaps sellers are perhaps not considering these to have anything to do with flexibility. Sellers still see importance and try to improve it clearly in business relationships.

Some sellers thought plan B to be out of value due to a fact that plan A has to work in all conditions, when in the other hand purchasers valued at least possibility to have a plan B more. Perhaps in sellers mind sc. plan B presents separate effort to back up failure of original supply or business transaction, when purchasing is taking plan B to be more like backup and essential part of transaction. Results from business relationship part are collected to figure 17 below.

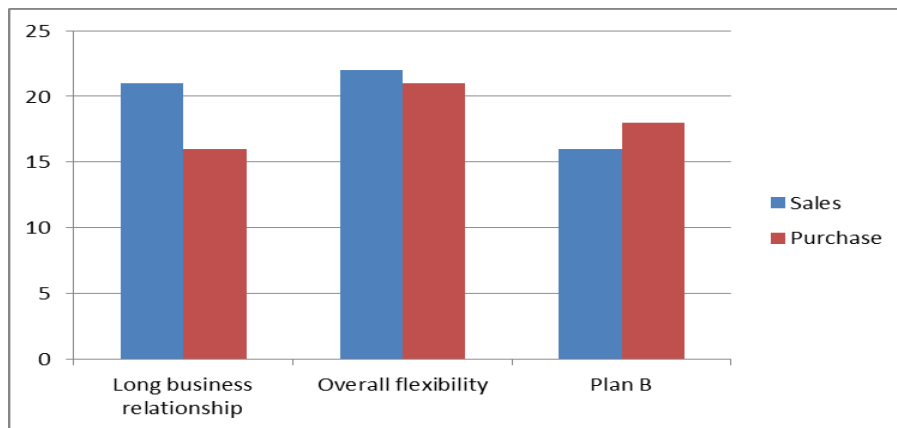


Figure 17. Impact of certain business relationship topics to value finding process in negotiations

4.5. Impact of visible logistic solutions to value finding

Different add-on options from logistics are widely used in business and price negotiations. Usually sellers are providing these to differentiate from competitors and also directly trying to add monetary value in unit price. Three types of Information or marketing solution is added to this study. First is purely technical possibility for purchasing party to monitor sellers logistical chain. Second option is more advertising related where logistical equipment's used in business are shown in top conditions and possibly packed with brand information. Third option has more to do with relationship marketing by

offering purchaser possibility to see own eyes how commodities that are bought are manufactured and supplied to buyers premises. Third option naturally assumes that this chain is visible and seller is capable of showing it in excellent light. Results have been presented in Figure 18 below.



Figure 18. Some logistical options of value adding process

According to this study, a good condition of logistical equipment is not providing value for product price. This can be seen from answers of both parties. The conclusion means not that brand information has no value in for example transportation units, more like it is reflecting the fact that it cannot be used directly in price and business negotiations. Branding and brand information will require and need transportations units to be in top shape on the move as part of image that one wants to create.

Technical solutions for supply chain monitoring are also not considered to be very valuable. As one purchaser commented; ‘‘It is nice to know information and I have other things to do also.’’ Generally sellers thought this to be more valuable than purchasing part.

Unlike two others personal knowing of seller's process and delivery is considered higher. In discussions with purchasing this option has seen as a part of reliability and in seller point of view more like part of business relationship, difference is clear but not necessary confronting while both parties see here a possibility to bring value in business although speaking slightly with different tongue.

4.6. Sellers toolbox

In price negotiations sellers tend to have a toolbox of measures that they believe to have minor or major impact on negotiations some of those 'tools' has been collected here as minor parts in value finding process.

One stop shop is highly promoted sales tool in order to add value to negotiations and increase capability for package deals. In questioner package deal was not considered value adder for several products as such, but a way to increase value of one component in deal. Promoting package deals with only one variable is of course very artificial, but in this case the idea was only to find its potential value or lack of it. In results sales side was having higher value for the concept, than purchasing. General comment from purchasing was that one stop shop cannot increase product value just by being an option. Some of seller companies have tight dress codes. 'Tie syndrome' question is formed in order to find if dressing can give any added value for commodity business. Generally external habitus was to be more important to sellers than buyers. For purchasing this tie syndrome had very little value to offer.

Another company behavior that was questioned was speed of response from commercial side. Very often in quality systems time to answer for customer request is determined. According to this study purchasing sees less value adding

in this matter comparing to seller side. One can almost say that sellers have too bright view and expectations when it comes to fast response. This study shows it is not philosopher's stone for value adding.

Last question was considering origin of the sellers company. In this question both parties consider this to be have very little impact on product value. Results from this section are shown below in Figure 19.

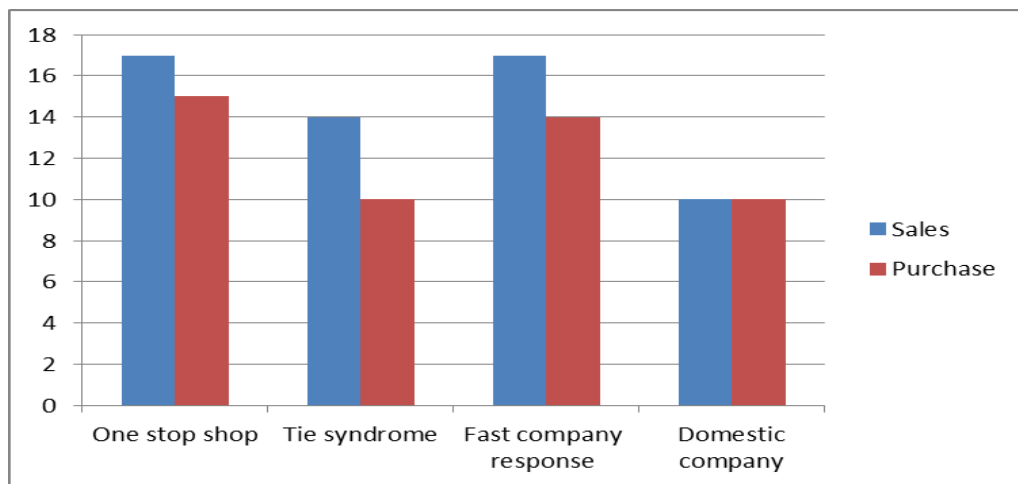


Figure 19. Expectations for value finding in some of major sales tools

4.7 Show stoppers price and trust

Participants were asked to give three main topics as a base for discussions what are main factors for impacting choosing product over another. All participants were also asked to give ultimate show stopper that kills interest right away in negotiations game. As main show stopper for game purchasers saw lack of trust and reliability over price issue. Their counterparts as sellers tend to give higher value for pricing product to match imaginary price band of purchaser.

In discussions main concern for sellers was price. Purchasers weighted pricing but also were keener on for reliability. From one point this is interesting because answers were price related rather than value or total cost of ownership. Price level was seen as a show stopper in half of the discussions, both in purchasing and sellers participants. In other hand Purchasers tends to emphasize value adding as main topics in choosing a product. The results are therefore somewhat contradictory.

Crude pricing situation in negotiations can be presented as in Figure 20 below.

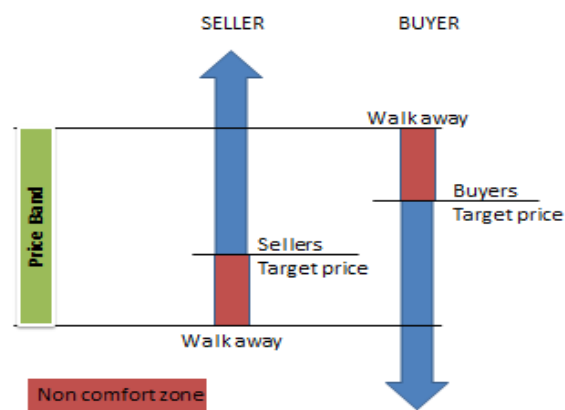


Figure 20. Price band, its limitations and comfort zones in raw price negotiation

If we reflect discussions and Figure 20 we can make following conclusions: It may turn out that sellers opening price for superior product exceeds buyers walk away price and buyer lost interest in product regardless the product value. In negotiations this will be only obstacle as parties can try to find added value for product. However in all electronic bids and written proposals there is big chance that buyer loses the opportunity to get best possible product. Other option where buyer can lose game before it even has started is new products. Price band is also determined by other products for same applications. Therefore purchaser

can have totally false price band in his mind comparing to seller new product for old application. In this case seller should prepare buyer as good as possible before negotiations or it may be too late when cards are on table.

Most of sellers are keener on choosing 'right' price band than purchasers. This may reflect the fact that sellers are somewhat more away from companies' operative actions unlike purchasers. Also seller's effectiveness is most often measured by sales revenue. This all may highlight price over value in sellers mind and also decrease ability to take risks in pricing as it may lead to negative result in selling and therefore reduced sales revenue.

Main show stopper for purchasing was as described earlier, the trust. In this case lack of trust. Trust is considered to be formed in several aspects. Here are some that came out:

1. Trust of product performance level to be constant
2. Trust of product deliveries be on time and inside specs.
3. Trust of deliverer to keep promises

From sellers point of view trust always came up in some form with different definitions in top three effective factors for expectations for purchaser for choosing a product or service. But obviously sellers should weight that issue more in value finding process.

5. FINAL CONCLUSIONS AND MAJOR DIFFERENCES IN BUYER-SELLER INTERACTIONS

The purpose of this research project was to find parts and factors that buyer and seller can use in order to find common language in price negotiations. Buyer has to understand what the main values and value bringers are in eyes of a customer and vice versa. Some general findings from sales negotiations transaction, differences in parties' thoughts and expectations were discovered. Research also brought some interesting unexpected value bringers to surface for further discussions. Deep investigation method is good and gives valuable information also around the original topics. Downside of survey and research is clear. Survey should be better directed and focused to a more specific type of industry or to be limited by specific company. This was not possible to comply with resources on hand. Also amount of discussions with sellers and buyers could have been bigger for better coverage. More limiting research from same topic could be beneficial for any company. This research can be used as foundation for that kind of surveys and hopefully a platform for value discussions in pricing.

At the personal level this survey has revealed even better importance of planning, strategy and branding in sales process. Information flow and being more specific controlled information flow is one of key parameters that need to be improved. From my company's point of view this research strengthens MetGen's current strategy with strong Brand building and commitment to full fills customer needs. MetGen operates in area of high value products and services and therefore it can only benefit from some of the findings. It anyhow will have impact on Strategic review and steps that MetGen's sales will take in the future. Other companies will have to find their own relevant piece from this research as it fits to their realm. Even starting a discussion around a topic can be consider as courage for this kind of wide and not so deep research.

Value finding game is complex and demanding business situation. Seller has to find consensus with buyer for determine value, added by seller's product or service. Possible lack of or wrongly presented information can course buyer to have false picture from value and led to conflict between value and price. Both parties have to keep in mind that purpose is to find best solution for buyer. This has very little to do with win – win thinking. I value finding process there are no losers and someone wins more than the other one. If one can in negotiations not find common value there is no other alternative for lower price. When lower price normally hurts more seller that buyer it means that buyer has to have more active part in bringing ideas and options to a negotiation table.

In order to sellers basic information to reach buyer and lead to a common value finding and information exchange there can be found some rules from this study that may be come useful.

- Show strategic fit of companies together with solutions
- Let buyer define performance, You proofs are secondary
- Be flexible, presenting plan B is not a bad option. It is signal for reliability not weakness in delivery
- Develop your long term relationship by gathering goodwill, long relationship with out goodwill is worthless
- Except strategic fit seller is not interested in your company but your solution
- Surprisingly seller is most likely not interested to know how your logistic chain works.
- Be honest

Purchasing has normally higher in skill levels and is in better negotiation position for value finding still also for purchaser can some hints be found. Reflecting the current cost cutting attitude:

Price comes always after value. When purchaser is in so deep that there is need to determine price first, let seller know that. Therefore there is possibility for a discussion from other alternatives.

Seller and seller's company should keep reliability and trust as their most valuable asset. New companies will have to fight as contender. First matching and then overcoming older ones in order to build that same trust that old companies have. Being equal is not an option; you will never be a champion by being equal. Trust is good will that company collects for a rainy day. More trusted company can make more or worse mistakes than less trusted one, but same time eating goodwill reserves. When contending company collects more goodwill, new champion has born.

From trust and reliability and other aspects discussed in this study, there is not a big step to company Brand. Most likely company with better brand will get better price. Price difference may be lower when pure commodities are in discussion and higher when product has strategic value or need extra services. Brand works other way around also. Company with bad reputation with suppliers will not get best possible value, prices perhaps yes. There is nothing wrong to use negotiations power when available. Negotiator has to keep his own company's interest at the top all the time, even when finding value for product. Still It is good to keep in mind that tomorrow rises a new day, friends may become enemies, whole industries can rise and fall like individual companies. There will be new negotiation and new value finding waiting for finding.

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