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CUSTOMER VALUE COMMUNICATION IN INDIRECT DISTRIBUTION CHANNELS

Master of Science Thesis
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ABSTRACT

Jaakko Kanniainen: Customer Value Communication in Indirect Distribution Channels
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Business customers' purchase decisions are driven by their perceptions of value. However, the actual value of an offering is realized only when the offering is used by a customer. From a sales perspective, communicating the value associated with an offering can help a customer understand how the future use of the offering would impact the customer's business. Due to the financial orientation inherent in business markets, the value of the offering should be communicated in monetary terms. Estimating the monetary impact the use of the offering has on the customer's business requires customer value assessment. While previous literature acknowledges the importance of customer value communication and customer value assessment, previous research has focused on direct distribution channels and the supplier-customer interface.

The objective of this thesis is to explore a new research avenue by discussing customer value communication and customer value assessment in indirect distribution channels. To reach this objective, an extensive review of customer value literature was conducted, literature on distribution channel management was reviewed, and an empirical case study was conducted in a chemical company. Customer value communication and customer value assessment in indirect channels is discussed both through theoretical analysis and based on the empirical findings.

Based on the critical review and synthesis of previous literature, this thesis suggests that customer value communication has three dimensions: resources, customer value proposition formulation, and customer value proposition communication. Furthermore, this thesis proposes that customer value assessment can be viewed as part of customer value proposition formulation and thus as part of customer value communication. In this thesis, high-quality customer value assessment is viewed as an iterative process that collects more and more customer-specific data to produce increasingly accurate estimates of customer value.

Based on the theoretical analysis, this thesis suggests that customer value communication plays an important role in indirect channels because customers' purchase decisions are based on their perceptions of value regardless of the channel. An intermediary's value communication can therefore result in favourable sales outcomes for both the intermediary and the focal supplier. However, both previous research and the empirical findings of this study imply that intermediaries' capabilities and, in particular, product and market knowledge may often be insufficient for effective value communication. Moreover, intermediaries might often not be able to maintain the capabilities required to communicate the value of all the offerings in their selections, meaning that intermediaries might have to focus on being able to communicate the value of a limited number of offerings. Based on both previous research and the empirical findings of this study, this thesis suggests that an intermediary focuses on those offerings that have the greatest value for the intermediary. To ensure that its offering is among those offerings whose value intermediaries are able to communicate, a focal supplier needs to ensure that its offering has superior value for intermediaries and that intermediaries have sufficient knowledge of how the offering enables superior value creation in end customers' use situations.

Keywords: customer value, customer value communication, customer value assessment, distribution channels, indirect distribution, indirect channels

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TIIVISTELMÄ

Jaakko Kanniainen: Asiakasarvon kommunikoiminen epäsuorissa jakelukanavissa
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Yritysassiakkaiden hankintapäätökset perustuvat niiden käsityksiin arvosta. Tuotteen todellinen arvo realisoituu kuitenkin vasta asiakkaan käyttäessä tuotetta. Myynnin näkökulmasta tuotteen liittyvän arvon kommunikoiminen voi auttaa asiakasta ymmärtämään, miten tuotteen käyttäminen vaikuttaisi asiakkaan liiketoimintaan tulevaisuudessa. Yritysmarkkinoille luontaisen talousorientoituneisuuden vuoksi tuotteen arvoa kommunikoitaessa tulisi käyttää rahallisia lukuarvoja. Asiakkaan tuotteen käytöstä saaman rahallisen arvon selvittäminen edellyttää asiakasarvon määrittämistä. Vaikka asiakasarvon kommunikoimisen ja asiakasarvon määrittämisen tärkeys on tunnustettu aiemmassa kirjallisuudessa, aiemmat tutkimukset ovat keskittyneet suoriin jakelukanaviin sekä toimittajan ja asiakkaan väliseen rajapintaan.

Tämän työn tavoite on laajentaa tieteellistä tutkimusta uudelle alueelle käsittelemällä asiakasarvon kommunikoimista ja asiakasarvon määrittämistä epäsuorien jakelukanavien yhteydessä. Tämän tavoitteen saavuttamiseksi tehtiin kattava kirjallisuuskatsaus, jossa tarkasteltiin aiempaa asiakasarvoon ja jakelukanavien hallintaan liittyvää kirjallisuutta. Lisäksi tehtiin empiirinen case-tutkimus kemianalalla toimivassa yrityksessä. Asiakasarvon kommunikoimista ja asiakasarvon määrittämistä epäsuorissa jakelukanavissa tarkastellaan sekä teoria-analyysin että empiiristen tulosten pohjalta.

Aiemman kirjallisuuden kriittisen tarkastelun ja syntetisoinnin tuloksena tämä työ esittää, että asiakasarvon kommunikoimisella on kolme ulottuvuutta: resurssit, arvolupauksen muodostaminen ja arvolupauksen kommunikoiminen. Lisäksi tämä työ esittää, että asiakasarvon määrittämisen voidaan ajatella olevan osa arvolupauksen muodostamista ja siten osa asiakasarvon kommunikoimista. Tässä työssä korkeatasoinen asiakasarvon määrittäminen katsotaan iteratiiviseksi prosessiksi, jossa kerätään enemmän ja enemmän asiakaskohtaista dataa yhä tarkempien asiakasarvoon liittyvien arvioiden tekemiseksi.

Teoria-analyysin perusteella tämä työ esittää, että asiakasarvon kommunikoiminen on tärkeää epäsuorissa jakelukanavissa, koska asiakkaiden hankintapäätökset perustuvat heidän käsityksiinsä arvosta jakelukanavasta riippumatta. Jälleenmyyjän tekemällä asiakasarvon kommunikoimisella voi näin ollen olla myönteisiä vaikutuksia sekä jälleenmyyjän että toimittajan myyntitulokuihin. Sekä aiempi kirjallisuus että tämän työn empiiriset tulokset kuitenkin viittaavat siihen, että jälleenmyyjillä saattaa usein olla riittämättömät valmiudet asiakasarvon tehokkaaseen kommunikoimiseen. Jälleenmyyjät eivät myöskään välttämättä pysty ylläpitämään jokaiseen valikoimaansa olevaan tuotteeseen liittyvän asiakasarvon kommunikoimiseen tarvittavia taitoja, vaan jälleenmyyjien on keskityttävä tiettyjen tuotteiden asiakasarvon kommunikoimiseen. Aiemman kirjallisuuden ja tämän työn empiiristen tulosten pohjalta tämä työ esittää, että jälleenmyyjät keskittyvät niihin tuotteisiin, joilla on suurin arvo jälleenmyyjille itselleen. Varmistaakseen että oma tuote kuuluu niiden tuotteiden joukkoon joiden arvon jälleenmyyjät kykenevät kommunikoimaan, toimittajan täytyy varmistaa että tuotteella on riittävän suuri arvo jälleenmyyjille ja että jälleenmyyjillä on riittävät tiedot siitä, miten tuote mahdollistaa arvonluonnin loppuasiakkaille niiden käyttäessä tuotetta.

Avainsanat: asiakasarvo, asiakasarvon kommunikoiminen, asiakasarvon määrittäminen, jakelukanavat, epäsuorat jakelukanavat

Tämän julkaisun alkuperäisyys on tarkastettu Turnitin OriginalityCheck –ohjelmalla.

PREFACE

Writing this thesis was quite a journey, during which a lot has happened. Writing about a subject that fascinates you may feel like a hobby, but you may still occasionally feel a little burdened with challenges. On the other hand, the more challenging the project is the greater the achievement feels at the end of the project. This journey would not have been possible without the following people, to whom I am grateful.

First, I would like to thank my supervisor Dr. Jouni Lyly-Yrjänäinen. His positive and professional guidance was truly invaluable. I would also like to thank the other examiner of my thesis, Professor Teemu Laine. I am thankful to the case company and the interviewees that participated in this study. Finally, I would like to express my gratitude to my family for being there for me throughout this project.

Kangasala, 8.11.2021

Jaakko Kanninen

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LIST OF ABBREVIATIONS AND SYMBOLS

B2B	business-to-business
CVP	customer value proposition
ERP	enterprise resource planning
MAG	metal active gas, a welding process
MIG	metal inert gas, a welding process

1. INTRODUCTION

1.1 Background and objective

Customer value is fundamental to a company's long-term competitive advantage (Woodruff 1997; Slater 1997), and customer value is considered to be the cornerstone of business market management (Anderson et al. 2009). Regarding offerings, customer value is the sum of benefits a customer gets access to by acquiring and using an offering (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Anderson et al. 2009; Kumar & Reinartz 2016). Because customers' decisions in the marketplace are driven by their perceptions of value (Woodruff 1997), customer managers that are often incentivized to reduce costs need to be convinced of the superior value of an offering (Anderson & Narus 1998; Anderson et al. 2006). If value is ambiguous and customer managers see no difference in the value of competing offerings, the only logical decision customer managers can make is to purchase the alternative that has the lowest price.

By estimating and communicating the superior customer value of its offering clearly and credibly a supplier can reduce the ambiguity regarding the promised superior customer value (Anderson & Narus 1998; Anderson & Wynstra 2010), which can lead to improved sales performance (e.g. Terho et al. 2012; Hinterhuber 2017). Not only can estimating and communicating customer value help the supplier win the deal but also justify a higher price in comparison to the next best alternative, resulting in the supplier to be more likely to get a fair return on the value delivered (Anderson & Narus 1998; Anderson & Wynstra 2010). Consequently, the importance of customer value assessment and customer value communication in business markets has been established (e.g. Anderson et al. 2006; Terho et al. 2012; Keränen & Jalkala 2013; Payne et al. 2017; Eggert et al. 2018).

Previous literature on customer value discusses customer value mainly in direct channel contexts. While scholars have discussed a value network view of value creation (e.g. Eggert et al. 2018) and intermediaries' role in value creation networks (Lusch et al. 2007), extant literature on customer value as value for the end customer focuses on the supplier-customer dyad. In particular, there appears to be no previous scholarly work regarding customer value assessment and customer value communication in an indirect distribution channel context.

One of the most fundamental channel functions performed by intermediaries in indirect channels is selling, and intermediaries typically control the customer interface (e.g. Co-rey et al. 1989; Sheth & Parvatiyar 1995). Intermediaries thus reduce direct connections between focal suppliers and end customers, often disabling direct customer value communication between the focal supplier and the end customer. Moreover, while suppliers have means to steer customer value communication among their own sales forces (cf. Terho et al. 2017), suppliers have much more limited means of controlling how intermediaries sell their offerings, especially as intermediaries have become more powerful channel members (e.g. Weitz & Jap 1995; Achrol & Etzel 2003). Intermediaries often have a large number of differing offerings in their selection, which makes developing and maintaining detailed knowledge of each offering challenging for them (Frazier 2009). Hence, a focal supplier might be concerned about its intermediary's sales efforts regarding the focal supplier's offering as well as the intermediary's knowledge regarding the offering's value.

At the same time, sales through intermediaries typically account for a significant portion of overall sales across industries (Goodman & Dion 2001), making intermediaries highly relevant actors in business markets. Given the importance of assessing and communicating customer value (e.g. Anderson et al. 2006) and the interdependency between a focal supplier's success and its intermediary's success (Anderson & Narus 1990), assessing and communicating customer value in an indirect channel has potential to significantly enhance the sales performances of both the intermediary and the focal supplier. Assessing and communicating customer value in indirect channels is therefore a relevant topic both academically and managerially. This thesis attempts to shed light on this unexplored yet important area. The objective of this thesis is to...

...discuss customer value assessment and customer value communication in indirect distribution channels.

To reach this objective, an extensive review of customer value literature and distribution channel management literature is conducted. Through a critical theoretical analysis, three dimensions of customer value communication are identified: resources, customer value proposition (CVP) formulation, and customer value proposition communication. These dimensions are captured in a framework that synthesizes customer value assessment and customer value communication. The role of customer value communication in indirect channels is discussed both through theoretical analysis and based on empirical findings.

1.2 Research methodology

A central defining characteristic of business and management research is its applied nature, and one of the key objectives of business and management research is to enhance the relationship between theory and practice (Tranfield & Starkey 1998; Saunders et al. 2019). In a similar vein, the objective of this thesis is to produce both academically and managerially relevant insights. The research strategy selected for the empirical study is the case study strategy with an interventionist approach (cf. Jönsson & Lukka 2007). The case study strategy is about studying the subject of research within its real-life context (Saunders et al. 2019). In this study, the studied case is customer value assessment and customer value communication in the case company's indirect channels. Dubois and Gadde (2002, p. 554) argue that "the interaction between a phenomenon and its context is best understood through in-depth case studies." Gummesson (2017) emphasizes the usefulness of case study research in addressing complex business and management aspects. He also argues that case study research is suitable for both addressing a particular problem and developing more general theory. With the case study strategy, understanding of the organization's context and current state regarding the subject can thus be formed, and relevant development recommendations can consequently be formulated. At the same time, as Gummesson (2017) notes, the case study strategy enables making suggestions regarding theoretical implications.

The approach to theory development in this thesis is abductive. In business and management research, abduction is a common approach that combines induction and deduction to enable back-and-forth movement between theory and data (Saunders et al. 2019, p. 155). The abductive approach enables (1) developing new combinations through various established theoretical models and (2) deriving insights from practice (see Dubois & Gadde 2002). Abduction is a particularly suitable approach in the context of this study, as this study draws on theories developed mostly within two distinct areas of marketing management research, namely research on customer value and research on distribution channel management. Furthermore, following the guidance of Dubois and Gadde (2002), empirical research and theory development were conducted simultaneously throughout the research process. Acknowledging the interplay between theory and practice in this way is also an attempt to navigate between "academic fundamentalism" and practice-led epistemic drift, as steering a course between these two issues is a key concern for management research (Tranfield & Starkey 1998, p. 350). While extant literature enabled forming a foundational understanding of the research topic to guide the empirical research, the empirical research occasionally steered the literature review and

theory development. Figure 1 gives a broad idea of the research process and illustrates the back-and-forth movement between the literature review and the case study.

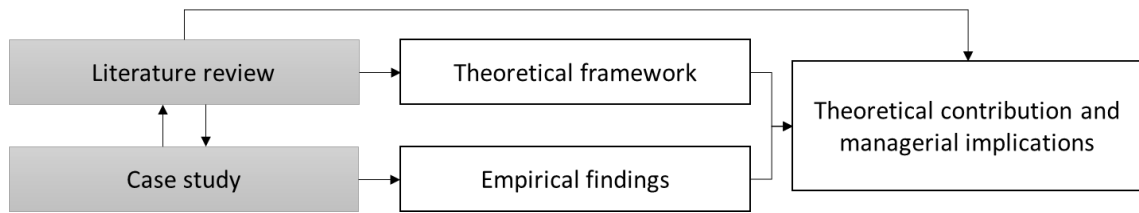


Figure 1. Research process.

As illustrated in Figure 1, the critical theoretical analysis and review of extant literature resulted in novel propositions that contribute to the existing body of knowledge around the research topic. In addition, based on this analysis, a theoretical framework for customer value communication was created. The case study, in turn, resulted in empirical findings concerning existing factors affecting customer value communication in the case environment but also insights generated through interventions occurring during the case study. As Figure 1 illustrates, the theoretical framework and the empirical findings were compared by examining the empirical findings through a theoretical lens, which resulted in both proposed theoretical contribution and proposed managerial implications.

In data collection for the case study, multiple data sources and data collection methods were used. Dubois and Gadde (2002) note that case studies, especially the in-depth ones, often utilize several data sources and data collection methods, which helps not only verify data through triangulation (cf. Saunders et al. 2019, p. 218) but also, and more importantly, uncover unanticipated aspects related to the research topic. Gummesson (2017) argues that the researcher needs to have an interactive role with research data and data sources to reach superior insights. This course was followed in this study and, to a large extent, data was collected through interactive encounters with data sources. Access to multiple data sources was arguably facilitated by the possibility to adopt the role of an internal researcher (see Saunders et al. 2019, p. 219–220). For instance, gaining access to review some internal documents would likely have been challenging as an external researcher.

The sources utilized in this study included both secondary and primary sources. Secondary sources consisted of existing published material, whose public accessibility varied at the time of the study. Primary data was collected through interviews, discussions and correspondence, action research (for a description of action research as a data collection method in case studies, see Gummesson 2017), and observation. The research was

cross-sectional and collected data represented the situation at a particular time (cf. Saunders et al. 2019, p. 212). Further details of the sources and data collection methods are presented in Table 1.

Table 1. Data sources and data collection methods.

Data source(s)	Source details and description of data collection methods
Existing material (public)	Review of publicly available material on the case company, its offering, and competing offerings (e.g. company web pages, public videos, brochures)
Existing material (internal)	Review of internal material consisting mainly of memos, plans, sales data, and technical, product and sales training material for internal staff and channel members' personnel
Interviews, discussions and correspondence	In-depth interviews, discussions and correspondence with the case company's sales director, two sales managers, and six sales representatives
Action research	Involvement in various channel management activities. Cooperation with channel members
Observation	Observation of five sales training sessions provided by the case company to channel members

Although data sources were utilized iteratively rather than linearly, the order in which the data sources are presented in Table 1 roughly reflects the chronological order in which the importance of each data source was emphasized during the study. First, reviewing existing public material enabled forming a basic understanding of the case company and its offering, which was important to outlining the context of the study.

Second, existing internal material provided more detailed technical descriptions of the offering as well as product applications, which was important to developing the understanding of the context further. In addition, internal material provided information about procedures and operations within channel partnerships and illuminated the current state of customer value assessment and communication in the case company's indirect distribution channels.

Third, interviews, discussions and correspondence with sales experts on different organizational levels provided insight into customer value assessment and communication within both direct and indirect sales channels. Importantly, these data sources also supported most of the findings of the review of existing material and provided novel information about practicalities related to the management and coordination of channel partnerships.

Fourth, action research increased understanding of the current state of customer value assessment and communication in the case company's indirect distribution channels. Action research as a data source here also includes empirical research materials collected through interventions (cf. Jönsson & Lukka 2007).

Finally, observation of sales training sessions provided insight into how the case company currently supports intermediaries' customer value assessment and communication. The collected data and findings were compared to the developed framework for customer value communication. This way, the adequacy of the developed framework for explaining customer value assessment and communication in indirect channels was tested.

1.3 Structure of the thesis

In Chapter 2, the nature of value is investigated and the historical development that has led to contemporary understanding of value is briefly discussed. Value creation mechanisms, antecedents of value, and the concept of customer value are discussed. Different perspectives to customer value in business markets are briefly discussed and the focus areas of this thesis are indicated.

In Chapter 3, the customer value proposition as a central tool of communicating customer value is discussed. A relationship between customer value communication and customer value assessment is proposed, and methods of assessing customer value are discussed. Means that can enhance the effectiveness of customer value propositions in customer value communication are discussed, and a comprehensive resource-based framework for customer value communication is proposed.

In Chapter 4, characteristics of indirect distribution channels and the role of intermediaries are discussed. The historical drivers behind the relatively rapid growth of indirect distribution are briefly addressed. Value in indirect channels and the importance of customer value communication in indirect channels are discussed.

In Chapter 5, the case study is reported. Empirical findings and outcomes of interventions aiming to develop a value model to enhance customer value communication are presented.

In Chapter 6, the main points of proposed contribution stemming from the critical literature review are discussed. Furthermore, the empirical findings are analyzed through a theoretical lens and compared with the developed framework for customer value communication. Insights stemming from this analysis and their theoretical and managerial implications are discussed. The quality of the study is discussed and limitations acknowledged. Finally, in Chapter 7, conclusions are presented.

2. CUSTOMER VALUE

2.1 The concept of value

The concepts of value and customer value have evolved a lot and gained significant interest among both practitioners and scholars during the last few decades, but the meaning of value has been pondered for thousands of years (Vargo et al. 2008; Eggert et al. 2018). For example, Aristotle (384–322 BCE, cited in Jowett 1885, p. 15) describes value through usage:

“Of everything which we possess there are two uses ... For example, a shoe is used for wear, and is used for exchange; both are uses of the shoe.”

Publilius Syrus (85–43 BCE, cited in Anderson & Narus 1998, p. 53) describes value through worth in exchange:

“Everything is worth what its purchaser will pay for it.”

These references to value illustrate that there have long been two perspectives to the essence of value. On the one hand, a product has value in exchange, and on the other hand, a product has value in use. Value-in-exchange and value-in-use were originally introduced and conceptualized by Adam Smith (1776, p. 48):

“The word value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called ‘value in use’; the other, ‘value in exchange’.”

Thus, value-in-exchange is determined by the purchase power of the product, and value-in-use by the product’s utility to the user. One could, of course, argue that value-in-use conceptually includes value-in-exchange if a user uses a product as an instrument of exchange. However, since the distinction is made, the concept of value-in-use presented by Smith (1776, p. 48) clearly refers to a product’s utility in the use the product is designed for.

Adam Smith and several other thinkers tried to explain that value-in-exchange is determined by the labor embodied in the item, but empirically this proved to be untrue (Kauder 1965, p. 56; Vargo et al. 2008). Eggert et al. (2018) state that a connection between value-in-use and value-in-exchange was only discovered in the nineteenth century thanks to Hermann Gossen’s work on the marginal utility theory. Gossen (1854, p. 8–9)

explained that, during a time period, the utility of a product depends on previous consumption of that product, and subsequent consumption events provide less and less utility (also expressed as pleasure or satisfaction) until complete satisfaction is reached and additional products no longer provide positive value. This phenomenon is described by the law of diminishing marginal utility that was formulated by Gossen (although diminishing utility was perhaps understood already much earlier, see Kauder 1965, p. 18).

According to Kauder (1965, p. 28), Adam Smith also explained that value-in-exchange is determined by utility and scarcity. However, Gossen's (1854) formulation of the law of diminishing marginal utility connected value-in-use and value-in-exchange, as it helped explain that value-in-exchange is determined not only by the utility and the scarcity of a product but also by the utilities of other products and previously available products (Eggert et al. 2018). The marginal utilities (i.e. the utility of obtaining one more unit) must be balanced between different groups of wants (e.g. food and clothing, Kauder 1965, p. 47), so as the marginal utility decreases, the user ultimately recognizes that another group of wants provides more utility for the same value-in-exchange. For example, the law of diminishing marginal utility thus explains why wealthy users do not buy more and more shoes even if they have considered shoes to have high enough utility and value-in-use to purchase at least one pair for the shoes' value-in-exchange. In a business context, the law might explain for example why a company amazed by the utility and value-in-use of their new ERP (enterprise resource planning) system does not right away buy more ERP systems. It is to be noted though that the law of diminishing marginal utility was originally formulated to reflect the behavior of consumers that attempt to balance and maximize the pleasure they get as a result of purchases in different groups of wants.

The scholarly work from the ancient times to the nineteenth century has provided a foundation for more recent theories regarding value as well, and many concepts fundamental to the modern understanding of value were defined long ago. For example, Gossen's (1854) ideas regarding the connection between value-in-exchange and value-in-use are still present in modern theories (cf. Eggert et al. 2018). Importantly, the subjective nature of value-in-use has long been recognized too. The possibility of changes in subjective utility and value-in-use has been presented and was explicitly formulated especially by Gossen (1854). Historically, value concepts have mainly been developed from the consumer market perspective. Recently, however, academic literature taking the business market perspective has rapidly increased. In addition, the emergent service-dominant logic of marketing (Vargo & Lusch 2004) has drastically shaped the understanding of value.

2.2 Value creation and value facilitation

Although a distinction between an offering's value-in-exchange and value-in-use has been made since ancient times, the primary focus was on value-in-exchange until the emerging service-dominant view of marketing began reshaping the mainstream thinking regarding value (Vargo & Lusch 2004). For a long time, the understanding of value was based on the marginal utility theory and goods-centricity (Vargo & Lusch 2004; Vargo et al. 2008; Eggert et al. 2018). In their seminal work, Vargo and Lusch (2004) conceptualized the emerging service-dominant logic of marketing that has been developing since at least early 1900s (see Vargo & Lusch 2004, p. 3–4) and differentiated it from the traditional goods-dominant logic of marketing that had long been the guiding principle of the goods-centric view of value. Although the marketing logics are essentially highly abstract paradigmatic mindsets, they shape the concept of value too. The increasing number of intangible offerings (services) in the market has accelerated the shift towards the service-dominant view, but the service-dominant logic ultimately views the value of both tangible and intangible offerings similarly (Vargo & Lusch 2004). To understand the paradigmatic shift caused by the service-dominant logic, it is necessary to first understand the traditional goods-dominant logic.

The traditional goods-dominant logic suggests that value is determined by the supplier, created by the supplier in the supplier's production processes, embedded as properties (i.e. utilities) in the outcomes of production (i.e. products), and delivered to the customer in exchange for a payment for the products (cf. Vargo & Lusch 2004; Vargo et al. 2008). Furthermore, since the goods-dominant logic proposes that value is created by the supplier, the perspective to value is labor-based and emphasizes value-in-exchange rather than value-in-use (Grönroos 2011). The fundamental conception of value as viewed by the goods-dominant logic (Vargo & Lusch 2004) is presented in Figure 2.

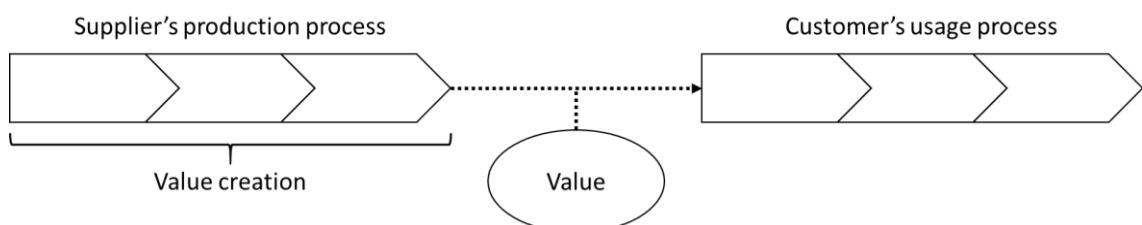


Figure 2. *The goods-dominant view of value.*

In Figure 2, the value is created in the supplier's production process, with the value being embedded in the product. The supplier's production process here refers to all the supplier's processes that lead to the customer having a finished product (cf. Grönroos 2011). When the product is finished, all value (represented by "Value" in Figure 2) is in the

product and can be transferred to the customer in exchange for a payment. Value is delivered to the customer through an exchange transaction, emphasizing the value-in-exchange perspective and the pivotal role of transactions (cf. Vargo & Lusch 2004). Although the product is then used in the customer's usage process and consequently value-in-use is created, the focus of the goods-dominant logic is on supplier's processes and value-in-exchange (Vargo & Lusch 2004).

The service-dominant logic challenges the traditional goods-dominant logic by placing the customer in the center of value creation. The determination, creation and delivery mechanisms of value have been revolutionized by the service-dominant logic. According to the service-dominant logic, value is co-created, perceived and determined by the customer, and the customer continues the value creation process started by the supplier (Vargo & Lusch 2004). Gummesson (1998, p. 247) explains:

"...value creation is only possible when a product or service is consumed. An unsold product has no value, and a service provider without customers cannot produce anything."

An essential difference between the goods-dominant logic and the service-dominant logic is that the goods-dominant logic emphasizes value-in-exchange (as an outcome of the supplier's process), whereas the service-dominant logic stresses customer-perceived value-in-use (that emerges during the customer's usage process). The service-dominant logic formalized by Vargo and Lusch, thus, accurately answers to the calls for a process- and value-oriented marketing logic. For example, Sheth and Parvatiyar (1995) argued that the exchange-dominant view of marketing will become insufficient. The same authors (p. 397) stated:

"An alternate paradigm of marketing needs to be developed that is more process rather than outcome oriented, and emphasizes value creation rather than value distribution."

A similar direction of marketing theory development can be concluded from other pre-2000s publications too, such as those of Woodruff (1997) and Slater (1997). The idea of value being determined by the customer based on perceived value-in-use is widely accepted in recent literature (e.g. Payne et al. 2008; Grönroos & Voima 2013; Kumar & Reinartz 2016; Macdonald et al. 2016; Eggert et al. 2018). The fundamental conception of value as viewed by the service-dominant logic (Vargo & Lusch 2004) is presented in Figure 3.

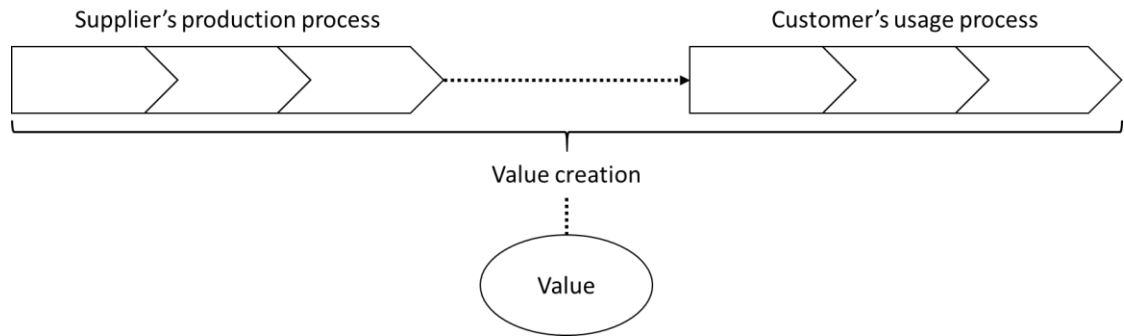


Figure 3. *The service-dominant view of value.*

Figure 3 illustrates that value creation is a process that (unlike from the goods-dominant perspective) occurs throughout both the production process and the usage process. This is because value is created only through use because, by using an offering, the customer continues the value creation process (Gummesson 1998; Vargo & Lusch 2004). Furthermore, since value is perceived and determined by the customer (e.g. Vargo & Lusch 2004), value must be customer-specific, meaning that the same offering might have different value for different customers (cf. Miles 1961, p. 3; Ulaga & Chacour 2001; Eggert & Ulaga 2002). For example, one customer might learn to use an offering more efficiently and consequently (although not inevitably) perceive higher value than another customer (e.g. Keränen & Jalkala 2013).

While the transaction-centric view of the goods-dominant logic emphasizes value at a single point of time (i.e. value-in-exchange), the service-dominant logic highlights value that is created through usage (cf. Vargo & Lusch 2004). It should be noted that value is, in fact, often created particularly during usage (e.g. eating at a restaurant, wearing a shirt, or using an ERP system). Despite value being co-created and determined by the customer, recent literature has developed the service-dominant logic to propose a new marketing logic, the service logic (Grönroos 2011; Grönroos & Voima 2013).

Fundamentally, the service logic builds on the service-dominant logic but, rather than considering customer as a co-creator of value, the service logic argues that the customer is the primary value creator (Grönroos 2011). In addition, the service logic argues that the supplier is not restricted to making value propositions as proposed by the service-dominant logic (see Vargo & Lusch 2004), but the supplier can also affect the customer's value creation. Building on this view, extant literature recognizes two mechanisms through which the supplier can affect the customer's value creation: value facilitation and value co-creation.

In value facilitation, the supplier facilitates the customer's value creation by providing the value foundation (e.g. a car) for the customer's value creation process (e.g. driving), but

the supplier has no direct interaction with the customer during the consumption process (Grönroos 2008; Grönroos & Voima 2013). As a value facilitator, the supplier has no direct control but an indirect effect on the customer's value creation processes (Grönroos 2008), which is in line with the idea that suppliers "can only offer value propositions" (Vargo & Lusch 2004, p. 11). Thus, value facilitation is about creating potential value (or value potential, Grönroos & Voima 2013) that needs to be beneficially applied in the customer's usage situation to be converted into value (Vargo & Lusch 2004). Grönroos (2011) argues that being a value facilitator for the customer is the supplier's fundamental role. Hence, a supplier must always be a value facilitator that offers value potential for a customer.

The concept of value potential resonates with the widely accepted idea of customer value being perceived by the customer. Making a distinction between value and potential value reduces the ambiguity of the value concept as it allows the term "value" to be used solely to express the value the customer gets from usage. This way, value is always determined by realized value-in-use (cf. Vargo & Lusch 2004; Grönroos & Voima 2013). While this sheds light on the nature of value, the concept of value potential is still somewhat ambiguous in the extant literature, and the ambiguity is caused by the two existing definitions for value potential.

On the one hand, some authors suggest that value potential lies in outputs: "...activities performed by the provider (i.e., production) result in outputs (potential value) that customers may use in their value creation process" (Grönroos & Voima 2013, p. 141). On the other hand, some authors use the term value potential to tell "...how a supplier can add value to its customer's business" (Keränen & Jalkala 2013, p. 1311; cf. Terho et al. 2012), implying that the supplier is able to produce something that the customer may use in its value creation process. The difference between these uses of the term "value potential" is that when defined as outputs, the value potential can instantly be accessed by the customer and taken into its value creation process. When defined as ways the supplier can add value to the customer's business, the supplier's activities in its production process might still be needed to shape the value potential into a form that can be accessed by the customer (i.e. an output). One way to address this ambiguity is to take the view Vargo and Lusch (2004, p. 11) have to value potential:

"If a tangible good is part of the offering, it is embedded with knowledge that has value potential for the intended consumer..."

This view suggests that knowledge is the fundamental basis of value potential even if there are outputs, such as physical goods. Although Vargo and Lusch (2004) refer to

outputs as tangible goods, the same idea could be applied to intangible outputs as well. When regarding knowledge as the fundamental basis of value potential, value potential is considered to exist before and after the creation of outputs of the supplier's production process. Nevertheless, from the customer's perspective, value potential can be at different stages, in which it either can (when outputs exist) or cannot (when outputs do not exist) be directly taken into the customer's value creation process. In the case of a tangible good, the output is a completed physical product that can be used by the customer in its value creation process. In the case of an intangible offering, the offering is often delivered over a period of time rather than through a single transaction (e.g. cleaning service and language lessons).

Even if value potential exists before the creation of outputs, the customer's value creation can only start when there is an output that it can use in the value creation process. The idea of value facilitation and the idea that suppliers can only make value propositions (Vargo & Lusch 2004) are present in Figure 3, where the end of supplier's production process is connected to the beginning of customer's usage process. This illustrates that the *output* of the production process is the *input* of supplier's usage and value creation process (cf. Vargo et al. 2008; Grönroos & Ravald 2011), and the output is facilitating the customer's value creation. The conceptual foundation of the service-dominant view of value supports this idea, as demonstrated by Vargo and Lusch (2004, p. 11):

“...in using a product, the customer is continuing the marketing, consumption, and value creation and delivery processes.”

Besides value facilitation, the other mechanism through which the supplier can affect the customer's value creation is value co-creation. In value co-creation, the supplier engages in the customer's value creation process through direct interaction during the consumption process, and thus the supplier can directly impact the customer's value creation process (Grönroos 2008; Payne et al. 2008; Grönroos & Voima 2013). This broadens the supplier's role as it is no longer restricted to making value propositions (cf. Vargo & Lusch 2004) but can also contribute to value fulfillment (e.g. Grönroos 2008; Grönroos & Ravald 2011). Value co-creation between the supplier and the customer is expressed to happen in the joint sphere of the supplier and the customer (Grönroos & Voima 2013). Figure 4 illustrates how value co-creation relates to the supplier's and the customer's other processes.

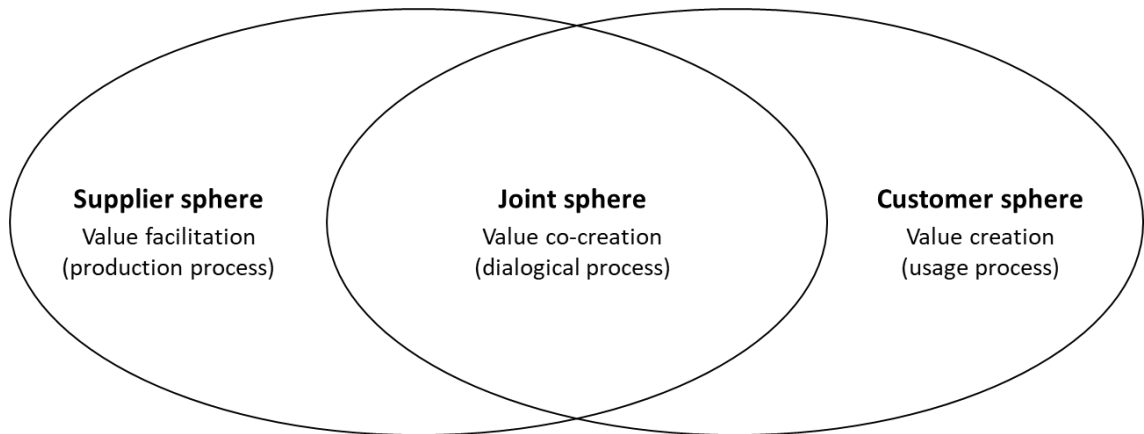


Figure 4. Value facilitation, value creation, and value co-creation (adapted from Grönroos & Voima 2013).

Value co-creation involves interaction (or dialogue) between the supplier and the customer. As illustrated in Figure 4, the supplier sphere is closed from the customer, and the customer sphere is closed from the supplier. Value facilitation and value creation take place in these spheres, respectively. Conceptually, value co-creation only happens within the joint sphere in dialogical (i.e. interactive) processes, and all interactions between the supplier and the customer during usage lead to value co-creation. This idea is also supported by other literature (cf. *encounter processes* in Payne et al. 2008). However, the value co-created in an interaction can be positive, negative, or neutral (Grönroos & Voima 2013). The size of the joint sphere in Figure 4 represents the relative significance of value co-creation in a specific value creation setting, and the sizes of the spheres can vary. In an extreme case where there is no interaction between the supplier and the customer during usage, the supplier sphere and the customer sphere are separated (connected only by an exchange transaction) and the joint sphere does not exist. On the other hand, in case of intense supplier-customer cooperation, the joint sphere can dominate value creation (Grönroos & Voima 2013). Especially in situations where value co-creation plays a significant role, joint efforts are required from the supplier and the customer, highlighting the importance of the relationship and its characteristics (see Möller & Törrönen 2003; Tuli et al. 2007). Figure 5 illustrates the adopted logic behind value creation and value co-creation, the supplier's dual role of value facilitator and value co-creator, and the customer's dual role of value creator and value co-creator.

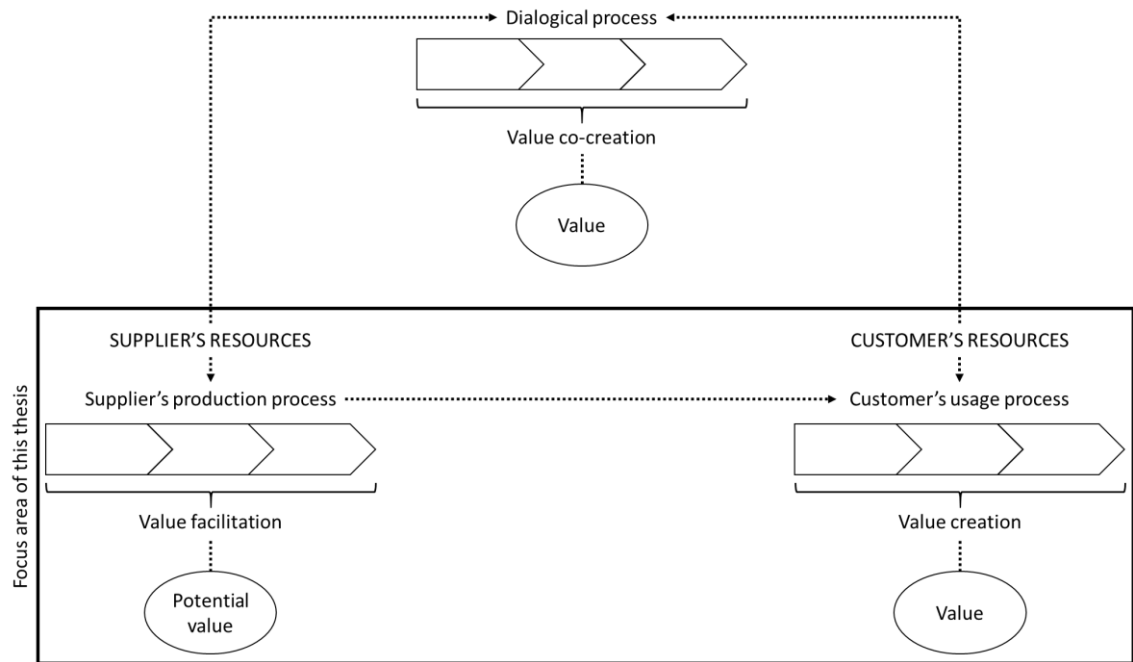


Figure 5. *The value creation logic of offerings in a supplier-customer relationship.*

The upper section of Figure 5 illustrates that the supplier's and the customer's resources can interact in a dialogical process and value can be co-created throughout the co-creation process. Co-created value is value-in-use for the customer (and thus "real" value, see Grönroos & Voima 2013). On the other hand, the bottom section of Figure 5 demonstrates that the supplier's and the customer's resources can also be used in separate processes and be only connected indirectly by transfers of potential value from the production process to the usage process. In this case the supplier's production process facilitates value creation by producing outputs that have potential value for the customer, representing the supplier's fundamental task of value facilitation (cf. Grönroos 2011). Potential value must then be converted into value (i.e. realized value) by the customer through beneficial use of the outputs, and value is only created by the customer through usage in the customer's value creation process (cf. Vargo & Lusch 2004).

Although value co-creation as a mechanism of value creation is acknowledged, this thesis focuses on the value that an offering as an outcome of the supplier's production process has for the customer in the customer's usage process. This focus is also illustrated in Figure 5.

2.3 Customer value in business markets

In this thesis, customer value refers to value from the customer's perspective (as opposed to the value of the customer for the supplier, see Kumar & Reinartz 2016). Cus-

customer value is considered to be fundamental to a company's long-term success (Woodruff 1997; Slater 1997). It has been argued that the purpose of companies is to create value for customers (Kumar & Reinartz 2016) and that customer value is the cornerstone of business market management (Anderson et al. 2009). The present importance of customer value in marketing is demonstrated by the large and increasing number of both theoretical and empirical studies concerning the topic (Eggert et al. 2018).

The understanding of customer value in business markets specifically has developed from customer value research in the consumer marketing domain (e.g. Zeithaml 1988) that has a longer history (Eggert et al. 2018). While the traditional foundations of the customer value concept lie in utility and a trade-off between what the customer gives and gets in an exchange transaction (Vargo et al. 2008; Keränen 2014), recent literature suggests that customer value in business markets is twofold and can be categorized into (1) the value of offerings (i.e. goods and services), and (2) the value of relationships (Lindgreen & Wynstra 2005; Menon et al. 2005; Lindgreen et al. 2012; Eggert et al. 2019). The focus of this thesis is on the value of offerings.

In previous academic literature, customer value has been defined through numerous other concepts, such as utility (Zeithaml 1988), monetary net benefits (Anderson et al. 2009), benefits and sacrifices (Ulaga & Chacour 2001), and consequences arising from use (Woodruff 1997). Some definitions of customer value from frequently cited publications and authors are presented in Table 2.

Table 2. Customer value definitions from some frequently cited publications and authors.

Definition of customer value	Source(s)
"Perceived value is the consumer's overall assessment of the utility of a product based on a perception of what is received and what is given."	Zeithaml 1988, p. 14
"Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations."	Woodruff 1997, p. 142
"We define customer-perceived value in industrial markets as the trade-off between the multiple benefits and sacrifices of a supplier's offering, as perceived by key decision makers in the customer's organization, and taking into consideration the available alternative suppliers' offerings in a specific-use situation."	Ulaga & Chacour 2001, p. 530; cf. Eggert & Ulaga 2002, p. 110
"Value for customers means that after they have been assisted by a self-service process ... or a full-service process ... they are or feel better off than before."	Grönroos 2008, p. 303
"Value in business markets is the worth in monetary terms of the economic, technical, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering."	Anderson, Narus & Narayandas 2009, p. 6; cf. Anderson & Narus 1998, p. 54
"Customer-perceived value (CPV) is the difference between the prospective customer's evaluation of all the benefits and costs of an offering and the perceived alternatives."	Kotler & Keller 2016, p. 151
"We define perceived value as customers' net valuation of the perceived benefits accrued from an offering that is based on the costs they are willing to give up for the needs they are seeking to satisfy."	Kumar & Reinartz 2016, p. 37
"We define value in use as all customer-perceived consequences arising from a solution that facilitate or hinder achievement of the customer's goals."	Macdonald, Kleinaltenkamp & Wilson 2016, p. 98

There appears to be no universal definition of customer value but rather many different perspectives to it. For example, some define customer value primarily as a trade-off between what is gotten and what is given (e.g. Zeithaml 1988; Ulaga & Chacour 2001), whereas others view customer value as supporting the achievement of customer's goals (e.g. Woodruff 1997; Macdonald 2016). One of the reasons behind the diversity of customer value definitions could be the different perspectives specific to different fields of research, such as sales and marketing (e.g. Kotler & Keller 2016), services (e.g. Grönroos 2008), and solutions (e.g. Macdonald et al. 2016). Many of the differences in the

definitions of customer value are ambiguous and conceptual. For example, the levels of difference between the definitions depend on how exactly utility (Zeithaml 1988), benefits (e.g. Anderson et al. 2009; Kumar & Reinartz 2016), and goals (Woodruff 1997; Macdonald et al. 2016) are defined, and if and how these concepts are related to one another. This conceptual challenge is also recognized by extant literature (e.g. Woodruff 1997).

Despite the diversity of customer value definitions, it is widely accepted that *customer value is perceived by the customer* (e.g. Zeithaml 1988; Woodruff 1997; Vargo & Lusch 2004; Grönroos & Voima 2013; Macdonald et al. 2016). In business markets, customer value is perceived at both individual level and organizational (i.e. collective) level (e.g. Macdonald et al. 2011, Grönroos & Voima 2013; Macdonald et al. 2016; Eggert et al. 2019). This means that, while customer value is perceived by the customer, the unit perceiving value can be either the whole customer organization collectively or an individual within the customer organization (cf. Macdonald et al. 2011). In this thesis, however, the focus is on the organizational value.

At the organizational level, customer value is dependent on the customer's usage situation and subjectively determined by the customer organization (Vargo & Lusch 2004; Payne et al. 2008). Moreover, customer value is only created when the customer consumes (or uses) an offering; there is no value before this (Gummesson 1998). Although customers consider value at different times, such as before purchase or during or after usage (Woodruff 1997), a customer cannot perceive the actual value of an offering before usage. Instead, the "value" customers consider before usage is in fact value potential (cf. Vargo & Lusch 2004; Terho et al. 2012; Grönroos & Voima 2013; Keränen & Jalkala 2013).

In the sales and marketing literature in particular, both theoretical and empirical studies frequently highlight the importance of monetary expression of customer value (e.g. Anderson & Narus 1998; Anderson et al. 2009; Töytäri et al. 2011; Terho et al. 2012; Wouters & Kirchberger 2015). The importance of monetary expression stems from the financial orientation characteristic of business markets in particular. From a sales perspective, expressing customer value in monetary terms enables comparing an offering's price to the impact of the positive outcomes arising from the use of the offering (cf. Anderson & Narus 1998; Anderson et al. 2009). Furthermore, considering customer value in monetary terms enables comparing alternative offerings through a common unit of measurement (cf. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Lusch et al. 2010; Töytäri et al. 2011; Kotler & Keller 2016).

Given the importance of expressing customer value in monetary terms in the field of sales, the view that considers customer value as a trade-off between benefits and sacrifices offers a promising perspective to customer value. Several authors view an offering's benefits (e.g. time savings, improved efficiency, better quality) as the antecedents of customer value (e.g. Anderson & Narus 1998; Ulaga & Chacour 2001; Eggert & Ulaga 2002; Kotler & Keller 2016; Kumar & Reinartz 2016) that translate into monetary value for the customer when the customer uses the offering (Anderson et al. 2009; Wouters & Kirchberger 2015). However, to get access to the benefits of an offering, the customer has to make sacrifices (e.g. investing resources in obtaining and using the offering, Ulaga & Chacour 2001; Eggert & Ulaga 2002) that translate into costs for the customer (Menon et al. 2005; Lyly-Yrjänäinen et al. 2018).

In the extant literature, the benefits and the sacrifices associated with an offering are often divided into categories based on their nature. In their definitions of customer value, Anderson and Narus (1998) and Anderson et al. (2009) divide benefits into technical, economic, service, and social benefits (cf. Lindgreen & Wynstra 2005). Anderson and Narus (1998) explain that technical benefits stem directly from an offering's functionality and performance, economic benefits stem from direct economic advantages (e.g. consolidated invoices), service benefits stem from additional services (e.g. design assistance), and social benefits stem from positively perceived interaction with a supplier (e.g. ease of doing business). Kotler and Keller (2016) categorize benefits quite similarly but, instead of social benefits, they use the term psychological benefits that includes personnel benefits and image benefits that refer to interaction with the supplier and perceived supplier image respectively. Menon et al. (2005) take a different perspective to benefits and divide them according to the customer's procurement specifications into core benefits and add-on benefits. They explain that core benefits are basic characteristics that are required for a given customer to even consider the supplier's offering. Add-on benefits are not absolutely required by the customer but favorably impact the decision of the customer (Menon et al. 2005), thus acting as "justifiers" for a specific purchase decision (cf. Anderson et al. 2014).

The sacrifices associated with an offering are often thought to stem from obtaining and using the offering, indicating lifecycle cost thinking (see Menon et al. 2005). Menon et al. (2005) divide sacrifices into purchase price, acquisition costs (i.e. all costs related to obtaining the offering other than price) and operations costs (i.e. all costs associated with the use of the offering). The categorization of Kotler and Keller (2016), in turn, includes evaluation, obtaining, usage and disposal costs. Evaluation and obtaining costs can be considered acquisition costs, and usage costs refer to operations costs. Therefore,

based on the view that includes purchase price in the customer value construct, combining these categorizations leads to four categories of sacrifices: purchase price, acquisition costs, operations costs, and disposal costs.

When considering value, the customer compares its perceptions of the benefits and the sacrifices associated with an offering. The difference between customer-perceived benefits and customer-perceived sacrifices is often referred to as customer-perceived value (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Kotler & Keller 2016). In the extant literature there are two views on the relationship between customer value and customer-perceived value. The core difference between these views is the way they address price as a sacrifice.

The first view is the one adopted by Menon et al. (2005) and Lyly-Yrjänäinen et al. (2018). These authors distinguish between customer value and customer costs and view customer value as the sum of benefits and customer costs as the sum of price and other customer sacrifices. From this perspective, customer value is solely based on the benefits and customer costs include the purchase price and all the other sacrifices. Customer-perceived value, in turn, is the difference between customer value and customer costs.

The other view is the one adopted by Anderson et al. (2009) who argue that offerings have two distinct characteristics: value and price. They define customer value as net benefits, explaining that besides customer benefits customer value includes all customer sacrifices other than price. From this point of view, customer-perceived value is the difference between net benefits and purchase price.

While the size of customer value depends on which of these views is adopted, the size of customer-perceived value is the same from both perspectives. Mathematically, customer-perceived value is calculated by adding benefits and subtracting price and other sacrifices. As the two different views essentially only suggest different orders of these mathematical operations, the result will be the same.

In regard to customer value, this thesis follows the logic of Anderson and Narus (1998) and Anderson et al. (2009), who argue that all benefits and sacrifices apart from purchase price can be divided into technical, economic, service and social net benefits. However, social benefits have been excluded because this thesis focuses on organizational value and argues that social benefits are inherently individual benefits rather than organizational benefits (cf. Macdonald et al. 2011). The logic of dividing benefits and sacrifices into technical, economic and service net benefits is adopted because every sacrifice other than price can be placed in one of these categories. The logic also resonates with the two perspectives to value by including benefits and sacrifices besides

price in the customer value construct and distinguishing between customer value (value-in-use) and price (value-in-exchange). Furthermore, as Anderson et al. (2009, p. 6) point out, customers perceive value within some context. For example, the operations costs of an offering negatively affect its technical net benefits because operations costs are dependent on the offering's technical features. A prospective customer will likely consider a new offering in comparison to its current state and its current solution, and if the operations costs of the new offering are lower than current operations costs, the net benefits will be positive in that regard. Technical features also determine sacrifices related to disposal costs (e.g. recyclable materials), and acquisition costs can be considered to affect economic net benefits (e.g. invoicing fees). Figure 6 illustrates customer value as the sum of all technical, economic and service benefits and sacrifices vis-à-vis purchase price. Furthermore, the figure illustrates the concept of customer-perceived value.

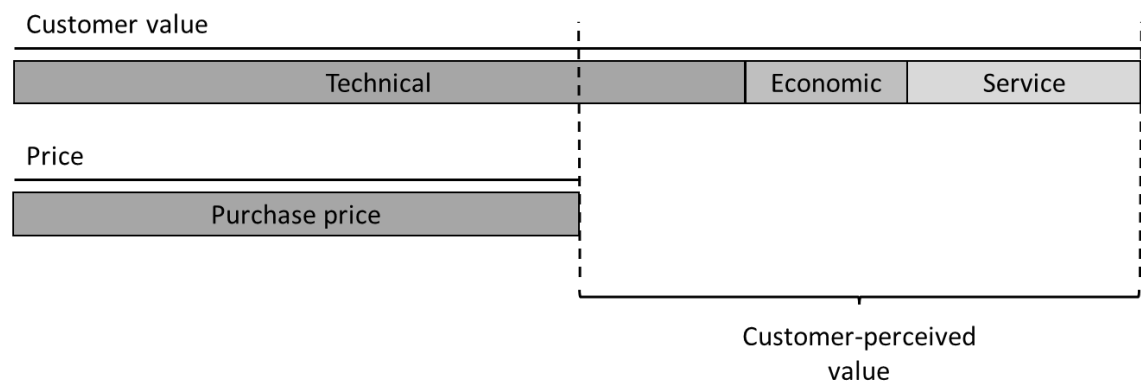


Figure 6. *The categories of net benefits constituting customer value (based on Anderson et al. 2009).*

Overall, customer value should be considered an all-encompassing concept capturing all benefits and sacrifices except price (Anderson et al. 2009). It should be noted that the relative significances of the different net benefits presented in Figure 6 are customer-specific because the same offering can have different value for different customers (cf. Ulaga & Chacour 2001; Eggert & Ulaga 2002). However, customers' value focus is typically on functionality or performance, which places emphasis on technical benefits (Anderson et al. 2009). Regarding sacrifices, in both theoretical and empirical literature, purchase price is often identified as the most important sacrifice considered by the customers (e.g. Anderson & Narus 1998; Ulaga & Chacour 2001; Keränen & Jalkala 2013, p. 1315).

This thesis adopts the view that, regardless of the categorization of benefits, in business markets benefits should ultimately translate into monetary worth for the customer (e.g. Wouters & Kirchberger 2015). This means that for the customer value to be positive, the

net benefits must induce a positive impact on the customer's profit, which can happen through either reducing the customer's costs or increasing the customer's revenue. This idea is logically supported by the vast literature that argues for monetary expression of customer (perceived) value (e.g. Anderson & Narus 1998; Anderson et al. 2009; Töytäri et al. 2011; Terho et al. 2012; Wouters & Kirchberger 2015) because monetary value must affect the bottom line and this effect can only occur through cost reduction or revenue increase.

To summarize, an offering's value for a customer organization is the difference between the monetary benefits and sacrifices caused by the offering. Since value is perceived by the customer, the difference between benefits and sacrifices is often referred to as customer-perceived value. Figure 7 illustrates customer-perceived value as the outcome of the customer's value creation process that is preceded by the supplier's value facilitation process.

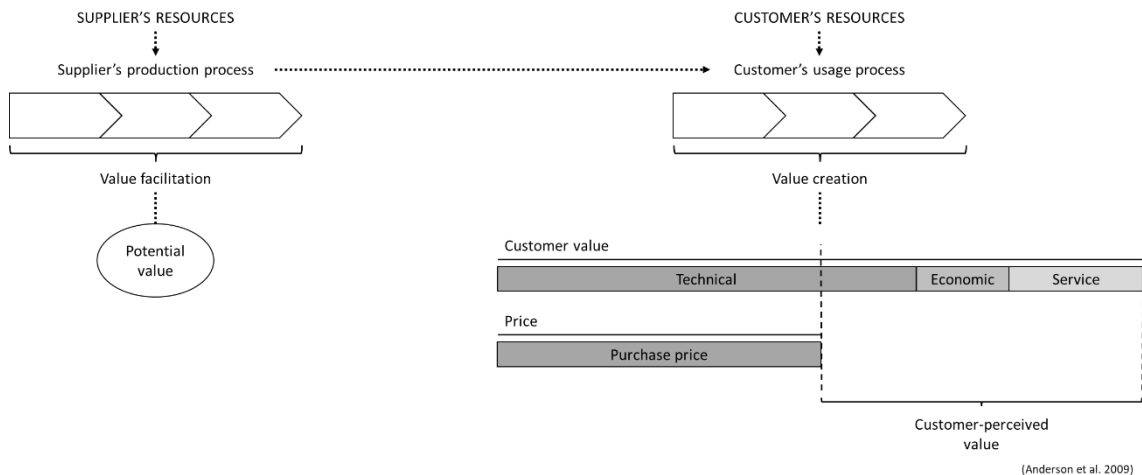


Figure 7. Customer-perceived value as the outcome of value creation.

In Figure 7, the supplier's production process and the customer's usage process are connected by an arrow. This illustrates that, before usage and value creation can occur, the offering needs to move from production to use, which typically happens through an exchange transaction. Customers' purchase decisions and willingness to pay higher prices are driven by their perceptions of value (Woodruff 1997; Tuli et al. 2007), but value is only realized through use and customers might not entirely understand the value potential before purchase (Anderson & Narus 1998). Consequently, value communication (e.g. Anderson & Narus 1998; Anderson et al. 2006) and value-based selling (e.g. Terho et al. 2012; Töytäri & Rajala 2015) have been identified as effective sales practices. Overall, a supplier's efforts to communicate value and help a customer understand the value potential of an offering can result in increased sales for the supplier and better purchase decisions and consequently enhanced value creation for the customer.

3. COMMUNICATING CUSTOMER VALUE

3.1 Customer value propositions

Communicating customer value effectively is critical in business markets (Anderson & Narus 1998; Eggert et al. 2018). In extant literature, the customer value proposition originally introduced by Lanning and Michaels (1988) is widely considered central to communicating customer value, especially to prospective customers (e.g. Anderson et al. 2006; Payne et al. 2008; Kotler & Keller 2016; Payne et al. 2017; Eggert et al. 2018). Originally, the concept of value proposition was used to describe the combinations of benefits and price a company promises to its customers (Lanning & Michaels 1988). Thereafter there have been many different definitions of the value proposition. In their recent work, Payne et al. (2017, p. 467) state:

“A customer value proposition (CVP) is a strategic tool that is used by a company to communicate how it aims to provide value to customers.”

The authors argue for the strategic aspect of the customer value proposition because it also reflects the company's strategic decisions (e.g. positioning). However, one fundamental purpose of a customer value proposition is to formulate customer (perceived) value in a form that can be communicated to provide the customer with a convincing reason to buy an offering (e.g. Kotler & Keller 2016, p. 298). Thus, the customer value proposition is the key to communicating customer value. For example, Terho et al. (2012) identify three essential dimensions of value-based selling: (1) understanding the customer's business model, (2) crafting the value proposition, and (3) communicating customer value. From the supplier's point of view, a customer value proposition can be utilized by sales in the attempts to convince the prospective customers. For the customer, the customer value proposition is the starting point of the customer's value assessment process that starts by assessing the fairness of the value proposition (Ballantyne et al. 2011).

While academic literature has not reached a consensus on the nature and definition of the customer value proposition (e.g. Anderson et al. 2006; Ballantyne et al. 2011; Payne et al. 2017), several ways to craft customer value propositions have been discussed in the literature. A high-level model presented by Payne et al. (2017) explains how strategically controlled utilization of a company's resources results in customer value propositions that, in turn, result in competitive advantage through their effects on the customers. The model is presented in Figure 8.

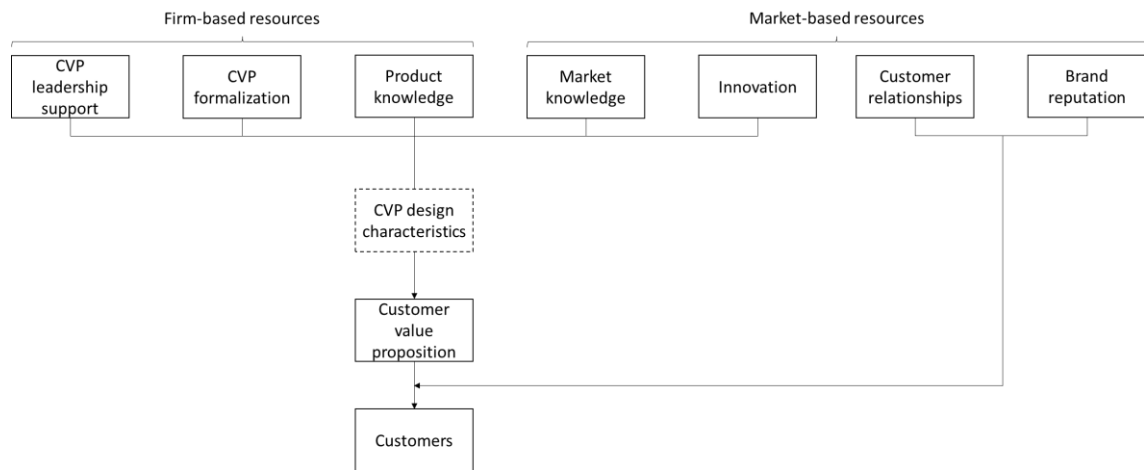


Figure 8. *The resources behind customer value propositions (adapted from Payne et al. 2017).*

In Figure 8, the resources behind the customer value proposition are divided into firm-based resources and market-based resources. Payne et al. (2017) describe these resources and explain that they are utilized together to create effective customer value propositions. There are three firm-based resources, all of which directly affect customer value proposition formulation. First, CVP leadership support means that a company's managerial decisions and practices internally communicate the strategic importance of the customer value propositions, which gets other firm-based and market-based resources activated. Second, CVP formalization concerns structures and formalized processes a company has to formulate customer value propositions. Finally, product knowledge is a company's knowledge of its offerings and combinations of offerings in regard to their technical specifications and potential applications.

In addition to firm-based resources, there are four market-based resources, as presented in Figure 8. Of these market-based resources, market knowledge and innovation directly affect customer value proposition formulation. Market knowledge includes knowledge of both customers and competitors (Payne et al. 2017). A company needs to understand a customer's business, processes, and goals to understand how its offering affects and adds value to the customer's business. This is in line with the idea of the service-dominant logic that understanding customers' value creation processes and identifying opportunities to enhance customers' value creation is the starting point of business strategy (cf. Payne et al. 2008). On the other hand, a company needs to know competitors' offerings to understand and communicate to the customer how the company's product adds superior value to the customer's business (Payne et al. 2017). This is important because customers compare alternative offerings (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002). Innovation is a company's capability to utilize existing and new resources to come up with novel ways to add value to customers' businesses, and innovation includes both

technological resources, such as new, more efficient technologies and human resources, such as creativity (Payne et al. 2017; cf. Woodruff 1997). Therefore, from one perspective, the innovation resource can be viewed as the ability to connect product knowledge and market knowledge to identify how the features of a product align with the customer's processes and translate into potential customer benefits and potential customer value.

The last two market-based resources, customer relationships and brand reputation, are not directly involved in creating the value proposition but moderate the impact of the CVP on the customer (Payne et al. 2017), as illustrated in Figure 8. Customer relationships and brand reputation serve as evidence of value creation ability, thus affecting the customer's judgement of the CVP. Hence, like references (e.g. Anderson & Wynstra 2010; Terho et al. 2012), these resources affect the customer's perceptions of the value proposition and consequently impact the effectiveness of the CVP.

As shown in Figure 8, Payne et al. (2017) argue that the formulation of a CVP is determined by several CVP design characteristics. CVP design characteristics moderate the formulation of the CVP by determining how and to what extent the resources that directly participate in the formulation of a CVP are utilized. One of the most central CVP design characteristics is the granularity of the CVP.

The customer value proposition can be constructed at different levels of granularity (Payne et al. 2017; Eggert et al. 2019). Payne et al. (2017) identify three granularity levels: the firm level, the customer segment level, and the individual customer level. They argue that the firm level value proposition expresses broadly how a company adds value to its customers' businesses, thus justifying the company's existence and providing strategic direction (cf. Slater 1997). The customer segment level value proposition is more granular and explains how the company adds value to customers' businesses within the target customer segment (Payne et al. 2017), acknowledging segment-specific aspects, such as practices related to operations (e.g. Osterwalder et al. 2014). Finally, the most granular value proposition, the individual customer level value proposition, considers a single customer's specific use situation (Payne et al. 2017). In addition to these three levels of granularity, scholars argue that in a business-to-business (B2B) context a customer value proposition can be formulated at both organizational level and individual level (Ballantyne et al. 2011). This argument likely derives from the observation that customers assess value at both organizational and individual levels (e.g. Macdonald et al. 2011).

Payne et al. (2017) focus on a high-level resource-based model explaining that firm-based and market-based resources are the antecedents of CVPs. Because value creation revolves around the value-in-use of an offering in a specific use situation, the offering and the use situation are central also in CVP formulation, highlighting the role of product knowledge and market knowledge as central resources behind the CVP. Support for this logic is also found in empirical studies (e.g. Storbacka 2011; Terho et al. 2012; Töytäri & Rajala 2015). Although all the resources directly affecting the CVP are important (see Figure 8), all other resources essentially support applying product and market knowledge. CVP leadership support provides strategic direction regarding how to apply knowledge, CVP formalization provides structured processes for knowledge application, and innovation capabilities support forming new product and market knowledge (cf. Payne et al. 2017). Therefore, product knowledge and market knowledge are central resources that are processed to develop understanding of customers' use situations and an offering's suitability and value in those use situations.

In practice, especially the comprehensiveness of market knowledge behind CVPs varies, resulting in different types of CVPs. In their frequently cited article, Anderson et al. (2006) identify three types of value propositions used by suppliers, namely (1) the all benefits value proposition, (2) the favorable points of difference value proposition, and (3) the resonating focus value proposition. These value propositions differ in how much knowledge is required to construct each of them and how they address alternative offerings and customer-specific use situations.

When attempting to include all benefits in the value proposition, a supplier basically lists all the aspects of an offering that might be valuable for customers (Anderson et al. 2006). Anderson et al. (2006) state that of all three methods, the all benefits method requires least knowledge since the supplier only needs to know their own market offering. However, the authors point out that a supplier's list of benefits might include items that are not truly beneficial for some or even many of the target customers, which might diminish or draw customer's attention away from the benefits that actually are valuable (see Töytäri et al. 2011 for empirical evidence). Another drawback is that the all benefits approach does not acknowledge competitors' offerings, although customers typically compare alternatives (cf. Ulaga & Chacour 2001; Eggert & Ulaga 2002). If most of the benefits stated by a supplier are very similar to those of a competing offering, the value the customer sees in beneficial points of difference might again be diminished (Anderson et al. 2006).

A value proposition that is built around favorable points of difference requires knowledge of one's own offering and of competing offerings, and the value proposition includes all

favorable elements that differentiates a supplier's offering from the next best alternative (Anderson et al. 2006). However, all the points of difference might not be beneficial for some target customers, and the supplier is, thus, again at the risk of presenting valueless "benefits" to a customer that diminish the overall value perceived by the customer, especially if the number of favorable points of difference is large (Anderson et al. 2006). Anderson et al. (2006) note that, if the supplier attempts to solve this problem without understanding the customer's use situation, the supplier has to make presumptions regarding the elements valuable for customers, hence possibly emphasizing the wrong elements.

The resonating focus value proposition consists of a few selected points of difference that are most valuable for the customer (Anderson et al. 2006). Anderson et al. (2006) argue that to understand the value of different elements the supplier must first understand the customer's use situation, which is a common notion (e.g. Tuli et al. 2007; Payne et al. 2008; Terho et al. 2012; Keränen & Jalkala 2013). Moreover, they emphasize that the supplier has to know how its own offering would add value to a particular use situation and how would competing offerings add value to that use situation. The authors conclude that the supplier can then build the value proposition around the most valuable points of difference and perhaps also include some points of parity its offering has with the next best alternative if these elements are crucial for the customer.

The three types of value propositions presented by Anderson et al. (2006) can essentially be interpreted to represent different levels of value propositions, with each level building on the previous one. More explicitly, the supplier needs to know all the offering's benefits to identify favorable points of difference, and the supplier needs to know favorable points of difference to be able to select a few points for the resonating focus value proposition. Selected value proposition type is, therefore, a CVP design characteristic because it determines the focus of the value proposition (cf. Payne et al. 2017). The different levels of value propositions and associated knowledge required is illustrated in Figure 9. The higher the level the more resources are needed to create the value proposition. On the other hand, the higher the level the more effective the value proposition typically is (cf. Anderson et al. 2006).

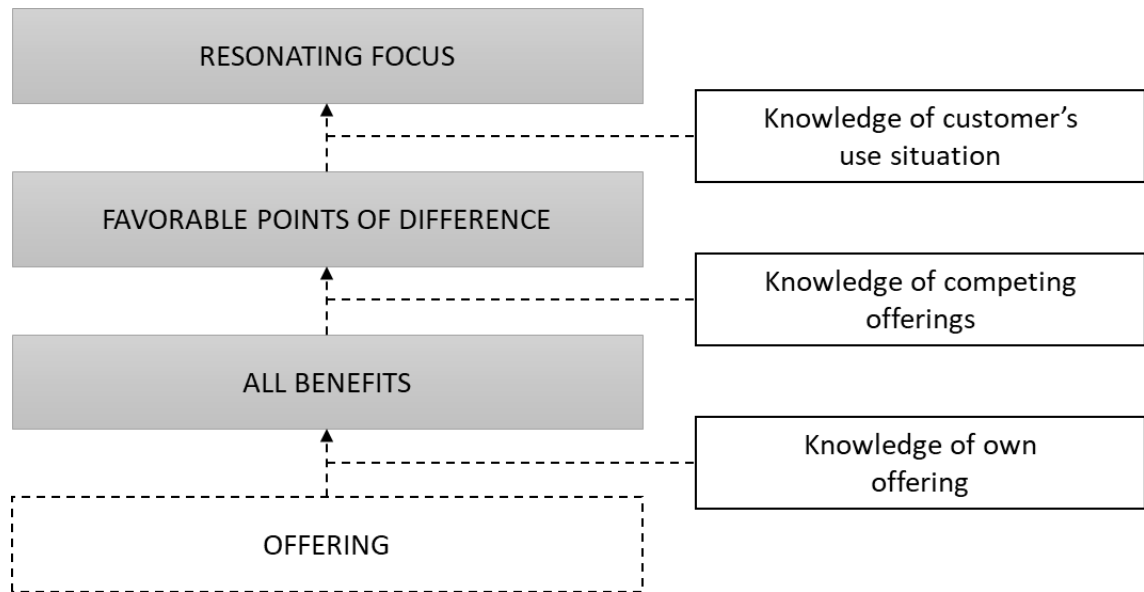


Figure 9. *The different levels of value propositions and knowledge needed to advance between the levels (based on Anderson et al. 2006).*

As illustrated in Figure 9, the lowest level value proposition is the all benefits value proposition that is fundamentally based on the offering's characteristics and the supplier's view of all the possible ways these characteristics might benefit customers. The all benefits value proposition thus requires mainly product knowledge (i.e. knowledge of own offering).

To develop a favorable points of difference CVP, the supplier needs comprehensive knowledge of competing offerings, as illustrated in Figure 9. Customers consider value in comparison to alternative offerings and in particular the next best alternative (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Lusch et al. 2010; Töytäri et al. 2011; Kotler & Keller 2016). Customers' perceptions of alternative offerings might, thus, affect how customers perceive the value potential of a supplier's offering. In principle, comparing the offerings takes place before the purchase decision, so it is particularly important for sales to understand the effect of alternative offerings (cf. Lanning & Michaels 1988).

To develop the CVP further into a resonating focus CVP, the supplier needs comprehensive knowledge of the customer's use situation, as illustrated in Figure 9. Understanding the customer's specific use situation enables developing a more effective CVP because it enables building the CVP and customer value communication around those benefits that are most relevant and impactful for the customer (e.g. Terho et al. 2012; Keränen & Jalkala 2013). This can make the CVP more credible in the customer's eyes (see Töytäri et al. 2011).

According to the model presented in Figure 9, the resonating focus value proposition is the highest-level value proposition. From the resource-based perspective adopted by

Payne et al. (2017), the superiority of resonating focus CVPs in comparison to other CVP types presented by Anderson et al. (2006) is logical since resonating focus CVPs require superior resources (i.e. knowledge). The superiority of resonating focus CVPs is supported by other literature too since these CVPs include two important elements frequently emphasized in the literature: taking alternative offerings into consideration (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Kotler & Keller 2016), and understanding the customer's business and use situation (e.g. Tuli et al. 2007; Payne et al. 2008; Terho et al. 2012).

This thesis focuses on the resonating focus value proposition because, due to its superiority, it is what suppliers should attempt to utilize (cf. Anderson et al. 2006). The resonating focus value proposition can be created on a customer segment level (see Anderson et al. 2006) or on an individual customer level (cf. Payne et al. 2017). The level of granularity mainly depends on whether the market knowledge utilized in creating the value proposition is specific to a customer segment or to an individual customer.

Regardless of the granularity level, understanding the customer's use situation and the offering's benefits in this use situation is central to the actual CVP formulation process, as the resonating focus value proposition focuses on the most valuable benefits (Anderson et al. 2006) that are determined by the customer's use situation. Osterwalder et al. (2014) provide one practical tool, the value proposition canvas, that can be used to analyze the match between an offering and a customer's use situation and to formulate a resonating focus customer value proposition. The authors explain that a value proposition canvas consists of a customer profile and a value map. The customer profile helps understand a customer's use situation and opportunities for value creation, and the value map helps understand how the supplier can add value to the customer's business (Osterwalder et al. 2014). The model revolves around identifying and addressing customer jobs, pains, and gains (Osterwalder et al. (2014). Jobs are the tasks the customers want to complete (e.g. manufacturing cars). A pain is anything that has a negative effect on customers' jobs, including obstacles preventing them from completing jobs and risks of undesirable outcomes (e.g. too low capacity). Gains are the outcomes and benefits customers want (e.g. more efficient manufacturing process). The steps of building customer profiles and value maps presented by Osterwalder et al. (2014) are presented in Figure 10.

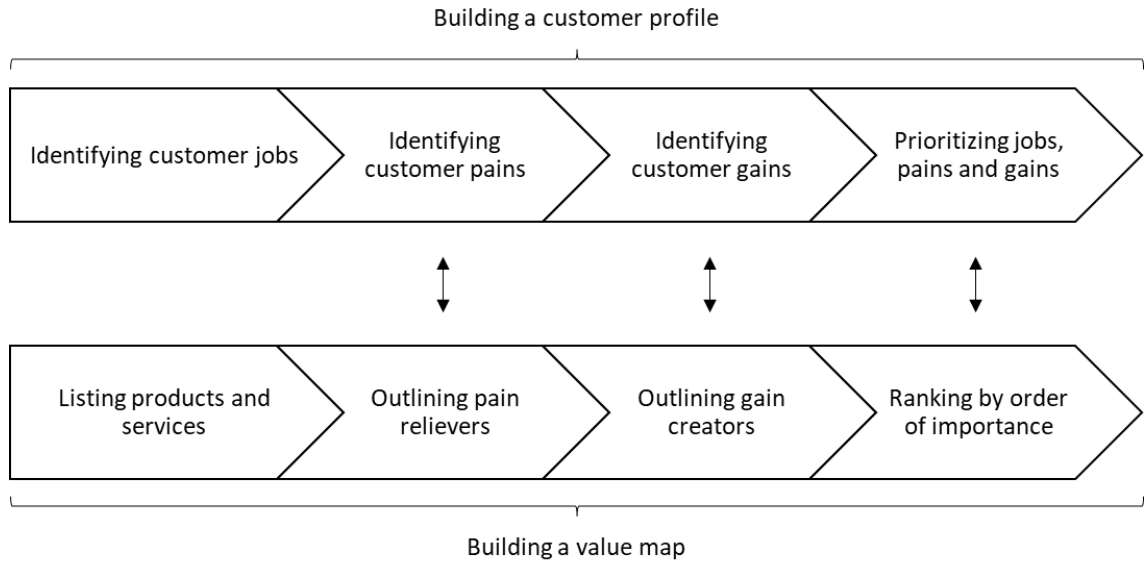


Figure 10. *Building a customer profile and a value map (Osterwalder et al. 2014).*

Before the process of building a customer profile shown in Figure 10, the target unit (individual customer or customer segment) needs to be determined. Then, regarding that customer or within that segment, customers' jobs, pains, and gains are identified. Finally, jobs, pains, and gains are prioritized based on their importance to customers. Prioritization enables the supplier to address and emphasize the aspects that are most important to customers (i.e. to develop a resonating focus value proposition, cf. Anderson et al. 2006).

In addition to building a customer profile, Figure 10 shows another process: building a value map. Osterwalder et al. (2014) describe the four processes related to building a value map as follows. First, listing products and services basically aims to create a list of all products and services offered. Second, outlining pain relievers is about outlining how the products and services help reduce customers' pains. Third, outlining gain creators is about outlining how the products and services create desirable outcomes and benefits for the customers. Fourth, products and services, pain relievers, and gain creators are ranked based on how important they are to the customers. Together with the supplier's knowledge about the competing offerings, the ranking enables the supplier to focus on the most valuable distinguishing aspects, resulting in a resonating focus value proposition.

In the model presented by Osterwalder et al. (2014), and in the process of building a customer profile specifically, the understanding of customer use situation highlighted widely in the literature (e.g. Tuli et al. 2007; Payne et al. 2008; Terho et al. 2012) is basically split into understanding the customer jobs, pains, and gains. Osterwalder et al.

(2014) essentially propose that, in the process of building a value map, product knowledge is applied in the context of a specific customer profile to identify value elements (i.e. pain relievers and gain creators), as illustrated by the arrows in Figure 10. The authors' model resonates with the CVP formalization resource identified by Payne et al. (2017) since it presents a formalized process to derive a CVP from the product knowledge resource (value map) and market knowledge resource (customer profile). Moreover, the model proposed by Osterwalder et al. (2014) sheds light on the actual CVP formulation process that is based on the resources proposed by Payne et al. (2017). Figure 11 illustrates that these resources enable the CVP formulation process that draws especially on product and market knowledge but also on other resources to form understanding of the use situation and the value elements resonating with that use situation.

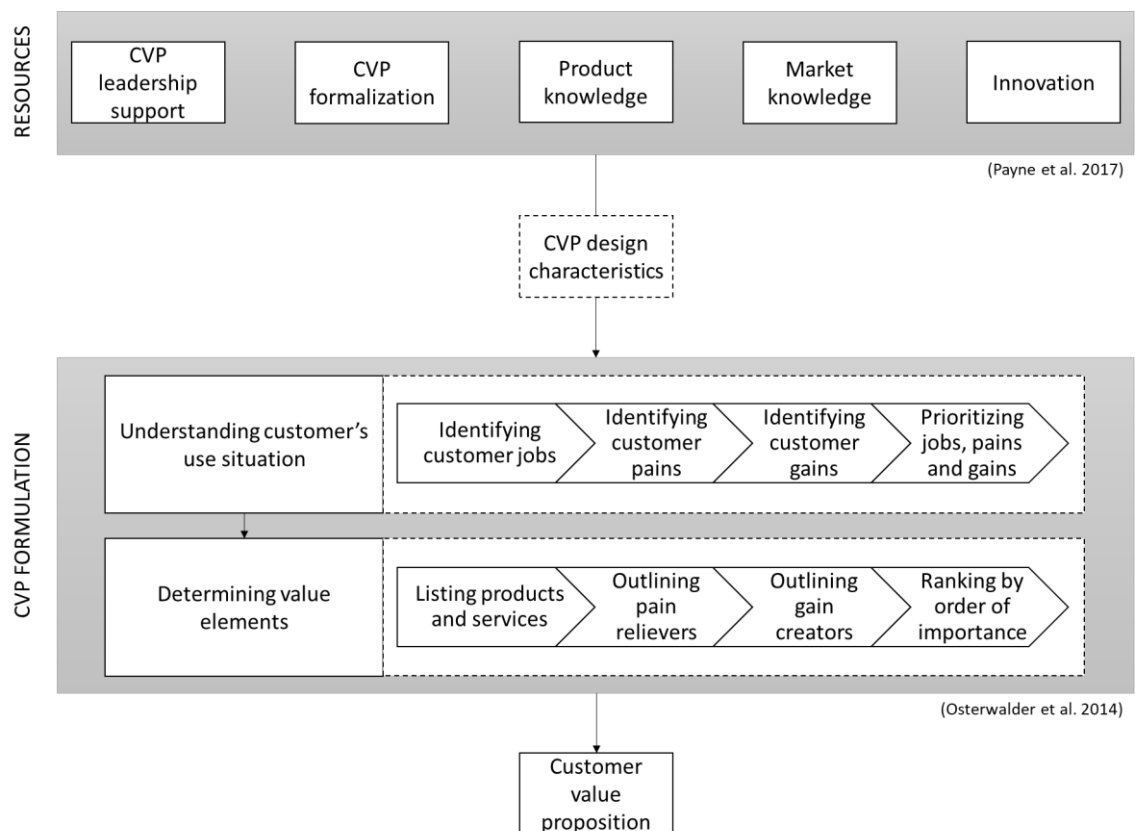


Figure 11. The use situation and value elements as the basis of CVP formulation.

The CVP formulation process shown in Figure 11 results in a CVP that addresses the customer's use situation and the potential benefits enabled by the offering within that use situation. The ranking of value elements enables the supplier to select the most valuable benefits and develop a resonating focus value proposition. By following the CVP formulation process illustrated in Figure 11, the supplier can create a CVP that explains how the offering relieves customer pains or creates customer gains by for instance making some process or task easier, faster, or of better quality.

Although explaining practical changes in the customer's processes is important (cf. Terho et al. 2012), the supplier can enhance the CVP by presenting the changes in the customer's processes in monetary terms. Based on both theoretical and empirical studies, a significant number of authors suggest that the customer value proposition should include monetary benefits (e.g. Anderson & Narus 1998; Terho et al. 2012; Töytäri & Rajala 2015; Wouters & Kirchberger 2015). Monetary expression is important because customers might not completely understand what fulfilling their needs is worth for them (Anderson & Narus 1998). In addition, clear and reasoned calculations of monetary value can help back up promises of increased customer profit (cf. Anderson et al. 2006) and reduce the ambiguity of customer value, resulting in increased likelihood of the supplier getting a fair return on the value provided (cf. Töytäri et al. 2011; Anderson & Wynstra 2010). Monetary quantification of customer value can, thus, lead to favorable sales outcomes (see Terho et al. 2012; Hinterhuber 2017). Wouters and Kirchberger (2015) argue that creating a customer value proposition can be viewed as a process in which the technical features of an offering are first translated into customer benefits, then into monetary worth. The process of estimating monetary worth is often referred to as customer value assessment.

3.2 Customer value assessment

Extant literature proposes several methods for assessing monetary customer value. In his seminal work on value analysis and value engineering, Miles (1961) has arguably laid the foundation stone of contemporary views on monetary value assessment. Miles (1961) emphasizes the importance of understanding the costs of a product's characteristics, whether or not every characteristic is beneficial for the customer, and whether beneficial characteristics could be produced more cost-efficiently. The main idea and objective of Miles' (1961, p. 12) value analysis is to analyze the cost of each function and get "equivalent performance at lower cost". His focus is on physical goods and, in particular, on reducing the purchase costs of goods, which is a notable limitation.

Today, there are numerous methods of assessing value that practitioners use (Anderson et al. 2009). Some methods identified by literature are presented in Table 3. In the table, the term "value" refers to monetary value.

Table 3. Some methods of assessing customer value (Anderson et al. 2009, p. 64–69; Kotler & Keller 2016, p. 224).

Method	Description
Internal engineering assessment	Supplier conducts internal laboratory tests to estimate value based on the functionality and performance of a product. Can be tied to customer-specific use situation.
Field value-in-use assessment	Supplier interviews (and gathers data at) customers to list benefit and cost elements of an offering compared to an incumbent. Value is estimated based on these elements.
Direct survey questions	Supplier asks customers what the value of an offering or its part would be for customers.
Indirect survey questions	Supplier asks customers how changes in a currently used offering would affect customers' operations. Answers are analyzed to estimate the value of changes.
Focus group value assessment	Supplier asks customers in a focus group what the value of a potential offering would be for them.
Conjoint analysis	Supplier asks customers to evaluate alternative offerings with different attributes and prices. Answers are analyzed to estimate values of different attributes.
Benchmarks	Supplier asks customers how much more (or less) they would pay for an offering with better (or worse) attributes in comparison to a benchmark offering.
Compositional approach	Supplier asks customers what the value of different levels of an attribute is to customers. When done for each attribute, values can be added to estimate the value of a certain offering.
Importance ratings	Supplier asks customers to evaluate the importance of an offering's attributes and the performance of different suppliers on each of the attributes. Answers are analyzed to compare the value of suppliers' offerings.

Most of the methods presented in Table 3 rely heavily on the customer's evaluation of the value. While efficient in some situations, methods relying on the customer's evaluation might not be accurate because customers often do not know the monetary value of fulfilling their requirements (Anderson & Narus 1998) or they might not even completely understand their requirements (Tuli et al. 2007; Terho et al. 2012; Keränen & Jalkala 2013). Thus, broadening the view beyond the customer's perspective can help customers realize the value of fulfilling their needs and consequently the potential value an of-

fering has for them. In addition, it can help customers understand their business requirements better, which ultimately comes down to identifying value creation opportunities in their processes that they have not identified themselves.

On the other hand, value assessment methods that rely heavily on the supplier's evaluation of value have a significant pitfall: even if very supplier-oriented methods, such as internal engineering assessment, could be tied to the customer's use situation in a laboratory setting, using these methods usually requires making some assumptions regarding the customer's actual use situation (Anderson et al. 2009, p. 64). These assumptions may be inaccurate (Anderson et al. 2006) and adverse to the credibility of customer value communication (see Töytäri et al. 2011).

Since customer value assessment appears to have significant pitfalls when conducted based on either the customer's or the supplier's evaluation of value, first-class customer value assessment requires input from both the supplier and the customer (cf. Terho et al. 2012; Keränen & Jalkala 2013). Of the customer value assessment methods presented in Table 3, for example, field value-in-use assessment allows the integration of the supplier's and the customer's knowledge by placing both parties in active roles. By allowing interaction and cooperation, field value-in-use assessment addresses both issues present with many other methods: suppliers not having a detailed understanding of the customer-specific use situation and customers not knowing what fulfilling their needs is worth for them. Consequently, for example Anderson & Narus (1998) view field value-in-use assessment as the most accurate method of assessing customer value.

According to the predominant service-dominant logic, however, customer value can actually be determined only when it has been experienced by using the offering (Grönroos & Voima 2013). Against this backdrop, Keränen and Jalkala (2013) propose quite a comprehensive framework for customer value assessment. Based on an empirical study, they create a framework that expands the customer value assessment process from pre-purchase assessment to also cover post-purchase value verification. The model also goes beyond product attributes and performance by considering benefits achieved not only through an offering's performance but also through performance improvements in other parts of the customer's processes that are caused by the offering. The framework is presented in Figure 12.

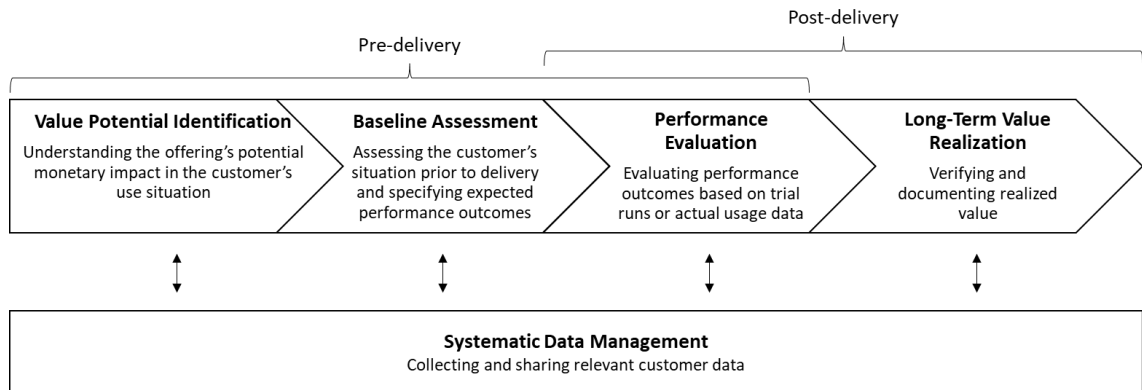


Figure 12. A customer value assessment framework (adapted from Keränen & Jalkala 2013).

In the framework presented in Figure 12, there are five key processes of which systematic data management supports all the other processes. In contrast to many other approaches to customer value assessment (see Table 3), the framework presented in Figure 12 demonstrates that customer value assessment can extend beyond the point of delivery. The illustrated flow of processes gives a broad idea of customer value assessment, but the order of processes might not always be strictly followed and the processes may overlap and be iterative (Keränen & Jalkala 2013).

As illustrated in Figure 12, the first process of customer value assessment is value potential identification, in which the objective is to understand how a supplier can provide additional value to its customer. The needs expressed by the customer serve as a starting point, but understanding the customer's processes is also important, because the supplier might have more knowledge on certain processes than the customer (Keränen & Jalkala 2013). Thus, the supplier might be able to point out new value creation opportunities for the customer. Value potential should be translated into monetary numbers, and it is especially important to explain how an increase in one cost can reduce another cost and ultimately turn the case profitable for the customer (Keränen & Jalkala 2013).

Value potential identification is what the methods presented in Table 3 also essentially aim for. In fact, the value potential identification process proposed by Keränen and Jalkala (2013) methodologically resembles field value-in-use assessment (cf. Anderson & Narus 1998; Anderson et al. 2009). Both utilize information expressed by the customer and emphasize the importance of understanding the cost and benefit elements in the specific use situation. However, field value-in-use assessment focuses on the product's attributes and is thus product-centric, whereas Keränen and Jalkala (2013) suggest that

it is also important to assess not only the performance of the offering but also the performance improvements caused by the offering in other areas of the customer's processes. Companies have several means and tools to support value potential identification and assessment, such as value calculations and value calculators, simulations, lifecycle calculations, and return-on-investment calculations (e.g. Anderson et al. 2006; Töytäri et al. 2011; Terho et al. 2012; Töytäri & Rajala 2015).

In Figure 12, the second process of customer value assessment is baseline assessment that aims to assess the customer's situation before the deployment of the supplier's offering (cf. Anderson & Narus 1998). Keränen and Jalkala (2013) explain that baseline assessment is needed to determine a benchmark that enables comparison in the post-delivery processes (i.e. performance evaluation and long-term value realization). In addition, they point out that by doing baseline assessment together, the supplier and the customer can ensure that they have a mutual understanding of the customer's situation before deploying the supplier's offering. This way, the parties are later more likely to also have a similar understanding of changes in performance caused by the supplier's offering (Keränen & Jalkala 2013). Baseline assessment also typically includes specifying mutual outcomes, which is about expressing the expected benefits and potential customer value that the offering will bring (Keränen & Jalkala 2013). Baseline assessment is, thus, a prerequisite for evaluating the offering's impact on the customer's business after the offering has been deployed. Some kind of baseline assessment should already take place during value potential identification because value potential is relative to current performance and dependent on existing customer systems and processes (cf. Möller & Törrönen 2003). The value potential identification and baseline assessment processes will, therefore, most likely overlap, but reaching a consensus on current situation and specifying the outcomes are objectives of the baseline assessment process in particular.

The third process of customer value assessment is performance evaluation that can take place both before delivery and after delivery as illustrated in Figure 12. In this process, trial runs or a pilot project can be utilized to gain a better understanding of the actual value before the final offering is delivered. This can help recognize new benefits and, in particular, some indirect benefits that might be difficult to spot beforehand (Keränen & Jalkala 2013). On the other hand, as Keränen and Jalkala (2013) note, performance evaluation can be conducted after the final offering has been delivered and used, which might be adequate especially in the case of less expensive offerings. When performance is evaluated before delivery by utilizing test runs and pilots, performance evaluation clearly is an independent process. However, when performance evaluation is conducted

after the offering has been delivered, performance evaluation and long-term value realization will likely become overlapping and iterative processes.

Long-term value realization is the fourth process of customer value assessment (see Figure 12). Long-term value realization is about making sure that the customer actually receives the value that was promised. In this process, the supplier and the customer monitor the usage of the offering to verify that the previously specified outcomes are fulfilled (Keränen & Jalkala 2013). Documenting the realized customer value is important not only for value communication and verification purposes in that single case but also for continuously generating evidence of the supplier's ability to add value to customers' businesses (Keränen & Jalkala 2013). The importance of references as evidence of a firm's ability to add value is widely recognized in the literature and especially in empirical studies (e.g. Anderson & Wynstra 2010; Töytäri et al. 2011; Terho et al. 2012; Töytäri & Rajala 2015). Keränen and Jalkala (2014) argue that a reference case portfolio is the only concrete evidence a company has of its capability to provide customer value. Thus, including reference case documentation in the systematic customer value assessment process is considered important although it is not essential from the value assessment perspective.

The fifth process of customer value assessment is systematic data management that supports all the other processes as illustrated in Figure 12. Customer value assessment as a process is very data-intensive, meaning that a lot of data needs to be collected and managed. Systematic data management (or its subprocesses) should enable collecting all relevant customer data effectively and sharing it internally throughout the customer value assessment process (Keränen & Jalkala 2013).

Together the five processes identified by Keränen and Jalkala (2013) form a continuous process that iteratively produces more and more accurate estimates of customer-perceived value. However, in this thesis, the focus is on customer value assessment taking place before the purchase. In Figure 13, the customer-perceived value estimate is illustrated as an outcome of the customer value assessment processes occurring before the purchase. It is important to note that a rough customer-perceived value estimate can be developed at the very beginning of the customer value assessment process and developed further throughout the process, as illustrated in Figure 13. All knowledge accumulated during the process translates into better understanding of benefits and sacrifices and can then be used to iteratively reduce the margin of error associated with estimated customer-perceived value.

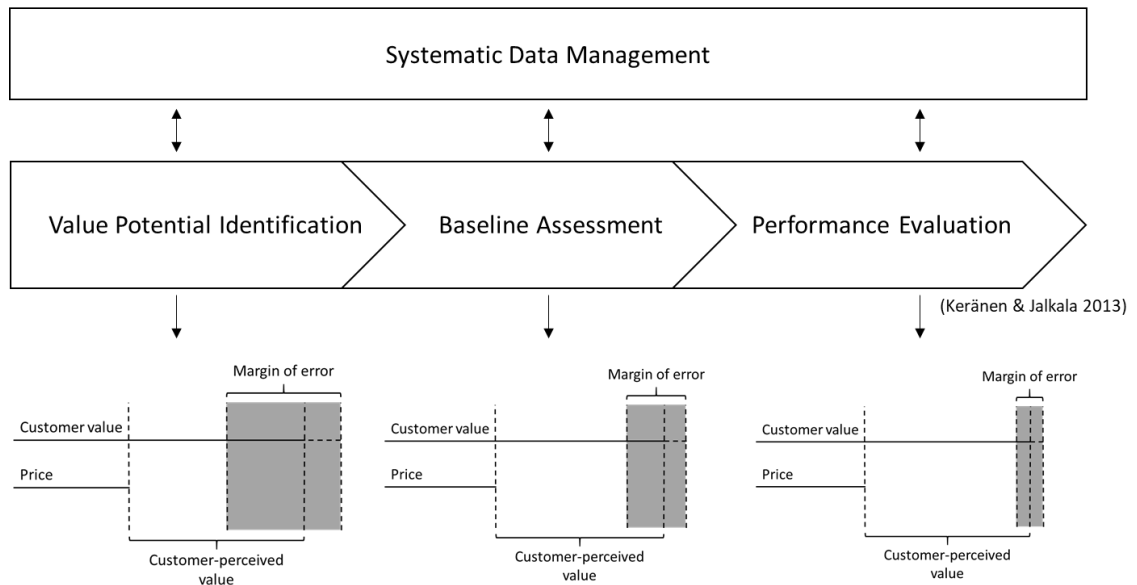


Figure 13. *The estimate of customer-perceived value as an iteratively evolving outcome of the customer value assessment process.*

Similar to customer value propositions, the granularity of customer value assessments can vary. The customer value assessment methods shown in Table 3 enable customer value assessment on a customer segment level, but analyzing an individual customer's use situation enables customer value assessment on an individual customer level (cf. Keränen & Jalkala 2013). An important difference between these levels is that individual customer level value assessment requires inputs from an individual customer, such as dialogue and customer-specific data (Terho et al. 2012), whereas customer segment level value assessment is often carried out based on the supplier's general market knowledge and inputs from customers collectively (cf. Ulaga & Chacour 2001; Anderson et al. 2009). In both customer value proposition formulation and customer value assessment the granularity level depends on whether segment-specific or customer-specific knowledge is utilized in the process.

Despite the statements that monetary benefits should be included in CVPs (e.g. Anderson & Narus 1998; Töytäri & Rajala 2015), the way customer value assessment and customer value propositions are related is not explicitly explained in extant literature. However, there is a clear connection between these concepts. In particular, when monetary measures are included in the CVP, customer value assessment is required to estimate the monetary worth an offering has for the customer. Customer value assessment essentially aims to assess value as accurately as possible, whereas the objective of customer value propositions is to communicate value as effectively as possible. It can be argued that, to be theoretically perfect, customer value assessment should consider

all the effects an offering has on a customer's business. However, all of these effects should often not be communicated in the form of a value proposition to the customer, as explained by Anderson et al. (2006) when they discuss the inefficiency of all benefits value propositions. In general, customer value assessment can help develop information that is then communicated in the form of a customer value proposition, and thus customer value assessment can contribute to forming a customer value proposition but not vice versa.

When including monetary benefits in the CVP, the CVP formulation process must include some form of customer value assessment that enables determining the monetary benefits. This is illustrated in Figure 14, where the previously developed framework of CVP formulation is supplemented with customer value assessment. CVP formulation now consists of three processes, namely (1) understanding customer's use situation, (2) determining value elements, and (3) customer value assessment. Customer value assessment forms a logical continuum to the previously developed framework as it draws on the same resources as customer value propositions in general. Like understanding customer's use situation and determining value elements, customer value assessment revolves around market knowledge and product knowledge resources, while other resources support customer value assessment as a part of CVP creation. In particular, systematic data management deemed an important part of customer value assessment (see Keränen & Jalkala 2013) is supported by formalized data management processes that are the CVP formalization resources.

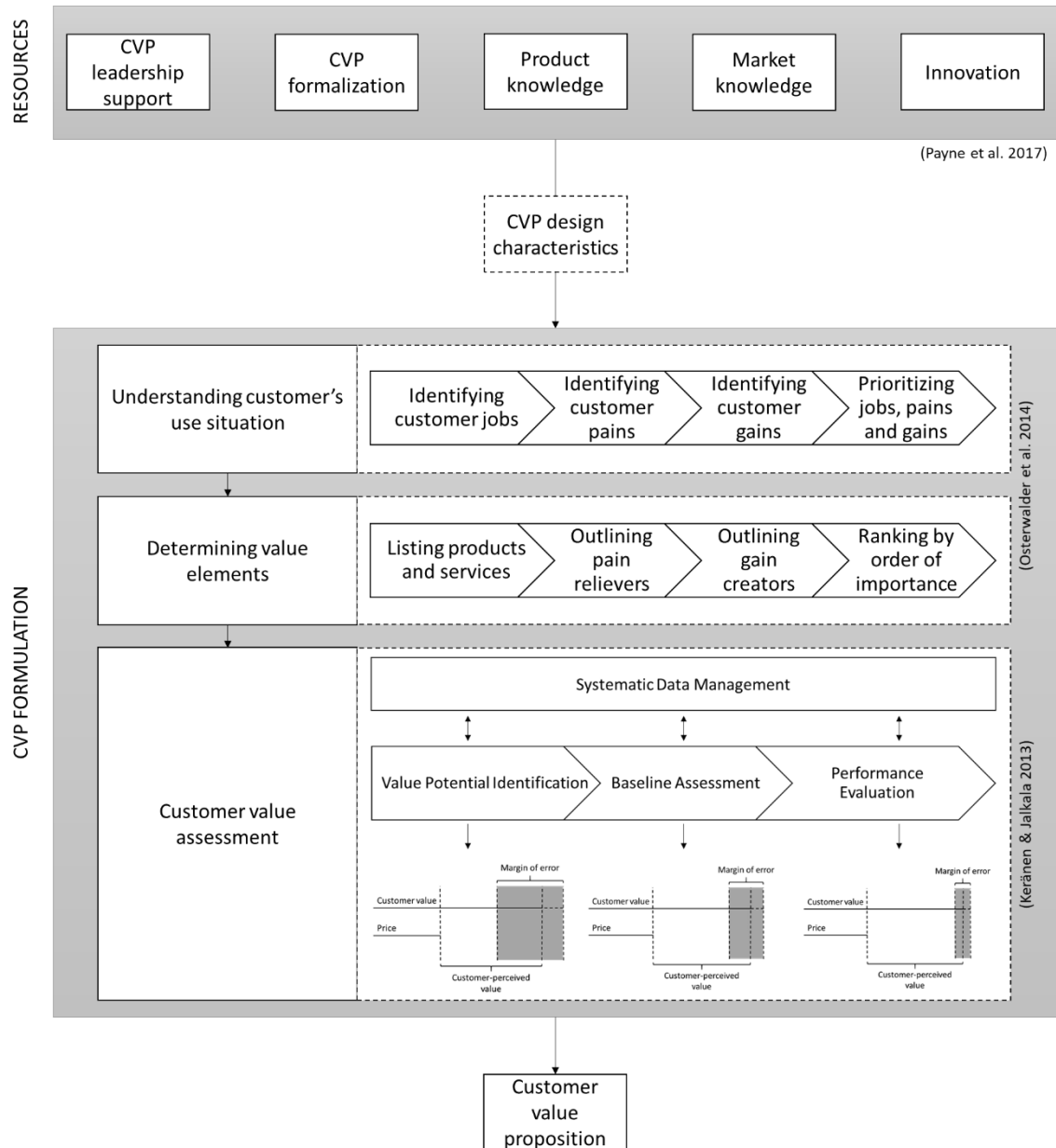


Figure 14. Customer value assessment as a part of CVP formulation.

Based on the customer value assessment processes identified by Keränen and Jalkala (2013) and as shown in Figure 14, this thesis argues that customer value assessment can be performed at different levels of accuracy. Value potential identification results in the roughest estimate that can be enhanced through baseline assessment and performance evaluation. The accuracy of customer value assessment determines the accuracy of the estimates of monetary value communicated through the CVP. The achievable level of accuracy is partly moderated by CVP granularity, because especially baseline assessment and performance evaluation cannot be conducted at a customer segment level but only at an individual customer level.

The three processes of CVP formulation are presented sequentially for visual purposes in Figure 14, but they are not necessarily linear. Although customer value assessment requires understanding of the customer's use situation as well as the value elements in this particular use situation, customer value assessment can also reveal information affecting the understanding of the use situation or the value elements. For example, translating benefits into monetary value might produce more detailed understanding of the use situation or value elements and lead into new prioritization of jobs, pains and gains or pain relievers and gain creators based on their real business impact. Especially the performance evaluation process reportedly enables identifying indirect benefits that are otherwise often difficult to identify (Keränen & Jalkala 2013).

By following the CVP formulation process shown in Figure 14, a supplier can develop a CVP that not only explains how its offering improves a customer's process (by making it for instance easier, faster or of better quality) but also how this change affects the customer's bottom line. Such CVPs are considered to be effective sales tools (cf. Terho et al. 2012) as they help customers understand the monetary worth of fulfilling their needs (Anderson & Narus 1998) and back up suppliers' promises of superior customer value that might otherwise be dismissed by customers as "marketing puffery" (Anderson et al. 2006, p. 91). However, even a strong CVP capturing monetary benefits might not be enough to convince a prospective customer if the customer does not comprehend the CVP or trust in the CVP.

3.3 Communicating customer value propositions

After creating a CVP that expresses monetary benefits, the supplier needs to communicate the CVP effectively. Two central aspects frequently mentioned in extant literature are discussed in this thesis: (1) clearly communicating how monetary value is created and (2) reducing customer-perceived risk of not actually realizing the promised value.

First, potential cost savings or increase in revenue must be clearly and convincingly communicated to prospective customers (Anderson et al. 2006; Terho et al. 2012) because otherwise customers might not believe the numbers or understand where the numbers come from (see Töytäri et al. 2011, p. 498). Value calculators and other computer-based tools are commonly used in customer value assessment (e.g. Keränen & Jalkala 2013), but value should not be communicated merely as an outcome of a computer program's mathematical operations. Instead, as Töytäri et al. (2011) point out, the logic behind the calculations should also be communicated and even validated with the customer. In addition, the same study found that some value calculations are too complicated for buyers to understand and thus unusable in customers' eyes. One means to communicate the

calculation logic intelligibly is a value word equation that translates the most important benefits of an offering into monetary value using simple mathematical operators (Anderson et al. 2006). For example, if a customer currently uses a device with an input power of 5 kW and a supplier offers a device that can perform the same task identically with an input power of 2 kW, the following value word equation can be formulated to express annual energy cost saving potential, assuming that the cost of a kWh is not dependent on consumption:

$$\text{Energy cost savings} = (5 \text{ kW} - 2 \text{ kW}) \times \text{annual operating hours} \times \text{cost of a kWh}$$

In addition to the explicit communication of the value calculation logic, extant literature recognizes the importance of physical demonstration in value communication. Since monetary value in a supplier-customer dyad originates from synergies between a supplier's offering and a customer's use situation, even the importance of traditional product demonstrations showing the features of offerings has been recognized as a part of value communication (see Terho et al. 2012, p. 181). However, a more notable number of scholars specifically emphasize the role of trial runs and pilot programs as means of value communication (e.g. Anderson & Wynstra 2010; Keränen & Jalkala 2013; Töytäri & Rajala 2015). Keränen and Jalkala (2013) point out that trials are especially useful in identifying indirect benefits that are otherwise difficult to perceive in advance. Through pilot programs, customers gain first-hand experience of the actual value-in-use of the offering and can compare it to the value promised by the supplier before making the purchase decision. During pilot programs, the supplier can also support the customer in optimizing the use of the offering and this way maximize value creation (Anderson & Wynstra 2010).

Second, while explicit presentation of the value calculation logic and pilot programs help the customer understand how monetary value is created, another important objective of CVP communication is to reduce customer-perceived risk of not actually realizing the promised value. Even when the customer understands how value can be derived from an offering, value-in-use is typically realized over a longer period of time (cf. Macdonald et al. 2011; Keränen & Jalkala 2013), meaning that at the time of the purchase decision there is inevitably some uncertainty about actually realizing the value. Suppliers can utilize several means to relieve this uncertainty experienced by customers, as discussed shortly.

Reference cases and value case histories are common means of reducing customer-perceived risk used by best-practice firms (e.g. Anderson et al. 2006; Anderson &

Wynstra 2010; Keränen & Jalkala 2014; Töytäri & Rajala 2015; Terho et al. 2017). Documented reference cases can be used to show the benefits actually gained by reference customers, and prospective customers can also be offered the opportunity to observe a reference customer's use of the offering (Töytäri et al. 2011). Value case histories are documented cases that express the monetary value realized by reference customers (Anderson et al. 2006). Documents explicitly showing the monetary value realized by a customer and verified by the customer have been identified as strong evidence of value creation potential (cf. Keränen & Jalkala 2013).

While references might reduce customers' perceptions of risk, a supplier can also affect the absolute risk customers incur. Based on previous research, this can be done through guarantees of value and value-based pricing. Guarantees of value and value-based pricing are both based on the supplier sharing some of the risk with the customer by tying the price the customer pays to the monetary impact of using the offering (Storbacka 2011; Töytäri et al. 2011; Terho et al. 2012). This reduces the absolute risk the customer incurs and consequently also the risk perceived by the customer (cf. Terho et al. 2012). However, because of their critical influence on the bottom line of the supplier, these risk reduction methods are essentially not only communication practices but they require strategic decisions and company-wide alignment. Furthermore, there needs to be a reliable way and sufficient processes in place to measure realized value (cf. Töytäri & Rajala 2015).

CVP communication completes the developed framework for customer value communication. Figure 15 illustrates the complete framework that shows that a company's resources facilitate the formulation of a customer value proposition that expresses the customer value potential of an offering in monetary terms. This customer value proposition then needs to be credibly communicated to prospective customers in the CVP communication phase. Although separated in Figure 15 for illustrative purposes, CVP formulation and CVP communication are not always entirely separate processes. For example, value propositions can be co-created by suppliers and customers (Ballantyne et al. 2011), in which case CVP formulation and CVP communication occur simultaneously and reciprocally. Moreover, for example trial runs and pilot programs that serve as evidence of value in the CVP communication phase can also serve the performance evaluation process of customer value assessment in the CVP formulation phase.

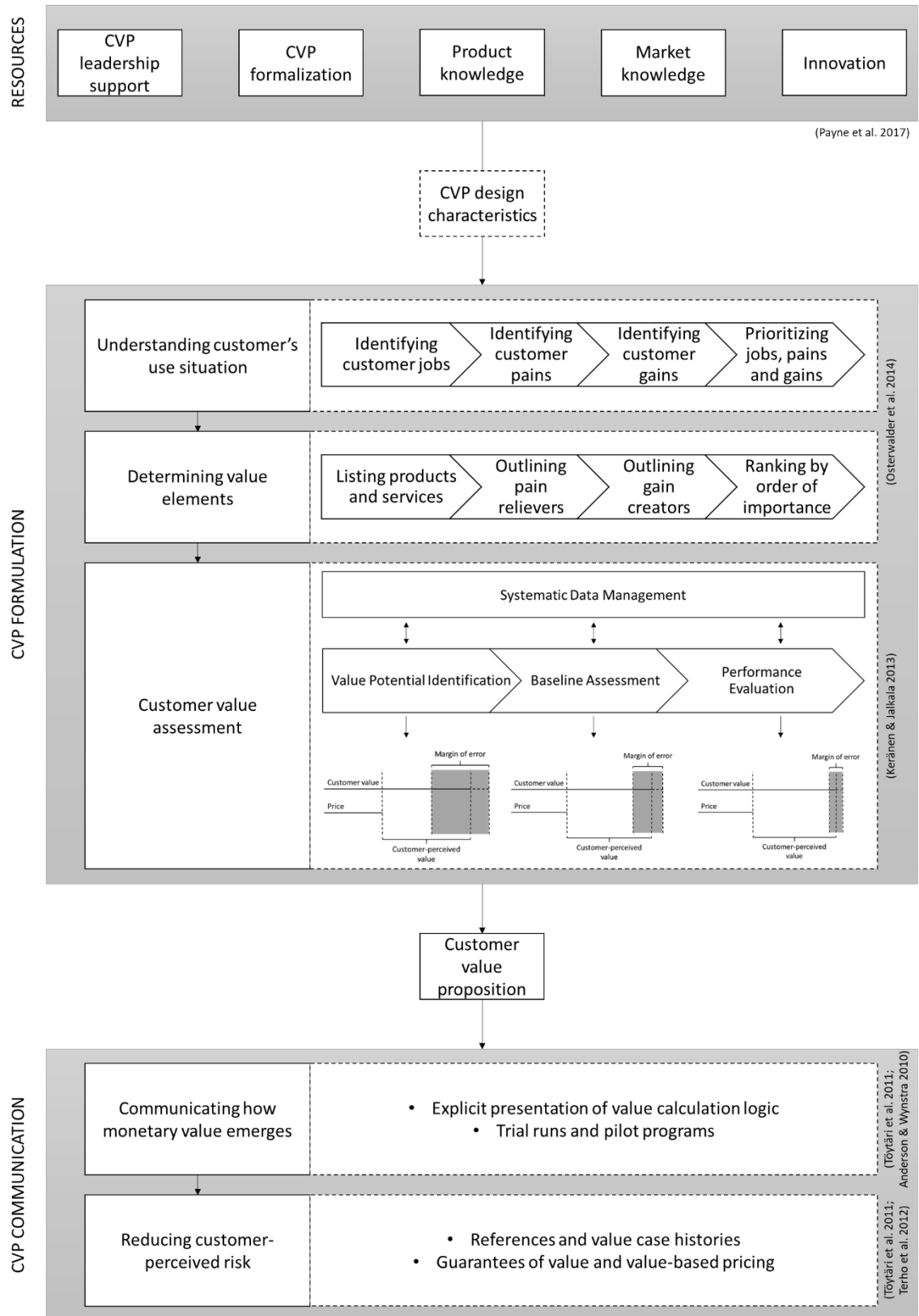


Figure 15. A framework for customer value communication.

Now that a comprehensive model of pre-purchase customer value communication has been created, this thesis will proceed from the supplier-customer dyad to explore how

an indirect distribution channel setting affects value communication. Next, indirect distribution is discussed in greater detail.

4. INDIRECT DISTRIBUTION CHANNELS

4.1 The evolution and role of intermediaries

Distribution channels are channels through which suppliers' offerings reach end users (e.g. Corey et al. 1989; Lusch et al. 2010; Anderson et al. 2009; Kotler & Keller 2016). This thesis adopts a broad conception of distribution channels as marketing channels, considering these channels to include characteristics of, for example, sales channels, physical distribution channels, or both (cf. Achrol & Etzel 2003; Kotler & Keller 2016). A distribution channel of a supplier can either be direct, in which case a supplier performs all channel activities itself (e.g. selling and physical distribution), or indirect, in which case intermediaries handle some channel activities (Anderson et al. 2009). Intermediaries are members of indirect marketing channels and are conceptualized as middlemen that participate in marketing a focal supplier's offering, thus facilitating exchange and making offerings available for subsequent intermediaries or end customers (Sheth & Parvatiyar 1995; Weitz & Jap 1995; Lusch et al. 2010; Kotler & Keller 2016). Intermediaries are here distinguished from end customers by the notion that, while end customers use an offering for its intended purpose by consuming it or using it as their own offering's component, intermediaries market an offering as such. Understanding the historical drivers that led to the formation and significance of indirect marketing channels provides a good basis for understanding the concept and role of intermediaries. A brief look into the history of marketing and production practices sheds light on these drivers.

Marketing has existed since humans started exchanging goods in prehistoric times (Pappu 2004; Layton 2015; Edwards & Baker 2020), and evidence of early exchange and marketing practices dates back to 7000 BC (Carratu 1987, cited in Sheth & Parvatiyar 1995). Indirect marketing channels and intermediaries, however, started to play a significant role in marketing only during the Industrial Age (e.g. Edwards & Baker 2020). Although there seems to be hardly any literature on sourcing and distribution in business-to-business contexts in pre-industrial times, published work in the business-to-consumer domain might explain why conditions were unfavorable for indirect distribution in both consumer marketing and business marketing before the industrial era.

Since the beginning of exchange and continuing throughout the pre-industrial era, producers and customers gathered together for trading, and trade was focused on agricultural products, art and artifacts (Sheth & Parvatiyar 1995). Sheth and Parvatiyar (1995) explain that those traders that were not farmers were mostly craftsmen who produced

customized products according to customers' wishes, meaning that production was mostly based on customer requests and demand. Relationships between producers and customers were critical, because producers committed to making custom products on request and customers committed to buying these tailored products (Sheth & Parvatiyar 1995). Edwards and Baker (2020) assume that relationships and trustworthy suppliers were also critical for pre-industrial business customers because of the presumably small number of alternative suppliers. Even business customers with non-customized needs (e.g. commercial farmers sourcing seeds) probably had few alternative sources of materials.

Because of demand-based production, many of the modern marketing activities (e.g. advertising) were not necessary (Sheth & Parvatiyar 1995). Craftsmen that were often working on individual projects for predetermined customers were usually able to take sufficient care of their scarce marketing activities by themselves. A fundamental purpose of intermediaries is to handle some of the supplier's marketing and business operations, such as selling and warehousing (e.g. Anderson et al. 2009, p. 292), but the environment was unfavorable for intermediaries because of customized products, the match between supply and demand, and the importance of direct relationships. It is noted that these conditions might not have had adverse effects on indirect distribution of many commodity products and raw materials such as seeds and wheat (cf. Corey et al. 1989, p. 225–255), but extant literature provides little information about the prevalence of indirect distribution of such products. Although there is historical record of at least one such arrangement, the ancient Silk Road (Sheth & Parvatiyar 1995; Edwards & Baker 2020), unfavorable conditions affecting the indirect distribution of commodity products could have included the possibility of local growing or production in almost any geographical location and undeveloped means of transportation. On the other hand, Corey et al. (1989, p. 230) state that in the USA distribution networks for raw materials developed more quickly than those for more complex products. However, these authors also note that the development of transportation was a critical factor in enabling extensive distribution.

It is noted that some indirect distribution channels existed before industrialization. Chains of transactions related to distant exchange (cf. Gadde 2014; Edwards & Baker 2020), such as trading within the trade networks of the Silk Road, were most likely often indirect distribution processes. Some producers also established retail stores in fixed locations already before the industrial era (Shaw 1912; Sheth & Parvatiyar 1995), but they typically operated these stores themselves, thus usually creating arrangements that resemble corporate channels where all channel members are owned by the focal institution (cf.

Weitz & Jap 1995; Kotler & Keller 2016, p. 535). All in all, the pre-industrial era was still dominated by direct channels.

In the beginning of the Industrial Age, favorable conditions for indirect channels began to emerge. Corey et al. (1989) discuss the growth of indirect channels in the USA in the 1800s. They present two major drivers of this growth, namely (1) the development of the means of transportation and (2) the development of standardized products and interchangeable parts. First, the development in transportation (e.g. railroads) facilitated more efficient and profitable business even when the supplier and the customer were far apart and the place of production was far from the place of use. Second, having standardized products and interchangeable parts allowed separating the supplier and the end customer, and the importance of close working relationships between suppliers and customers diminished (Corey et al. 1989). Corey et al. (1989) explain that the standardization of products was crucial to the growth of efficient industrial distribution, as standardization drastically reduced the variation in customers' needs and requests. Low variation is important because it allows suppliers to manufacture products into storage (and into intermediaries' storage) rather than on demand because the same product is suitable for several customers. By making manufacturing into storage a viable option, standardization was also a prerequisite for mass-producing industrial products.

Mass production and growing inventories of finished products created yet another driver of indirect distribution. Industrialization, the possibility of mass production and economies of scale related to it revolutionized not only production but also marketing. Sheth and Parvatiyar (1995) state that mass production became favored by manufacturers due to economies of scale and the possibility to reduce production costs and make products more affordable. The ratio of supply to demand increased significantly even though products became more affordable for customers (Sheth & Parvatiyar 1995). Consequently, suppliers started to have excess inventories of finished products that they could not sell themselves (Corey et al. 1989; Sheth & Parvatiyar 1995; Edwards & Baker 2020). Many authors seem to agree that mass production and its consequences were critical in developing favorable conditions for intermediaries and indirect marketing channels (e.g. Corey et al. 1989; Sheth & Parvatiyar 1995; Pappu 2004; Layton 2015; Edwards & Baker 2020). As Sheth and Parvatiyar (1995, p. 406) put it:

“Wholesalers, distributors and other marketing intermediaries assumed the role of middlemen who, on the one hand, stored the excess production of manufacturers, and, on the other hand, helped in locating and persuading more buyers to purchase goods and services.”

Intermediaries started to organize selling, whereas manufacturers were focusing on production to fully utilize their production capacity and achieve improved efficiency and lower costs of goods produced (Shaw 1912; Sheth & Parvatiyar 1995). However, selling was not the only function of intermediaries. In his seminal work Shaw (1912) recognizes four additional functions, namely (1) sharing the risk, (2) transporting the goods, (3) financing the operations, and (4) assembling, assorting and reshipping. Weld (1917) provides a very similar list of intermediaries' functions (or as he terms them, "marketing functions") but also includes storing as a function. From a broader perspective, the primary purpose of intermediaries was (and still is) to handle some business functions that would otherwise need to be handled by the supplier (e.g. Goodman & Dion 2001; Anderson et al. 2009, p. 292). This reduced suppliers' need to invest own resources in marketing and managing customer relationships. In fact, the number of relationships to manage decreased in general, as one intermediary could serve several end customers, as illustrated in Figure 16.

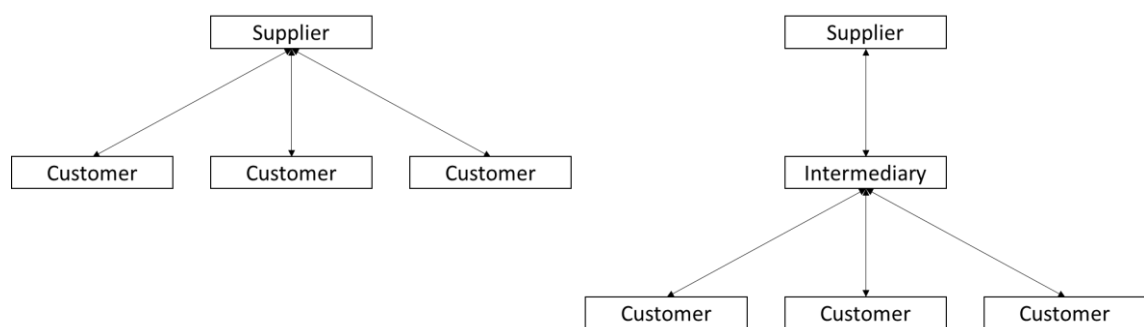


Figure 16. A supplier's relationships in direct and indirect channels.

On the other hand, as Figure 16 illustrates, starting to use intermediaries separated producers from customers, and the consequential reduction of visibility and control over the markets are still considered potential pitfalls when using intermediaries (e.g. Lyly-Yrjänäinen et al. 2018). However, manufacturing and trading mass-produced items did not require similar relationships between the supplier and the customer as committing to producing and trading customized products. Sheth and Parvatiyar (1995) conclude that, despite few exceptions, orientation shifted from relationships to transactions.

4.2 Organizing indirect distribution

Previous academic work finds numerous potential benefits of having intermediaries nowadays. Perhaps most fundamentally, having intermediaries that specialize in certain functions might be more cost-efficient than performing all marketing actions alone (Hlavacek & McCuiston 1983; Corey et al. 1989; Frazier 1999). In particular, as Corey et al. (1989) point out, using intermediaries instead of own sales force typically makes

serving dispersed and fragmented markets more cost-efficient. Other potential benefits include better market access and coverage (Anderson et al. 1997; Anderson et al. 2009, p. 282–283), increased flexibility (Weitz & Jap 1995), and indirectly even increased brand equity (Yoo et al. 2000). Practitioners' judgement of intermediaries has often leaned towards the positive side, as in most cases sales through intermediaries has exceeded direct sales in B2B contexts (Goodman & Dion 2001).

There are several types of intermediaries that, in modern marketing management literature, are often categorized based on which marketing functions they fulfill and how (e.g. Anderson et al. 2009; Kotler & Keller 2016). Table 4 collates extant literature to describe intermediary types that can be present in suppliers' channels when physical goods are involved and when the end user is a business customer. Interestingly, in extant literature the term "reseller" is sometimes used as a general term when the functions performed by the intermediary is not central (see for example Achrol & Etzel 2003; Anderson et al. 2009).

Table 4. *Business-to-business intermediaries for physical products.*

Intermediary type	Description	Source(s)
Distributors	Buy goods from suppliers and sell them to industrial users or other resellers.	Corey et al. 1989; Anderson et al. 1997; Lyly-Yrjänäinen et al. 2018
Wholesalers	Buy goods from suppliers in bulk and typically sell them to other resellers.	Anderson et al. 1997; Anderson et al. 2009; Ailawadi & Farris 2020
Agents	Represent suppliers and sell on commission. Do not take the title to or physical possession of goods.	Corey et al. 1989; Anderson et al. 2009; Kotler & Keller 2016; Lyly-Yrjänäinen et al. 2018; Ailawadi & Farris 2020
Brokers	Operate like agents but seek business opportunistically. Do not have long-term relationships with suppliers.	Corey et al. 1989; Kotler & Keller 2016; Ailawadi & Farris 2020
Dealers	Operate like distributors but typically in a smaller geographical area than larger distributors.	Anderson et al. 1997; Lyly-Yrjänäinen et al. 2018
Repair shops	Specialized players that operate like (small) distributors but also provide after-sales services.	Corey et al. 1989
Value-Added Resellers	Buy goods from suppliers, add potential value to them in some way (e.g. installing software on a device), and resell them.	Corey et al. 1989; Anderson et al. 2009; Ailawadi & Farris 2020
Other manufacturers	Use a supplier's goods as components and also sell these goods as spare parts to other entities.	Corey et al. 1989

As Table 4 shows, different intermediaries perform different functions. For example, agents do not finance operations or share the risk like distributors (cf. Shaw 1912), and repair shops distinguish by providing after-sales services. On the other hand, some of the intermediary types, such as agents and brokers, are very close to one another in terms of channel functions performed. Unsurprisingly, there are somewhat varying definitions of different intermediary types and the distinctions are not always clear. For instance, Kotler and Keller (2016, p. 566) use the terms “wholesaler” and “distributor” interchangeably, and the terms “distributor” and “dealer” are also often used interchangeably (Lyly-Yrjänäinen et al. 2018, p. 131).

Vast terminology and small differences in ways individual intermediaries operate make accurate categorization difficult and complex (cf. Corey et al. 1989, p. 32). However, in

many cases the classification of the intermediary is not a determining factor. For example, selling is an important function performed by many intermediaries (e.g. Corey et al. 1989, p. 32), and in many aspects the way selling is done and organized is not bound by intermediary classification.

Regardless of intermediary classification, the traditional view of distribution channels and networks emphasizes the manufacturer's role and power in designing and controlling a channel (Weitz & Jap 1995; Achrol & Etzel 2003), and indirect marketing channels have traditionally been vertical channels where products and responsibilities have been vertically transferred from one channel member to the other (e.g. Anderson et al. 1997; Anderson et al. 2009). An example of such conventional channel set-up is presented in Figure 17. In the figure, products and responsibilities are moved vertically downwards.

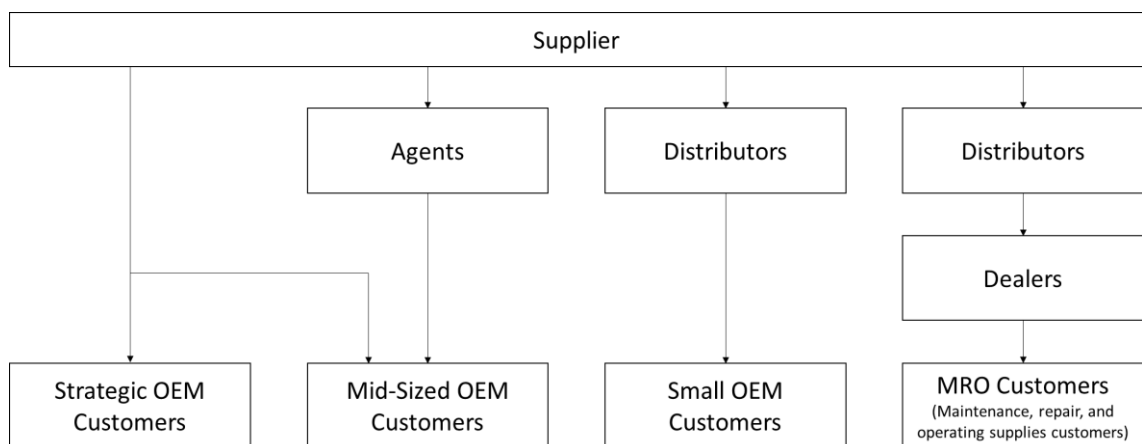


Figure 17. Conventional channels (adapted from Anderson et al. 2009, p. 293).

The supplier in Figure 17 has multiple channels to serve different customers, which is nowadays more common than having a single channel (Frazier 1999). Corey et al. (1989) also note the popularity of multichannel distribution systems in industrial contexts. They explain that these distribution systems consist of some mix of different types of intermediaries and that there typically is a dominant channel in each market segment.

However, from a single customer's point of view, the customer typically only gets served by one channel member in the conventional vertical channel, as illustrated in Figure 17. For example, if a customer that has bought a product from a dealer needs to get the product serviced, the customer would contact the dealer that would take care of servicing the product in the field (Anderson et al. 1997). As the marketing and channel functions have become and are becoming more evenly distributed among channel members (Anderson et al. 1997; Achrol & Etzel 2003), a customer is increasingly likely served by different channel members depending on the situation and need. This occurs in hybrid

channels that are channels in which the execution of different channel functions is divided between channel members (e.g. Anderson et al. 2009, p. 294; see also Anderson et al. 1997). An example of hybrid channels is illustrated in Figure 18.

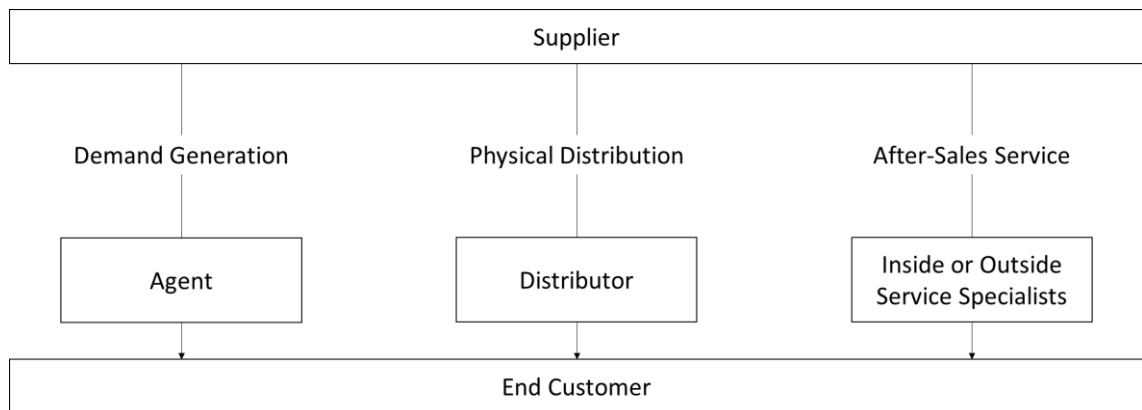


Figure 18. Hybrid channels (adapted from Anderson et al. 1997).

Anderson et al. (2009) argue that the Internet has changed customers' approach to sourcing and, by making finding and comparing alternative channels' offers easy, decreased customers' loyalty to a single channel. The authors note that to counter channel conflicts caused by this, many suppliers have established integrated multi-channels in which the focal supplier and resellers collaborate to perform channel functions and serve mutual customers. This arrangement decreases competition for customers among the focal supplier and other channel members and allows customers to select and switch between channels as their requirements change (Anderson et al. 2009). The mutual contribution of channel members throughout channel functions differentiates an integrated multi-channel distribution system from conventional and hybrid channels. Overall, the role of networks is emphasized in integrated multi-channel systems. For example, the focal supplier might actively gather and direct leads to other channel members. On the other hand, resellers might collaborate with the focal supplier to determine the best service option for a large customer and receive a fair compensation for their efforts if they mutually agree that the customer account is best managed by the focal supplier (Anderson et al. 2009 p. 296). In this thesis intermediary type and exact channel structure are not considered focal, but discussion concentrates on supplier-intermediary-customer channels (i.e. channels in which there is only one intermediary between the focal supplier and the end customer) and intermediaries that handle the sales function in the end-customer interface.

Emerging new channel structures are outcomes of the developing field of indirect distribution, but also supplier-intermediary relationships have been shaped by development in other areas. In the last couple of decades, trends such as globalization and increasing

global competition, increasingly rapid technological development, and new digital marketing opportunities have changed the role of indirect channels (Anderson et al. 1997; Frazier 1999; Achrol & Etzel 2003; Kotler & Keller 2016, p. 41). Dynamic markets have encouraged suppliers to give away more noncritical marketing functions to other channel members so that suppliers are able to focus on core competencies (Weitz & Jap 1995; Anderson et al. 1997) and to enhance innovation, flexibility and local adaptation in distribution channels (Achrol & Etzel 2003; Lusch et al. 2010). On the other hand, this has reduced suppliers' control and power and increased the power of intermediaries because of a less hierarchical culture and more evenly divided marketing functions (Weitz & Jap 1995; Achrol & Etzel 2003). Another important factor that has increased intermediaries' power is the consolidation of intermediaries (e.g. Anderson & Narus 1990; Weitz & Jap 1995; Goodman & Dion 2001).

The shift in power has had notable practical consequences. For example, although carrying an inventory has traditionally been a characteristic of distributors, their increased bargaining power has lately made consignment inventories and other vendor-managed inventories more common, which has moved the risk related to the storing function backwards in the channel (Achrol & Etzel 2003; Lyly-Yrjänäinen et al. 2018, p. 133). As a consequence of the shift in power, both managerial and academic interest has shifted from focal suppliers' channel coordination to cooperative interaction between independent channel members (Weitz & Jap 1995). Weitz and Jap (1995) imply that the focus from the focal supplier's perspective is no longer on managing channel members' activities but on stimulating cooperative efforts in the channel. Furthermore, they explain that focal suppliers' control mechanisms have shifted from authoritative control (e.g. policies and supervision) to contractual control and normative control (that is based on shared norms).

To establish and maintain relationships with powerful intermediaries, suppliers must ensure that their offering has value not only for end customers but also for intermediaries (e.g. Corey et al. 1989; Anderson et al. 2009; Lyly-Yrjänäinen et al. 2018). Offering intermediaries superior value helps build strong distribution channels that in turn enhance the service level and value for end customers. Corey et al. (1989) present a model of the elements of distribution strength that captures the interplay between value and distribution channels strength. The authors' model is presented in Figure 19. Corey et al. (1989) argue that the primary elements of distribution strength that produce competitive advantage and lead towards market segment leadership are product superiority, channels strength and installed base.

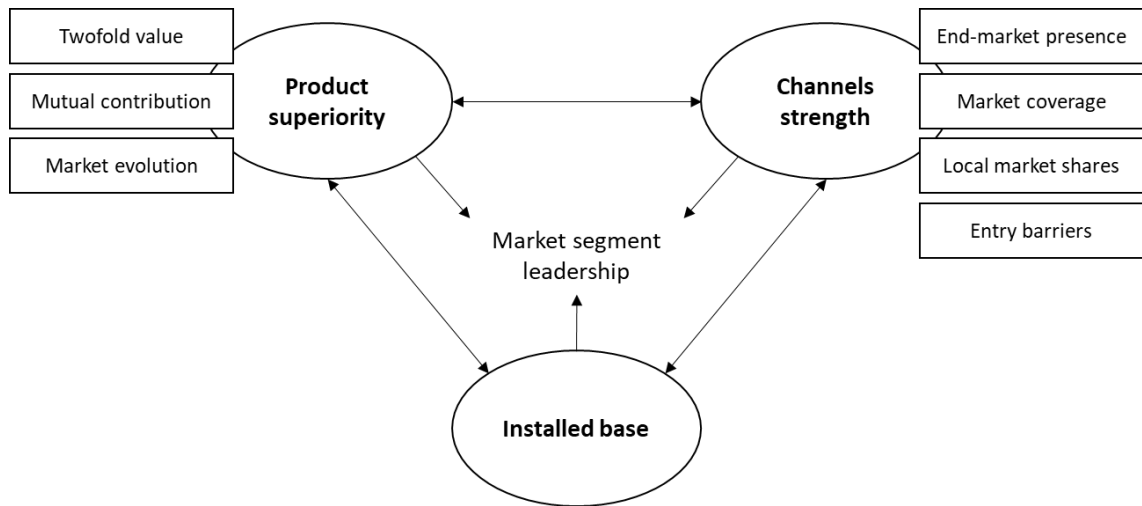


Figure 19. The elements of distribution strength (adapted from Corey et al. 1989, p. 7).

As illustrated in Figure 19, product superiority consists of three factors. First, the product must be valuable to both end users and intermediaries. This means that it must have value-in-use for end users (cf. Vargo & Lusch 2004) and direct or indirect economic benefits for the intermediary shortly discussed in greater detail. Second, both the focal supplier and other channel members contribute to end-customer value. They do this by performing various value facilitating tasks (cf. Grönroos & Voima 2013). To achieve product superiority, the total outcome of this mutual value facilitation should be superior to that of competitors. Third, value facilitating tasks should be aligned with market evolution and product life cycle. As an example, Corey et al. (1989) explain that in early life cycle stages functionalities and technical contribution might be critical but later on availability and quick deliveries might become more important.

Channels strength is affected by four factors: end-market presence, market coverage, local market shares and entry barriers. End-market presence through direct sales force is essential to market segment leadership. Corey et al. (1989) thus also note the importance of relationships between suppliers and end customers (see also Sheth & Parvatiyar 1995). The market coverage of the distribution system and local market shares of intermediaries are also determinants of channels strength, and the ability to generate channels entry barriers (e.g. contractually forbidding intermediaries from carrying competing products) might also contribute to competitive advantage (Corey et al. 1989).

Corey et al. (1989) argue that the installed base often determines future sales because customers tend to be loyal to brands that have performed well enough according to their experience. Therefore, the installed base generates not only replacement and service revenue but also new product sales.

As shown in Figure 19, Corey et al. (1989) argue that product superiority, channels strength and installed base are connected to each other. Product superiority often leads to a larger installed base and to a strong brand image that helps build channels strength and attract intermediaries. Channels strength affects product superiority (e.g. availability) and helps develop a larger installed base. Finally, the installed base helps build end-market presence and attract intermediaries. The installed base also provides access to knowledge regarding customers' use situations, and this knowledge helps develop new superior products.

The end customer's value creation occurs when it uses the offering made available by the intermediary (Vargo & Lusch 2004), but the intermediary can also participate in value facilitation and value co-creation with the end customer (Corey et al. 1989; cf. Grönroos & Voima 2013). For instance, the intermediary can affect value facilitation by organizing delivery processes and value co-creation by providing post-delivery services. The impact the intermediary has on end-customer value depends on how channel functions are distributed within the channel. For example, if the intermediary acts as an agent that only handles the selling function by merely connecting customers with the supplier, the intermediary has a very small impact on customer value. In contrast, if the intermediary delivers customer orders, handles payment transactions and provides additional services, it has a much larger impact on customer value. The other side of value in distribution channels, value for the intermediary, will be elaborated further in the next section.

4.3 Value in indirect distribution channels

This section discusses the interplay between two key concepts: customer-perceived value (i.e. value perceived by the end customer) and perceived intermediary value (i.e. value perceived by the intermediary). Customer-perceived value has been conceptualized in previous chapters, but the value creation mechanism of the intermediary is somewhat different. In contrast to the previous presentation of end-customer value, intermediary value is not usually divided into technical, economic and service categories of benefits because the categorization of benefits is grounded in value-in-use thinking (cf. Anderson et al. 2009), and intermediaries that resell products instead of using them for their intended use purposes are more dependent on value-in-exchange than value-in-use. More explicitly, intermediaries are not essentially gaining cost savings or revenue growth because of the performance and utility value of offerings but they are instead gaining revenue growth that derives from sales prices (i.e. value-in-exchange) and associated margins when they resell offerings.

In indirect marketing channels, value is, thus, created for intermediaries in the form of increased sales, and this increase in sales can be either direct or indirect (Corey et al. 1989; Lyly-Yrjänäinen et al. 2018). Value deriving from direct increase in sales is based on a profit margin related to the resale price, or some other monetary compensation, such as a commission. Value related to indirect increase in sales refers to being able to sell other products because of having a certain product in the selection, including any “halo effect” of the focal supplier’s brand (Corey et al. 1989, p. 8). However, direct increase in sales is valuable to the intermediary only if it also gets a reasonable profit from the offering (e.g. Anderson et al. 2009, p. 298). To get a reasonable profit, the intermediary needs to be able to sell the offering at a price high enough to cover and sufficiently exceed its own purchase price and other costs (e.g. acquisition costs). Similar to value for end customers, value for intermediaries is, therefore, ultimately about increased profit. Building on the conceptualization of customer-perceived value as the difference between customer value and price, Figure 20 provides a general illustration of perceived intermediary value as the difference between intermediary value and price for the intermediary.

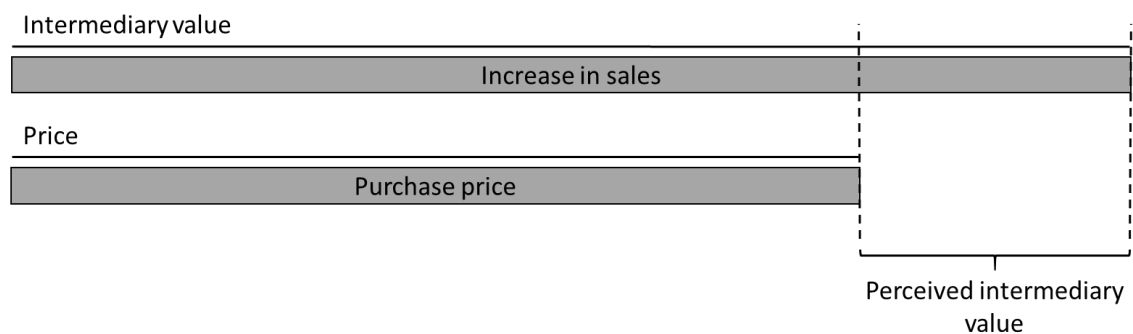


Figure 20. *Perceived intermediary value.*

However, the term “increase in sales” that is illustrated in Figure 20 is not a completely accurate term to express intermediary value, because following the logic of Anderson et al. (2009) this value is the sum of net benefits. This means that intermediary value includes the costs the intermediary incurs besides purchase price. More explicitly, intermediary value is the increase in sales minus the costs associated with this increase in sales (e.g. acquisition costs, labor costs), and perceived intermediary value is the difference between these net benefits and purchase price for the intermediary. Furthermore, it should be noted that in the model presented in Figure 20 the net benefits are different for direct and indirect increases in sales. Direct increase counts toward intermediary value as the intermediary’s sales price because the price the intermediary pays for the offering is considered separately in the model. However, indirect increase only accounts for the intermediary’s profit on the other products sold because the intermediary incurs

separate purchase costs for these products. It should also be noted that some intermediaries, such as agents, might be paid commissions and they may not purchase offerings at any phase of distribution. The perceived intermediary value for such intermediaries is the increase in sales minus the costs associated with this increase in sales.

The causal mechanism that has been identified to exist between value-in-use and value-in-exchange (see Eggert et al. 2018) is extended in an indirect channel because value in indirect channels is multifaceted. In an indirect channel, the entire value chain starting from end-customer value-in-use and ending in value-in-exchange related to the transaction between the focal supplier and the intermediary is moderated by a causal mechanism. Figure 21 illustrates how value-in-use and value-in-exchange aspects are causally connected in channels and which value and price aspects (i.e. intermediary and end-customer value and price) they are connected to. The value and price aspects within the channel have been organized to represent their rough chronological order.

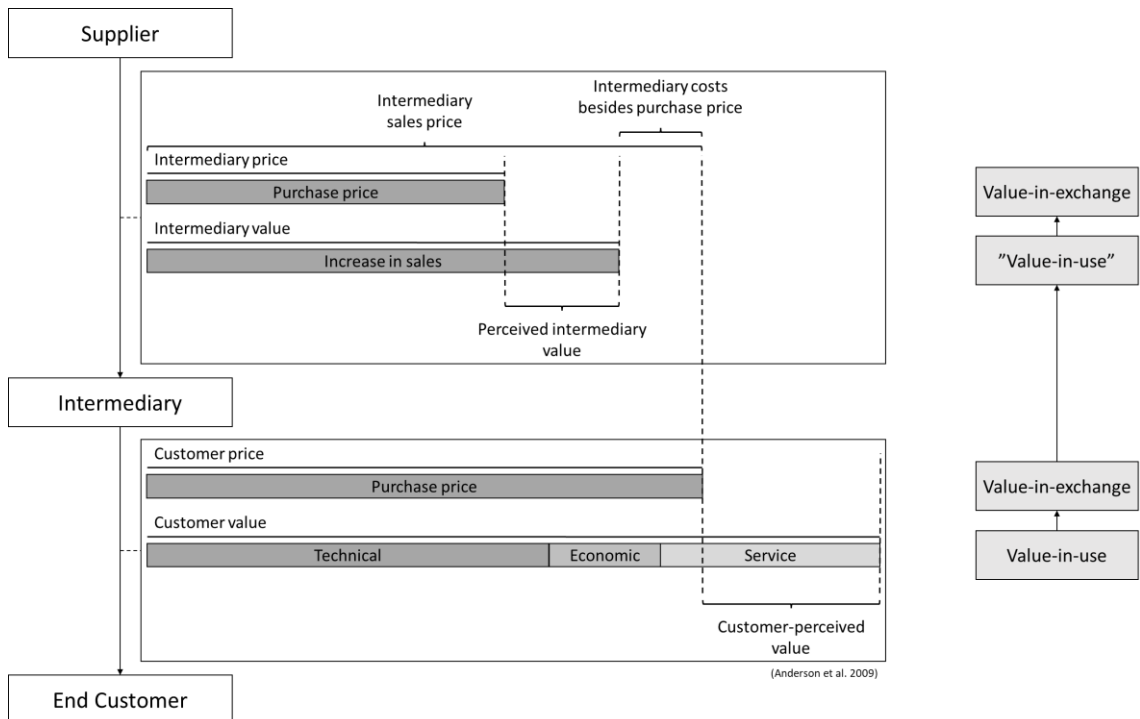


Figure 21. The value chain in an indirect channel.

As this thesis adopts the view that enabling customer value creation is the purpose of a company (Slater 1997; Payne et al. 2017), it is logical to start analyzing the value chain in channels from value for the end customer (bottom right in Figure 21). As discussed in previous chapters, a widely accepted conceptualization is that end-customer value is value-in-use the customer realizes when using the offering. Moving up the value chain, this end-customer value determines the price (i.e. value-in-exchange, see Eggert et al. 2018) the customer is willing to pay for the offering. In theory, a customer's purchase

decision is logical as long as the price is lower than the offering's value-in-use. In reality, however, the ambiguity and complexity of value-in-use as well as the fact that value-in-use is only realized through using the offering makes comparing the offering's value-in-use and price difficult (cf. Anderson & Wynstra 2010). Consequently, it is the customer's subjective perception of value-in-use that determines their purchase decision and the price (i.e. value-in-exchange) they are willing to pay for the offering (cf. Woodruff 1997; Eggert et al. 2018). There is thus a causal relationship between customer value and customer price, meaning that customer value and customer-perceived value-in-use determine, or at least limit, the price of the offering.

Moving up the value chain, intermediary value does not seem to fit well under the common definitions of value-in-use nor value-in-exchange. The intermediary does not use the offering for its intended purpose and value for the intermediary does not stem directly from the offering's utility value nor performance in use. Therefore, intermediary value is not in line with the typical conceptualization of value-in-use. On the other hand, despite the intermediary being exchange-oriented and dependent on value-in-exchange in the channel, intermediary value is essentially not value-in-exchange because, unlike purchasing prices, intermediary value does not directly reflect purchasing power (cf. Eggert et al. 2018). While there is a need to develop the conceptualization of intermediary value, in Figure 21 intermediary value is referred to as "value-in-use" since the intermediary uses the offering as an instrument of exchange, simultaneously performing actions (e.g. logistics) that change the offering's value-in-exchange in the channel. Considering only the offering's direct effects on intermediary value, intermediary value can theoretically be at most equal to the customer's purchase price that is the only contributor to intermediary value. Because of the costs the intermediary incurs for reselling the offering, intermediary value is in reality lower than the customer's purchase price, as illustrated in Figure 21. Importantly, however, the causal relationship between customer value and customer purchase price is extended to intermediary value because the customer purchase price determines the intermediary value. Therefore, end-customer value and intermediary value are connected via the customer purchase price.

Moving up the value chain, the last aspect discussed here is intermediary price. Intermediary purchase price reflects value-in-exchange (cf. Eggert et al. 2018). Because the intermediary needs to get a reasonable profit from the offering (e.g. Anderson et al. 2009, p. 298), the intermediary purchase price must be lower than intermediary value, that is the intermediary's resale price (i.e. end customer purchase price) minus other costs the intermediary incurs for reselling the offering. Intermediary value thus determines the intermediary price, extending the causal relationship starting from end-customer value to

intermediary price. Figure 22 summarizes the causal chain of value and price in indirect channels. An element in the figure causally influences (at least by limiting) subsequent elements. Altering any of the elements (that is, changing value or price) presented in the figure influences subsequent (but not previous) elements.

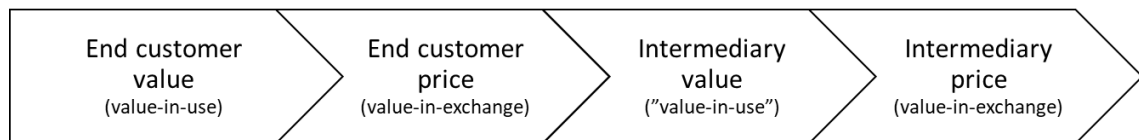


Figure 22. *The causal chain of value and price in an indirect channel.*

The focal point of interest in this thesis is communicating value to the end customer in an indirect channel. Since end-customer value is the most fundamental determinant of the value chain in an indirect channel (see Figure 22), there are several reasons why understanding, assessing and communicating value in an indirect marketing channel setting is important to focal suppliers and intermediaries alike. From a broad perspective, the ability to help customers create value is a core source of competitive advantage for any company (e.g. Woodruff 1997; Eggert et al. 2018), and superior performance derives from the ability to enable superior customer value creation (Slater 1997). Furthermore, effective communication of customer value is an important marketing capability for any company (e.g. Anderson et al. 2006; Payne et al. 2008; Morgan 2012). Hence, customer value is the cornerstone of business market management (Anderson et al. 2009), implying that in a B2B context customer value orientation is crucial to all companies, including both focal suppliers and their intermediaries (cf. Woodruff 1997).

From the focal supplier's perspective, the selling function, when it comes to end customers, is often largely under the responsibility of the intermediaries, and the intermediaries generally reduce the focal supplier's control over the end-customer interface (e.g. Lyly-Yrjänäinen et al. 2018, p. 126). Although a supplier can form customer relationships past intermediaries (see Lambert et al. 1998), the customer interface is often left to be controlled by an intermediary due to cost efficiency (e.g. Hlavacek & McCuistion 1983; Corey et al. 1989). Against this backdrop, the focal supplier is ultimately dependent on the success of its intermediaries (Anderson & Narus 1990), and a major portion of focal suppliers' sales is often made through intermediaries (Goodman & Dion 2001). Communicating customer value in indirect sales channels, intermediaries' capabilities related to assessing and communicating customer value, and associated challenges should, thus, be of great interest to focal suppliers.

Furthermore, an important result of the empirical study conducted by Goodman and Dion (2001) strongly suggests that intermediaries are more committed to a relationship with a supplier when the intermediaries perceive the supplier's offering highly salable. Goodman and Dion (2001, p. 292) define salability as "the distributor's perception of the product as having value, being useful, well serviced, and of good quality", implying a strong connection to the customer value of the offering (cf. Table 2). Helping an intermediary understand and communicate the customer value related to an offering can, therefore, make the offering more salable in the eyes of the intermediary and not only positively affect sales but also increase commitment to the relationship.

From a network perspective, value for different actors within the network is interconnected (Lusch et al. 2010; Eggert et al. 2018), as demonstrated by the causal mechanism that this thesis proposes to be a moderator of value in an indirect channel. From the intermediary's perspective, assessing and communicating customer value serves the same purpose in the intermediary-customer dyad as it does in any supplier-customer dyad. If an intermediary offering a higher-value but more expensive product in comparison to alternatives fails to convince the end customer of the superior value of the offering, two alternative consequences are likely to occur. Either the customer will choose a lower-price alternative (e.g. Anderson & Narus 1998; Anderson et al. 2014) or the intermediary will have to reduce its price, resulting in the intermediary (and probably also the focal supplier) not being able to get a fair return on the superior customer value provided (Anderson & Wynstra 2010). In a similar vein, Hinterhuber (2017, p.174) argues that, regardless of the product and the environmental conditions, "value quantification capabilities always improve overall firm performance". Because effective value communication can increase the likelihood of the customer purchasing the offering, it could also cause the intermediary to realize savings in costs related to selling the offering, since the intermediary's investments (e.g. sales representatives' time and associated labor costs) result in a larger number of purchases. A larger number of purchases realized with the same sales effort decreases the cost of sales allocated to each offering, thus increasing intermediary value.

It can be concluded that effectively communicating customer value to end customers can help intermediaries realize higher sales volumes, higher sales prices and higher margins, especially if the offering is not the lowest-price alternative. Communicating superior end-customer value of an offering and justifying value-in-exchange with value-in-use consequently contributes to value for intermediaries themselves through direct increase in sales (and indirectly to the focal supplier's sales). Figure 23 illustrates this important role of intermediaries' customer value communication in indirect channels.

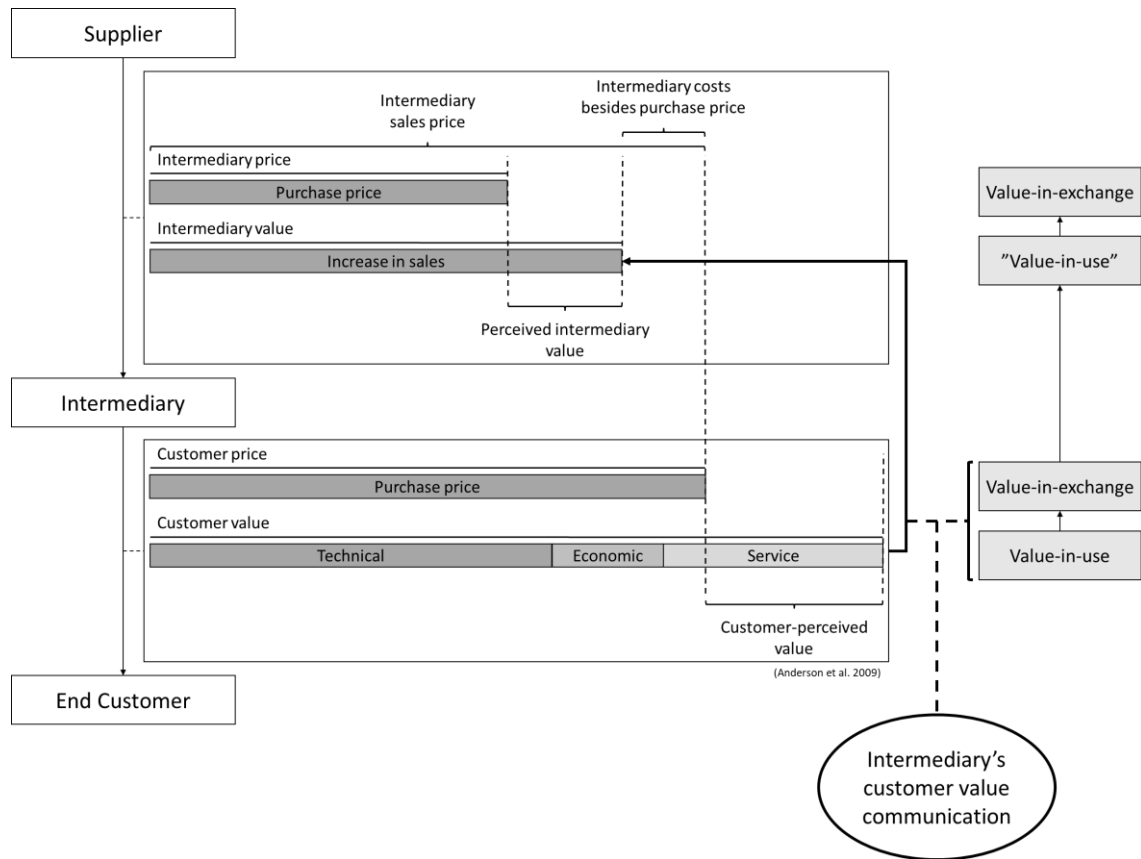


Figure 23. Customer value communication in an indirect channel.

While intermediaries could benefit from communicating customer value, intermediaries' role as middlemen between suppliers and end customers may pose inherent challenges related to customer value assessment and communication. One major challenge derives from the need for product knowledge in customer value assessment and communication. Product knowledge is an important resource needed to create the customer value proposition (Anderson et al. 2006; Payne et al. 2017) but, since offerings that intermediaries market are not designed nor manufactured by them, they usually do not have as comprehensive product knowledge as focal suppliers. Extant literature on channel management supports this idea as several authors suggest that product training is an important means of strengthening intermediaries' performance (e.g. Hlavacek & McCuiston 1983; Corey et al. 1989; Anderson et al. 2009; Kotler & Keller 2016). Payne et al. (2017, p. 476–477) also suggest that the locus of comprehensive product knowledge is in the focal supplier's organization:

“Product knowledge is a firm-based resource; it originates from and is typically most comprehensively developed within the provider firm's organization.”

Intermediaries are also often offering several product brands and product categories (e.g. Corey et al. 1989), which likely makes knowing each product thoroughly even more

difficult, especially in the case of complex offerings. A similar challenge is likely to exist in regard to customers' various use situations and competing offerings. Maintaining detailed and up-to-date knowledge of customers' use situations and competing offerings related to several product categories can be extremely challenging if not impossible (see Frazier 2009), since even relatively simple use situations can be very complex. For example, Pfisterer and Roth (2015) identified 25 different categories of constructs that shape a usage process even though the studied usage processes were relatively simple (e.g. using a car wash). Although their study focused on consumer processes, the large number of factors affecting the usage situation demonstrates the associated complexity that is likely even increased in business settings that often involve multiple actors and stakeholders.

Overall, when an intermediary is the prime creator of CVPs and handles communication in the customer interface, the intermediary is utilizing its own resources to create CVPs (cf. Payne et al. 2017), and the intermediary also communicates CVPs to customers. The developed framework for customer value communication can, thus, be applied to model and analyze customer value communication also in indirect channels. Figure 24 presents the developed framework for customer value communication in an indirect channel context to illustrate how the intermediary can communicate value to the end customer in an indirect channel.

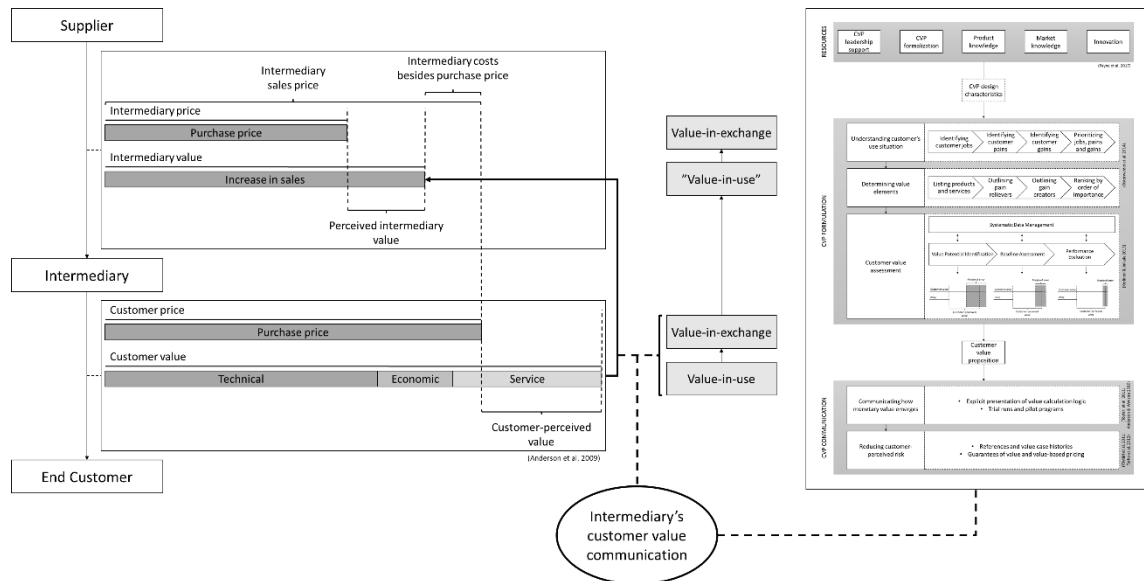


Figure 24. The framework for customer value communication in an indirect channel context.

To summarize, this thesis argues that, from a sales perspective, customer value communication in the intermediary-customer dyad serves the same fundamental purpose and relies on the same resources and processes as in any supplier-customer dyad. Intermediaries should communicate customer value to justify the price of their offerings with the offerings' value-in-use, because customers often do not know the monetary value of fulfilling their requirements (Anderson & Narus 1998), or they might not even completely understand their requirements and how an offering would be beneficial for them (Tuli et al. 2007; Terho et al. 2012; Keränen & Jalkala 2013). Communicating value to end customers can have a positive impact on sales and intermediary value, as illustrated in Figure 24.

To effectively communicate value in an indirect channel, the intermediary needs to create and communicate a CVP to (1) communicate how the offering provides value to the customer, (2) quantify and communicate the monetary impact the customer can expect the offering to have on its business, and (3) reduce the customer-perceived risk of not actually realizing the promised value. As illustrated in Figure 24, the intermediary requires several resources to create the CVP. While other resources are important facilitators of CVP formulation, product knowledge and market knowledge are most central to forming a CVP that illuminates the benefits and value creation mechanism associated with an offering by connecting the offering's features to a customer-specific use situation. To quantify the offering's monetary impact on the customer's business, customer value assessment is required. There is always a margin of error associated with customer value assessment conducted before use, but this margin of error decreases as more data from

the customer's processes is collected, as shown in Figure 24. While identifying and communicating merely the rough size of the value potential is sometimes enough (cf. Terho et al. 2012; Keränen & Jalkala 2013), more accurate customer value assessment requires collaboration between the intermediary and the customer. To increase the customer's confidence in the value assessment, the intermediary needs to communicate not only monetary value but also the value calculation logic. To reduce the customer-perceived risk of not actually realizing the promised value, the intermediary can present references as evidence of value creation or utilize guarantees of value and value-based pricing to ensure that value-in-use exceeds price and the difference between the offering's value-in-use and value-in-exchange is reasonable.

5. CASE STUDY

5.1 Case background

The case company operates in the chemical industry and is a subsidiary company of one of the leading gas suppliers in the world. The company offers gases and related services to Finnish customers for several purposes. While the parent company was founded over hundred years ago, the case company has a history of around 30 years. The pivotal offering in this case study, however, was only introduced to the Finnish market in 2020. The studied offering is a certain type of gas cylinder containing shielding gas used in welding. It is targeted at welding business customers, a market segment that is served by few players in Finland and currently rather heavily dominated by one of the case company's competitors. In addition, growth in the market is slight. Figure 25 illustrates the development of the number of Finnish companies operating in the metal industry that is the prime industry consuming shielding gases. As shown in the figure, the number of companies in the metal industry (categories 24–30 in the Standard Industrial Classification TOL 2008) has remained quite stable in recent years.

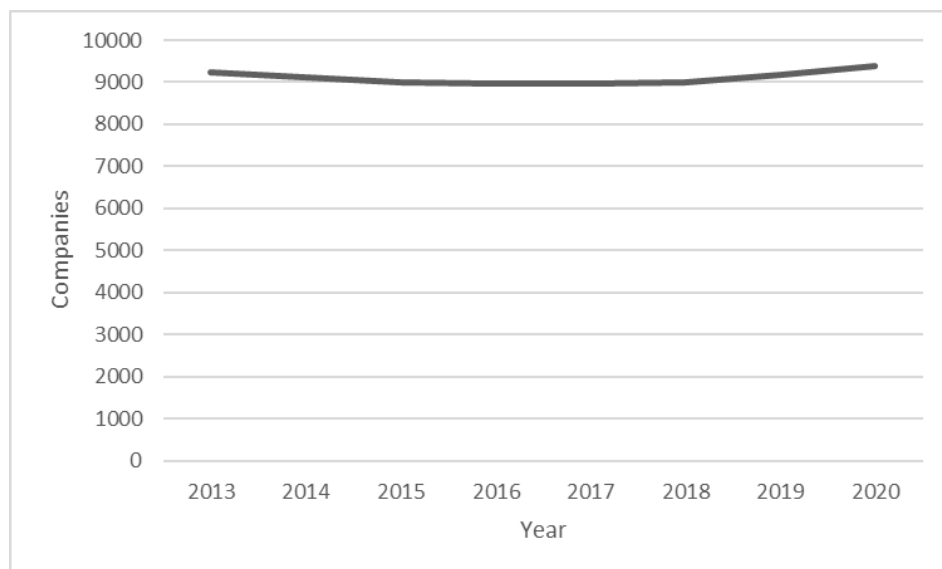


Figure 25. The number of companies in the Finnish metal industry (Statistics Finland).

The case company has noticed that the number of gas-using business customers in Finland is relatively stable and new businesses using shielding gases are not started frequently. Because of the competitor's dominant position in the market and the small number of emerging new companies starting to use shielding gases, many of the case company's prospects have already used the competitor's products and are familiar with them. One of the case company's managers stated:

“There are not many new welding businesses started in Finland, meaning that a large portion of our new customers have previously used competing offerings.”

Prospects are typically more familiar with competing offerings than the case company's offering. Several interviewees from the case company's sales department lamented that, despite the scarcity of gas suppliers in the Finnish market, some potential customers have never heard of the case company's offering or even of the case company itself. One sales representative also said that convincing prospecting customers that have previously been using competing offerings is often difficult because they are used to these competing offerings. The case company's offering is substantially different from competing offerings commonly used by prospects and customers and can be considered a higher-value offering (cf. Anderson & Wynstra 2010). Therefore, the case company has noticed that, to promote sales, it is important to be able to effectively communicate how the offering provides superior value for the customer.

The trade in gas cylinders follows the same logic in regard to both the studied offering and competitors' similar alternatives. Gas cylinders are rented to the customer and the shielding gas itself is priced separately. In the past, gas cylinders were sold to customers, but nowadays, although there are smaller purchasable cylinders mainly targeted at small customers, none of the gas suppliers in Finland provide the option to purchase a large gas cylinder intended for industrial use. Because gas suppliers now own the gas cylinders, they can control the stock of gas cylinders in the market, which enables for instance better monitoring of the safety of gas cylinders.

When starting to use gas, the end customer signs a contract in which both the rent and the price of the shielding gas are determined. The rental contract can be fixed-term or non-fixed-term, with the former typically being the cheaper option in the long term. Although the customer makes a rental contract, the customer does not have designated gas cylinders. Instead, the customer has a right of possession of a certain number of gas cylinders that is agreed on the contract. When the customer has a gas cylinder refilled with shielding gas, the customer's gas cylinder is changed. The customer gets a similar but full cylinder immediately and does not need to wait for the cylinder to get refilled at a gas filling station. The customer pays for each refill according to the contract.

While the roll out of the studied offering is still in progress and historical data regarding it is scarce, data regarding the product line to which the studied offering belongs provides valuable information about the context. The case company has two types of channels to distribute the products belonging to this product line: direct channels and indirect channels with one reseller between the focal company and the customer. The number of

resellers is constantly increasing, and at the time of the study there were around 40 resellers in Finland. Resellers sell the case company's products on commission and do not, therefore, purchase nor own the products. Resellers receive commissions on both rental contracts and gas fillings.

Indirect channels play an important role in the case company's distribution system and sales through resellers account for a significant portion of the case company's total product line sales. Moreover, the case company's managers explained that the company has recently aligned processes in regard to direct and indirect channels to harmonize the channels and eliminate some procedures resulting in channel conflict. The case company is now more systematically directing certain customers to indirect channels because its indirect channels are often more cost-efficient in serving geographically fragmented customers, especially when the customer is small. However, sales growth in indirect channels is mainly driven by resellers' sales efforts. Overall, the case company's managers and salespeople highlighted the importance of having good resellers. While product line sales also through direct channels are increasing, indirect sales are increasing more rapidly.

Although sales through resellers are increasing and there are several resellers producing great results, there are also resellers producing unsatisfactory results. According to the interviewees, the case company sometimes runs into situations in which it has to terminate partnerships with resellers continuously delivering poor results. This naturally causes unnecessary costs due to investments that have been made in the partnership. Given the higher-value nature of the offering and the significant role of resellers and indirect channels, resellers' abilities to communicate the offering's benefits to end customers is considered important. However, almost all interviewees reported that there is significant variation in resellers' capabilities and motivation to actively sell the product and communicate its benefits.

5.2 The benefits of the offering

A shielding gas affects the welding process in several ways. Its primary function is to protect the molten metal from atmospheric oxygen and nitrogen, and different shielding gases have different effects on, for example, the mechanical properties of the weld, fume emissions, and spatter generation (Lyttle 1993; Weman 2012, p. 43). Shielding gas thus affects, for instance, the strength of the weld, the health and safety of the welder (because of the fumes), and the amount of finishing work needed after welding (because of the spatter). Figure 26 illustrates the typical equipment used in MIG (metal inert gas) and MAG (metal active gas) welding that are some of the most common welding processes

and also commonly used by the target customers of the case company. In the figure, the shielding gas is stored in a gas cylinder and a regulator, a gas flow indicator and a hose are being used to get a controlled shielding gas flow through the welding machine on the arc and the weld pool.

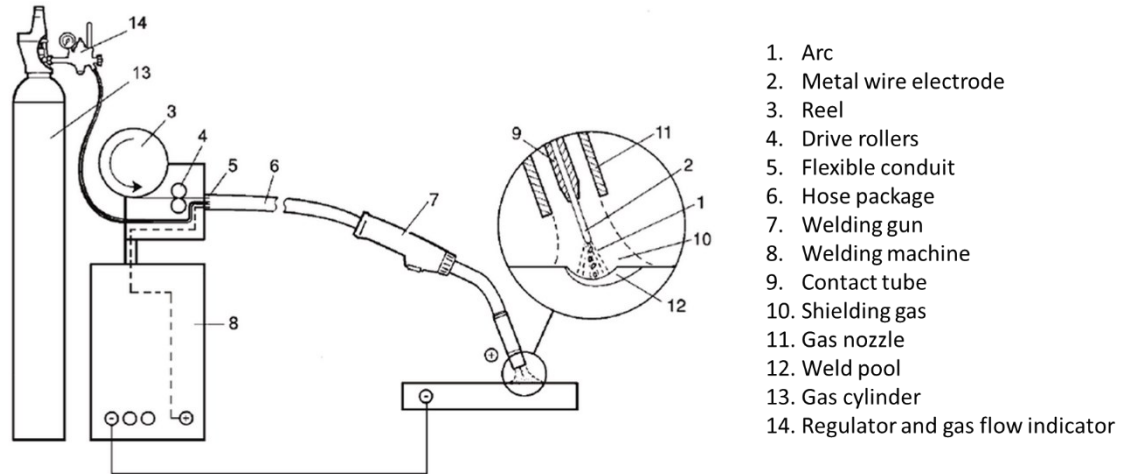


Figure 26. *The principles of a MIG/MAG welding setup (Weman 2012, p. 76).*

The case company's offering can be thought to consist of two parts: the shielding gas and its container (i.e. the gas cylinder). Most commonly used shielding gases consist of argon, carbon dioxide or their mixture with different proportions. Due to the chemical simplicity of shielding gases, any gas supplier can fairly easily produce any mixture a customer wants, and according to interviewees the most common shielding gases that all Finnish gas suppliers stock and offer are basically identical. Therefore, the shielding gas itself is a commodity that can be obtained from many sources, and discussions regarding the shielding gas justifiably revolve around price (cf. Eggert et al. 2018). According to the case company's representatives, the majority of customers are also familiar with shielding gases and their benefits. The case company's gas cylinder is what differentiates the case company's offering from competing offerings in terms of value-in-use. Traditionally, shielding gas is delivered to customers in a gas cylinder with little more than a valve, a control knob rotated to open and close the valve and a removable cap or a fixed guard to protect the valve from impact. According to the case company's salespeople's experience, these kinds of traditional gas cylinders are used by most prospects that use competing products.

To get an idea of how a traditional gas cylinder is operated, an instructional video on MIG/MAG welding was observed. In addition, discussions with the case company's experts increased the understanding regarding gas cylinders. When using a traditional gas cylinder, the user starts by removing the cap that protects the valve if the gas cylinder does not have a fixed guard. They then attach a regulator and gas flow meter by joining

the threaded end of the regulator and gas flow meter to the threaded end of the gas outlet in the cylinder. The joining is typically done by first rotating a nut by hand and then tightening it using a wrench. Next, the user connects a hose between the regulator and a welding machine. Both ends of the hose usually have threaded connectors that are pre-tightened by hand and then tightened using a wrench. After adjusting welding machine settings and other preparations, the user rotates the control knob on the gas cylinder to open the valve. Finally, they adjust the gas flow using the regulator's control knob while simultaneously monitoring the gas flow meter.

The case company's marketing material, discussions with the case company's experts, and observation of training sessions given to resellers were utilized to gain understanding regarding how the case company attempts to distinguish from the competition. The case company's offering has several features that differentiate it from traditional gas cylinders. The most notable features are (1) a built-in regulator and gas flow meter, (2) a quick connection interface, (3) a fixed enclosing guard, (4) an on/off lever, and (5) a gas level indicator. The case company has identified many ways in which these features can be valuable for customers. Table 5 provides a summary of benefits made possible by each feature. Next paragraphs elaborate on these features and how they can result in customer benefits that in turn are the antecedents of monetary customer value (cf. Wouters & Kirchberger 2015).

Table 5. *The benefits of the case company's offering in comparison to competing offerings.*

Features	Benefits and drivers of monetary customer value
Built-in regulator and gas flow meter	No purchase costs of separate regulators and gas flow meters
	No purchase costs of regulator gaskets, and no risk of leaking regulator gaskets
	No purchase costs of tools for tightening regulator and gas flow meter connections
	Time saving and reduced labor costs as there is no need to attach regulators and gas flow meters
Quick connection interface	No purchase costs of tools for tightening the hose connection
	Time saving and reduced labor costs due to quick operation
	Reduced risk of incorrect setup and leaks and thus reduced risk of unexpected additional purchase costs of gas
Fixed enclosing guard	Time saving and reduced labor costs as there is no need to remove regulators and gas flow meters for transportation
	Reduced risk of regulator and gas flow meter breakage and thus reduced risk of unexpected additional purchase costs of regulators and gas flow meters
On/off lever	Visibility of the valve's position, reduced risk of forgetting to close the valve after welding, and thus reduced risk of unexpected additional purchase costs of gas
Gas level indicator	Reduced risk of idle time in production resulting from unexpectedly running out of gas

The built-in regulator and gas flow meter arguably translates into most significant customer benefits. When using traditional gas cylinders, customers need to purchase and own separate regulators and gas flow meters. Built-in regulators and gas flow meters obviously enable customers to save in purchase costs in regard to these gadgets and the tools required to attach them. The cost-saving potential is amplified when the customer has several welding stations and would therefore need several separate regulators and gas flow meters and tools. The case company's experts stated that the built-in gas flow meters are accurate enough for most welding work and thus comparable to other gas flow meters commonly used in the market.

Moreover, built-in regulators yield savings in everyday operations. Since the gadgets are integral to the gas cylinder, customer welders do not need to attach and remove them every time they switch from an empty cylinder to a full one, and the welders do not need tools to make the switch. One of the case company's representatives mentioned that the

company has run internal laboratory tests, according to which the magnitude of potential time savings in comparison to traditional gas cylinders is a few minutes per switch:

“In our tests, the welder using this [the studied offering] had welded for over 4 minutes before the welder using a traditional gas cylinder was ready to start welding. This result was gotten when all tools needed with the traditional gas cylinder were made readily available for the welder, which often is not the case in an average Finnish workshop.”

Other interviewees also stated that potential time savings are a few minutes per switch. An observed video demonstrating gas cylinder switch suggested potential time savings to be one to two minutes per switch. Although time savings per switch are fairly small, the cumulative effect caused by hundreds or thousands of cylinders used by large customers annually can increase the significance of time savings.

One of the case company’s representatives stated that the built-in regulator can also reduce customers’ gas expenditure. The expert explained that, when working with traditional gas cylinders, the best practice is to replace the gasket between the regulator and the gas cylinder every time the regulator is attached to a new gas cylinder, although this procedure is rarely followed in practice. The gaskets, that come in different materials, are fragile and fatigue during extended usage and may crack if too much force is applied when attaching the regulator to the gas cylinder. Should the gasket fail, the gas leaks out from the welding system, resulting in wasted shielding gas and increased gas expenditures. With the built-in regulator solution of the case company, this common leakage point is removed and the risk of gasket breaking due to overtightening of the regulator eliminated.

The quick connection interface has similar benefits to those of the built-in regulator and gas flow meter. When working with a traditional gas cylinder and a separate regulator, the welder needs to connect a hose between the regulator and the welding machine using tools. In the case company’s solution, the hose connecting the gas cylinder and the welding machine can be connected to the cylinder using a quick connector. The hose is attached to the quick connector using a clamp, and the quick connector has a self-locking mechanism that secures the connection when the quick connector is attached to the gas cylinder by gently pushing it against the cylinder’s connecting point by hand. Similar to the built-in regulator and gas flow meter, the quick connection developed by the case company enables customers to save in purchase costs of tools and saves welders’ time and thus customers’ labor costs due to quicker operation in comparison to the traditional alternative. One of the case company’s representatives also pointed out that

the quick connection solution removes yet another common leakage point, namely the connection between the hose and the separate regulator that may be tightened incorrectly.

The fixed enclosing guard that encloses the gas cylinder's valve and built-in gadgets is a significant safety factor. It is made of metal and can absorb physical impact (e.g. falling) that could cause breakage in traditional gas cylinders. The case company's representatives explained that, although separate regulators and gas flow meters used in traditional gas cylinders sometimes last for years or even decades, they are breakable instruments that are particularly prone to breakage caused by physical impact because they stick out from the gas cylinder when attached. Customers incur additional costs if regulators break and, according to the case company's experts, prices for decent regulators and gas flow meters can be three-digit. Moreover, during the transportation of gas cylinders all additional gadgets, such as separate regulators and gas flow meters, must be removed from the cylinders for safety reasons. This does not apply to the case company's offering because of built-in gadgets and the protective guard. The case company's offering can, therefore, save customers' time and consequently labor costs because preparing the gas cylinder for transportation is much quicker in comparison to traditional gas cylinders. Despite offering marginal cost-saving potential to most customers, this feature might be relevant to customers moving around a lot, such as repair services.

The on/off lever is used to open and close the gas cylinder's valve. The lever is by design fairly big and of visible color (red). The main benefit of the on/off lever is that it enables visual monitoring of the valves position, meaning that the customer can determine whether the gas outlet is open or closed by looking from a distance. According to the case company's representatives, forgetting to close the rotatable valve of a traditional gas cylinder or leaving it loose after welding is a very common phenomenon that many customers have experienced. If the valve is not tightly closed, gas leaks out from the cylinder, resulting in wasted shielding gas and increased gas expenditure. Several representatives explained that due to the on/off lever, for example a customer production manager can glance around the workshop to ensure that all gas cylinder valves are closed. With traditional gas cylinders, making the same check would require the production manager to test each gas cylinder valve by hand, which is often considered troublesome and is thus often neglected.

The case company's gas cylinder includes a gas level indicator that has a pointer and a scale to visually indicate the amount of gas left in the cylinder. In contrast, determining the amount of gas left in a traditional cylinder is not possible without additional instruments. Knowing the amount of gas left is important to schedule refills and prevent idle

time in production. On the other hand, the gas level indicator allows customers to optimize their gas usage and not get a refill too early to prevent running out of gas. The case company's representatives have recognized the importance of the gas level indicator especially to smaller customers that operate with one gas cylinder and do not therefore have another, full gas cylinder at hand when the gas cylinder runs out of gas.

According to several interviewees, despite having identified several potential benefits of the offering, the case company has not assessed the monetary worth of these benefits for customers. However, some interviewees have attempted to quantify the benefits. For example, one representative mentioned the internal laboratory tests that had been conducted to measure potential time savings in regard to switching an empty gas cylinder to a full cylinder during welding. Another sales representative stated:

"I had a customer production manager that was very excited about our product, and this production manager stated that with our product they will be able to reduce their gas consumption by 30 %."

However, the actually realized reductions in gas consumptions after taking the offering into use had not been verified in this case nor in other cases.

Several interviewees also used typical prices of regulators and gas flow meters as examples to quantify the potential cost savings associated with customers not needing to purchase separate regulators and gas flow meters. Based on discussions with the case company's personnel, the overall perspective to the value potential of the offering still appears to revolve around benefits that are not quantified. Although there were scarce attempts to quantify benefits (e.g. prices of regulators and gas flow meters), interviewees clearly highlighted general benefits that were not quantified, such as reductions in purchase costs in general, easiness, quickness and safety.

5.3 Indirect channels and the role of resellers

The case company's channel system consists of conventional channels with certain integration mechanisms. The conventional channels are the company's direct channels and indirect channels with one reseller between the case company and the end customer, as illustrated in Figure 27. Direct channels typically sell to and serve large customers whose high consumption justifies direct deliveries, whereas resellers' customers are usually smaller. Resellers are located all around Finland except for the northernmost part of the country, but the density of resellers is much higher in south and west than in north and east. Resellers vary significantly in size, specialization and organizational

structure, with some resellers having several offices around Finland and a centralized management and others being owned and operated mainly by local entrepreneurs.

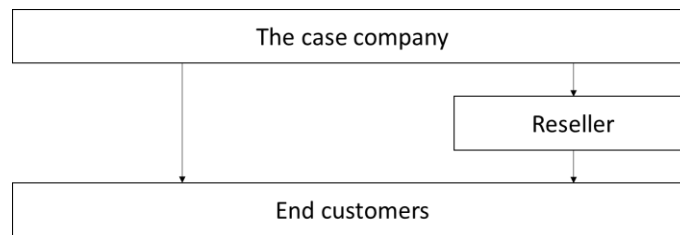


Figure 27. *The case company's channels.*

The case company fosters channel integration in a couple of ways to ensure seamless customer experience. Although resellers have a prominent role in the customer interface, the case company holds customer contracts and, thus, owns the contractual relationships with customers. This increases the case company's power across channels. It also enables the case company to allow end customers to choose between channels and resellers from transaction to transaction. Since the customer can choose between channels and resellers, it can always select the most suitable place for getting a refill. One of the case company's managers gave an example:

"The possibility for customers to choose where they get the refill is one of the strengths of our distribution network...If a customer has a project in another part of the country, it can get a refill from the local reseller."

A customer that has a contract can get a refill from any reseller in Finland without any additional contracts. The case company also collaborates with resellers to determine and implement the most suitable channel (i.e. direct or indirect channel) for a given customer. Channel determination is typically based on the customer's consumption. If a direct channel is chosen for a reseller's prospect, the case company rewards the reseller's active role in the pursuit of the contract since the reseller will not receive commissions on refills in the future. This way, the case company cultivates integration between direct and indirect channels.

In terms of channel functions performed, the case company's resellers have traits of both agents and distributors. The resellers do not own the sold goods at any point, they sell on commission (in regard to both rental contracts and refills), and they act as intermediaries in negotiating contracts between the case company and the end customer, which all imply agent-like behavior. On the other hand, the resellers have consignment inventories on their premises and they have remarkable negotiating and pricing authority, which is more typical of distributors. The resellers are, thus, neither typical agents nor

typical distributors, but the resellers are in charge of the selling function in the case company's indirect channels, which is central in this study. Figure 28 is a broad illustration of typical sales and order management processes in the case company's indirect channels. The figure illustrates that some processes are handled by the reseller, some by the case company, and some collaboratively by both parties.

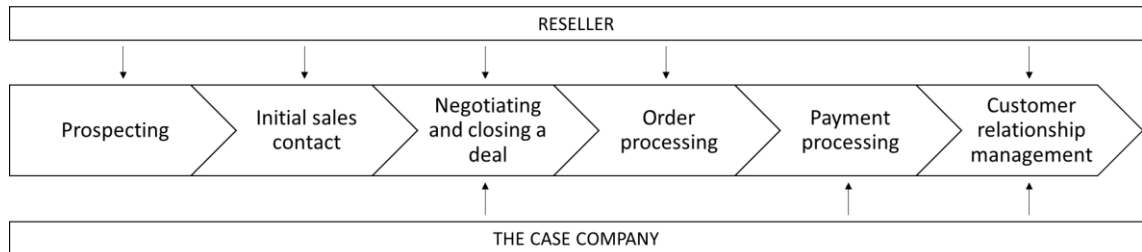


Figure 28. *The sales and order management processes in indirect channels.*

As shown in Figure 28, there are six processes related to sales and order management. The case company's managers explained that the reseller typically identifies potential gas customers and contacts them independently, which means that prospecting and making the initial sales contact are usually handled by the reseller. However, the case company occasionally redirects requests for quotes to resellers if the customer's profile and consumption imply that it is more efficiently served by an indirect channel, after which the reseller can make the initial sales contact.

Negotiating and closing can be handled independently by the reseller but also the case company may participate in the process. Despite having remarkable negotiating and pricing authority, resellers sometimes require assistance from the case company's salespeople in the negotiation phase. Case company support is usually needed to determine and validate the terms of contract proper to the customer profile and the value of the customer for the case company and the reseller. According to the case company's sales representatives, assistance is typically related to pricing. One interviewee also explained that, if a reseller recognizes the need for a pilot program before closing the deal, the reseller can contact the case company's representative, who checks whether a pilot program can be implemented and organizes the pilot program together with the reseller and the customer. A pilot program allows a customer to test the case company's offering for a given period of time without a binding contract. Depending on the business case, the customer may get the pilot program free of charge or at a significantly low price.

Order processing is handled by the reseller. The reseller is responsible for taking an order, picking the order, and delivering it to the customer. Delivering can mean either organizing a delivery to the customer or handing the order to the customer at the reseller's premises. Although resellers transmit information regarding the order to the case

company and the case company handles many back-end activities caused by the order (e.g. restocking), actual order processing is under the reseller's responsibility.

Payment processing is always handled by the case company. The only payment method available for customers is payment by invoice. Since the case company owns the contracts with customers, it also handles the invoicing.

Finally, customer relationship management requires collaboration of both the reseller and the case company because they both have direct connections with the customer. After a contract has been made, interaction with the customer often starts revolving around the order processing and payment processing, meaning that both the reseller and the case company interact with the customer continuously. Should the customer needs change or problems regarding serving the customer arise, actions may also be required from the reseller, the case company, or both.

Resellers must naturally get a return on their sales efforts in regard to the case company's offering. The case company's offering benefits resellers in two ways. First, the offering directly increases the resellers' sales through commissions paid to resellers. Second, the case company's offering has an indirect effect on resellers' sales by positively influencing the sales of other products. One of the case company's managers explained that, with small sales volumes, direct increases in resellers' sales are relatively small, but resellers with large sales volumes produce a significant return in commissions and, due to economies of scale, typically also make a good profit. However, interviewees emphasized especially the importance of indirect effects. After signing a gas contract, the customer will repeatedly return to the reseller to switch an empty gas cylinder to a full gas cylinder. This provides resellers with the opportunity to increase sales of their other products too, as explained by one of the case company's representatives:

"When a gas customer comes to get a refill, they [resellers] can also sell welding wire, gloves and pliers to the customer."

According to the interviewees, shielding gases are products that can also help resellers attract new customers. Having shielding gases in the selection often leads to new customers starting to purchase also other materials and consumables from the reseller and to formation of long-term relationships between the customers and the reseller. Therefore, from the reseller's perspective, efforts to increase gas sales and gain new customers lead to increased commissions, but these efforts can likely also lead to increased sales of other products.

In regard to the sacrifices resellers need to make to sell the case company's offering, a documented partnership proposal as well as the case company's managers highlighted

that resellers do not need to invest in products or other physical equipment because these assets are provided by the case company. The documented proposal and managers stated that the most important investments required from the resellers is investing time in sales and, more specifically, in actively identifying and contacting prospective customers, negotiating contracts, and processing incoming orders. Figure 29 illustrates the benefits and sacrifices resellers can expect in regard to selling the case company's offering.

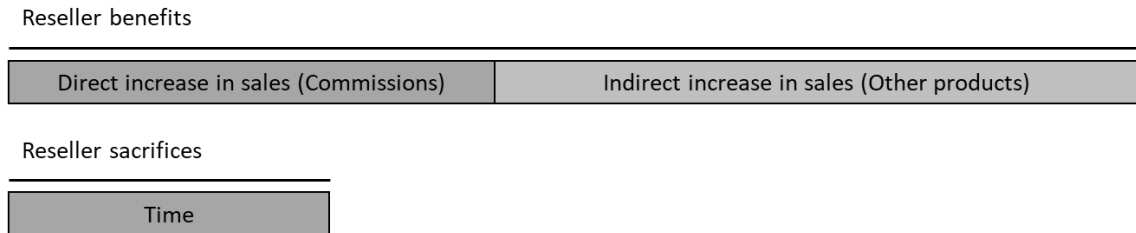


Figure 29. *The reseller benefits and sacrifices associated with the offering.*

Regarding value for the reseller, discussions with managers revealed that, when contemplating a new reseller partnership, the case company utilizes a business case that includes estimates of future gas sales through the reseller. The estimates are based on historical data and the case company's knowledge of local markets in given areas, and the numbers may also be presented to prospecting resellers to demonstrate the value potential of the partnership. In addition, the opportunity to sell other products to gas customers is mentioned to resellers as a part of the reseller value proposition, but it is not quantified.

According to the case company's data, there are significant differences in gas sales achieved by different resellers and, consequently, also in the value resellers are able to create for themselves. There seems to be several factors that explain these differences. Unsurprisingly, resellers' sales statistically correlate with the time the resellers have been operational. Although this is likely a common phenomenon in any industry, the effect seems to be particularly strong in the case company's situation, most likely because of the binding contracts and fairly guaranteed repurchases caused by the need for gas refills. Other factors affecting resellers' gas sales that were uncovered in discussions with the case company's managers and sales representatives included (1) resellers' abilities to offer delivery services, (2) resellers' other offerings, and (3) resellers' willingness and capabilities to promote the sales of the case company's offering.

First, a reseller's ability to offer delivery service was deemed very important by almost all interviewees who highlighted the value of delivery services for gas customers. At the time of the study, all of the largest resellers offered delivery services. The case company

had also been actively assisting a few resellers in critical areas to find a logistics partner for them to be able to offer delivery services to end customers. One of the case company's representatives also mentioned that some customers demand delivery service as a prerequisite for making a contract.

Second, several interviewees explained that resellers' other offerings affect customers' perception of the reseller as a supplier, and customers value the possibility to consolidate their purchases and to get not only shielding gases but also other equipment and materials (e.g. welding machines and equipment, welding wire, steel parts) from a reseller. One interviewee stating this also mentioned the importance of the brands in a reseller's selection:

"Customers will go to the gas supplier that is able to fulfill their other needs too...The products need to be of certain quality...A welding customer rather buys a used [brand X] than a new [brand Y]."

The selections of the case company's resellers vary a lot, with some resellers offering a wider selection of parts and equipment and some a narrower but more specialized selection. A few interviewees stated that resellers that have a strong local foothold in regard to other product categories required by gas customers often gain a strong market position as a shielding gas supplier as well, and vice versa.

Third, resellers' efforts to promote the sales of the case company's offering was mentioned as a significant factor influencing gas sales. The case company's experts working with resellers explained that some resellers are more active in proactively contacting possible customers, advertising, and promoting gas sales in general, whereas some resellers are basically fulfilling customer orders. This observation is in line with Frazier's (2009) categorization of intermediaries into those that "make demand" and those that "meet demand". The case company aims at having all resellers making demand, meaning that resellers' efforts in promoting gas sales are valued. Two issues sometimes hindering resellers' efforts to promote gas sales were mentioned by several interviewees, namely motivation and capabilities.

Regarding motivation and from an organizational perspective, interviewees highlighted the importance of reseller managers understanding the value of the offering for the reseller company. They explained that it is typical that resellers "suddenly realize" that gas customers have started to purchase other materials from them too, which motivates resellers to invest in gas sales and offer gases to other potential customers too. In addition, some interviewees implied that beginning to realize direct and continuous contribution to sales has increased the motivation of certain resellers:

“Everything changed when they [reseller] were finally able to close their first larger deal. They started to put a lot more effort into selling gas. But the beginning was very difficult.”

On the sales force level, one interviewee suggested that direct contribution to sales through commissions is particularly important to resellers whose sales force also owns the company. The interviewee gave an example of a reseller organization in which the sales force, that is made up of owners of the reseller company, puts much more effort into promoting gas sales than many other reseller sales forces because “they know that the commissions continuously flow directly into their own pockets”.

In regard to capabilities, interviewees stated that capabilities in particular seem to correlate with the reseller’s overall product selection. They explained that resellers specializing in welding equipment typically have superior expertise among personnel to sell the case company’s offering. On the other hand, the case company also has means to actively enhance resellers’ sales capabilities and, in particular, their knowledge of the offering’s benefits and value for the end customer.

Discussions with interviewees as well as studying the case company’s plans and documents revealed that the case company has two proactive and systematic means to enhance reseller’s understanding of the offering’s value for the end customer. These means are real-time trainings and printed material including information regarding products.

First, the case company organizes product and sales training sessions for resellers. Five such trainings given by three different experts of the case company were observed to get an understanding of the contents of these trainings. The trainings observed lasted approximately one hour each and they were given to the salespeople of new resellers. Four of the trainings were classroom-based and one was carried out remotely through a video call. Slide shows were utilized in both training formats to present supporting written and visual material. In classroom-based trainings, a model of the offering was used to demonstrate its features and written material was given to participants.

The sales experts giving the trainings focused on introducing both shielding gases and the studied gas cylinder. One central topic of the trainings appeared to be determining correct shielding gases for customers. The sales experts typically also provided some information regarding common applications, such as technical information about typical welding processes associated with different shielding gases. When describing the features of the gas cylinder, the experts explained the benefits enabled by these features (see Table 5 for benefits), which appeared to be another central topic of the trainings.

They simultaneously compared the studied gas cylinder to traditional gas cylinders and explained how the case company's offering differentiates from alternatives, which provided resellers with some information about competing offerings:

"This [feature] is patented, and a similar solution is not found in any competing product."

"These [features that differentiate from alternatives] are small things, but they cumulate into a very valuable whole for the customer."

Second, it was found that the case company shares written documents with its resellers, such as brochures and product data sheets, which was essentially a means of communicating product knowledge to resellers. These documents included information about the studied offering and other offerings within the product line, and the information was mainly technical. In terms of the amount of information, the focus of the documents was on gases, and they included somewhat less information about gas cylinders. Regarding gases, their chemical compositions and typical applications were presented in the documents. There was also a simple table that helps select the correct type of gas based on the welding process and the material being welded. Regarding gas cylinders, the documents provided information about their physical characteristics (e.g. dimensions, masses) and markings (e.g. color codes, labels). The features of the studied offering were also presented in the documents. According to interviewees, an important purpose of the documents is to provide resellers with a tool that allows them to revise the selection of gases and features of the gas cylinder. Furthermore, interviewees explained that the gas selection table included in one of the documents was intended to help resellers select the correct gas based on the information received from a customer.

In conclusion, the case company appears to have a good understanding of the benefits its offering's features enable in target customers' use situations. Because of the stability of the market and the traditional gas cylinder's established role as a "standard product", the case company's practice of using the traditional gas cylinder as a benchmark to highlight the distinguishing benefits of the case company's offering is logical. The case company communicates these benefits to its resellers, thus enabling resellers to communicate the benefits to end customers. This is crucial as resellers control the customer interface and have a key role in generating new sales in indirect channels. However, the case company has not adequately assessed the monetary value of its offering's benefits or at least quantified value is not well known among the case company's sales department and representatives working with resellers. Consequently, the case company is not

able to train or help resellers in communicating monetary value to end customers. Resellers' prospective customers are therefore probably themselves responsible for translating the benefits into monetary worth to form an understanding of the offering's value, as demonstrated by a comment made in reseller trainings by one of the case company's representatives who discussed the possibilities of altering the total offering offered to the customer "if the prospective customer does not realize the value of these benefits".

Enhancing value communication in indirect channels by enabling value quantification could yield higher sales volumes and higher margins for both resellers and the case company. In addition, it would improve resellers' sales capabilities and could cause the case company's offering to stand out as a valuable independent offering rather than merely as a part of a reseller's overall selection.

5.4 Developing a customer value model

While the studied offering is not the best alternative for every customer, some customers that might actually benefit more from the offering than from any alternative may opt for another (perhaps cheaper) alternative because of the ambiguity of the value deriving from the benefits. Regarding the built-in regulator and gas flow meter, for example, a customer likely knows the purchase cost of a separate regulator and gas flow meter and might even be able to deduce the long-term monetary value it could realize due to not having to purchase replacements for these gadgets regularly. However, in addition to many prospective customers arguably not spontaneously going through this thought process, the customer surely does not know how much time and labor costs it can save due to the case company's offering being easier and faster to set up than the customer's current product. Therefore, quantifying and clearly articulating value could help more customers understand the monetary value potential and make better purchase decisions, resulting in increased sales of the case company's offering.

Next, the monetary value of the most prominent and generalizable benefits for value communication are analyzed in detail. The comprehensively analyzed benefits are limited to the most prominent and generalizable ones because some benefits are highly valuable only to a small group of customers and the quantification of some benefits requires data beyond the scope of this study. Because the interviewees emphasized that most new customers have previously used competitors' gases and traditional gas cylinders, the analysis ignores value creation mechanisms that are similar between the case company's offering and competing offerings (e.g. benefits of using a shielding gas in welding). Instead, the analysis focuses on the benefits that the case company's offering

has in comparison to traditional gas cylinders and the benefits of switching from using traditional gas cylinders to using the case company's offering.

The findings suggest that the case company's offering has features that primarily translate into benefits of three categories, namely (1) reduction in purchase costs, (2) time savings, and (3) reduction in the risk of unexpected additional costs. Some of the benefits are fairly obvious, such as removing the need to purchase separate regulators (reduction in purchase costs) and making some preparation phases faster and simpler (time savings). However, there are also some less obvious customer benefits, such as making preparing gas cylinders for transportation easier (time savings). All benefits still ultimately translate into monetary customer value, but to determine their monetary worth, quantification of benefits and knowledge of customers' processes and costs are required.

Benefits need to be quantified to compare them to customers' current performance. Reduction in purchase costs is solely dependent on customers' purchase costs if the purchase cost is entirely eliminated (by removing the need of buying regulators), but determining time savings requires quantifying the time it takes to perform different tasks (e.g. gas cylinder switch) with the case company's offering. In addition, determining the monetary worth of the reduction in purchase costs requires detailed knowledge of customers' purchase costs, and determining monetary value of time savings requires detailed knowledge of how long customers currently spend time performing different tasks and of customers' labor costs. Reduction in the risk of unexpected additional costs is an indirect benefit that is difficult to quantify (cf. Keränen & Jalkala 2013), but it requires knowledge of customers' current risks and risks after introducing the offering. Figure 30 illustrates which information (purchase costs, labor costs or risk) is required to translate each benefit into monetary customer value. If a benefit is based on reducing risk, determination of monetary value requires not only knowledge of the likelihood of the risk occurring but also knowledge of associated purchase costs or labor costs that are saved if the risk is not realized.

Features	Benefits and drivers of monetary customer value	Purchase costs	Labor costs	Risk
Built-in regulator and gas flow meter	No purchase costs of separate regulators and gas flow meters	X		
	No purchase costs of regulator gaskets, and no risk of leaking regulator gaskets	X		X
	No purchase costs of tools for tightening regulator and gas flow meter connections	X		
	Time saving and reduced labor costs as there is no need to attach regulators and gas flow meters		X	
Quick connection interface	No purchase costs of tools for tightening the hose connection	X		
	Time saving and reduced labor costs due to quick operation		X	
	Reduced risk of incorrect setup and leaks and thus reduced risk of unexpected additional purchase costs of gas	X		X
Fixed enclosing guard	Time saving and reduced labor costs as there is no need to remove regulators and gas flow meters for transportation		X	
	Reduced risk of regulator and gas flow meter breakage and thus reduced risk of unexpected additional purchase costs of regulators and gas flow meters	X		X
On/off lever	Visibility of the valve's position, reduced risk of forgetting to close the valve after welding, and thus reduced risk of unexpected additional purchase costs of gas	X		X
Gas level indicator	Reduced risk of idle time in production resulting from unexpectedly running out of gas		X	X

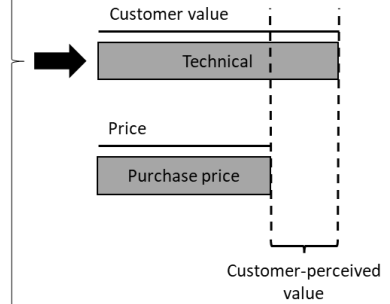


Figure 30. Translating benefits into monetary value.

Because all identified benefits that are presented in Figure 30 are based on technical features of the physical product, they all result in technical value for the customer. However, not all benefits facilitate value creation for all customers, and the level of customer value potential associated with different benefits can vary among customers. For example, to realize reduced labor costs resulting from time saving enabled by the case company's offering, the customer needs to be able to reduce costs directly (e.g. by reducing its workforce) or relatively by utilizing the saved time efficiently and performing more valuable tasks at the same cost.

Although all the benefits result in monetary customer value, determining and communicating the monetary worth of each benefit is not simple. In particular, monetary value deriving from reduction in the risk of unexpected additional costs is difficult to assess because the probability of the risk occurring varies among customers and customers might not have a good understanding of the magnitude of the risk. In addition, the case company's offering does not completely remove the risk of incorrect setup, forgetting to close the valve or unexpectedly running out of gas. The offering merely reduces these risks, which means that quantifying the monetary worth of reducing these risks requires determining the risk not only before taking the case company's offering into use but also after taking it into use. In general, the monetary value associated with a risk-reducing feature and benefit can be formulated as follows:

$$\text{Annual value of risk reduction} = (E(\text{Incidents})_{\text{Before}} - E(\text{Incidents})_{\text{After}}) \times \text{Cost}$$

where $E(Incidents)_{Before}$ and $E(Incidents)_{After}$ are the expected values of the number of incidents realized (i.e. risks realized) in a year before and after taking the case company's offering into use and $Cost$ is the average cost incurred for one incident.

Credible determination of monetary value deriving from reduction in risks would require large amounts of data from numerous customers on the customer segment level, and detailed customer-specific data on the individual customer level. This data would need to reveal, for example, customers' leakage incidents and breakages of equipment, and many customers might not have such data available. In addition, in many cases data regarding the probability of the risk realizing despite taking the case company's offering into use is required. Determining the monetary value stemming from risk-reducing features and benefits thus requires thorough and time-consuming data collection and analysis. However, determining and communicating monetary value deriving from reduction in purchase costs and time savings is much more straightforward. Customers have data of purchase costs readily available, and the time it takes to perform a task can easily be measured.

As shown in Figure 30, three benefits are based solely on a reduction in purchase costs (and not risk). There are also three benefits that are based solely on a reduction in labor costs (i.e. time savings). Of these six benefits, the three benefits that are based either on a reduction in purchase costs of tools or time savings when preparing gas cylinders for transportation are likely beneficial only to marginal customer groups because not many customers need to transport cylinders frequently and because the required tools are fairly standard (e.g. wrenches) and thus probably owned by most customers despite the gas cylinder type they use. This leaves three quantifiable benefits that are relevant to the majority of customers, namely (1) no purchase costs of separate regulators and gas flow meters, (2) time savings and reduced labor costs as there is no need to attach regulators and gas flow meters, and (3) time savings and reduced labor costs due to quick operation. The latter two benefits are both related to setting up or switching a gas cylinder and can thus be analyzed simultaneously.

The monetary worth of not needing to purchase separate regulators and gas flow meters depends on three factors. First, the most logical factor is the price of a regulator and gas flow meter. Second, the average lifetime of a regulator and gas flow meter determines how often the customer would incur the purchase cost. Third, most customers have several gas cylinders, but not each gas cylinder yields the benefit of not needing to purchase regulators and gas flow meters because customers can use the same regulator and gas flow meter with different gas cylinders. Multiple regulators and gas flow meters are typically needed if the customer has several welders using gas simultaneously. Therefore,

because in most cases it is more realistic to analyze the value of several gas cylinders collectively rather than the value of one gas cylinder, it is necessary to know the number of regulators and gas flow meters that the customer would need simultaneously without the case company's offering. The annual monetary value of not needing to purchase separate regulators and gas flow meters can be formulated as follows:

$$\text{Annual purchase cost savings} = \frac{\text{Price}_{\text{Regulator}}}{\text{Lifetime}_{\text{Regulator}}} \times \text{Quantity}_{\text{Regulators}}$$

where $\text{Price}_{\text{Regulator}}$ is the customer's purchase cost of a regulator and gas flow meter, $\text{Lifetime}_{\text{Regulator}}$ is the average lifetime of a regulator and gas flow meter, and $\text{Quantity}_{\text{Regulators}}$ is the number of (additional) regulators and gas flow meters the customer would need simultaneously without the case company's offering.

All of the factors shown in the above equation are customer-specific. To give an idea of the magnitude of potential savings, Figure 31 illustrates the purchase cost saving potential per regulator with different regulator prices and lifetimes. The scenarios for regulator prices (50 €, 100 € and 150 €) are selected based on discussions with the case company's representatives who stated that the regulators typically used by prospective customers cost around 100 euros. Regulator lifetime can vary significantly among customers. Some manufacturers suggest a 5–10 year refurbishment or replacement interval but, as some interviewees pointed out, regulators might last even for decades.

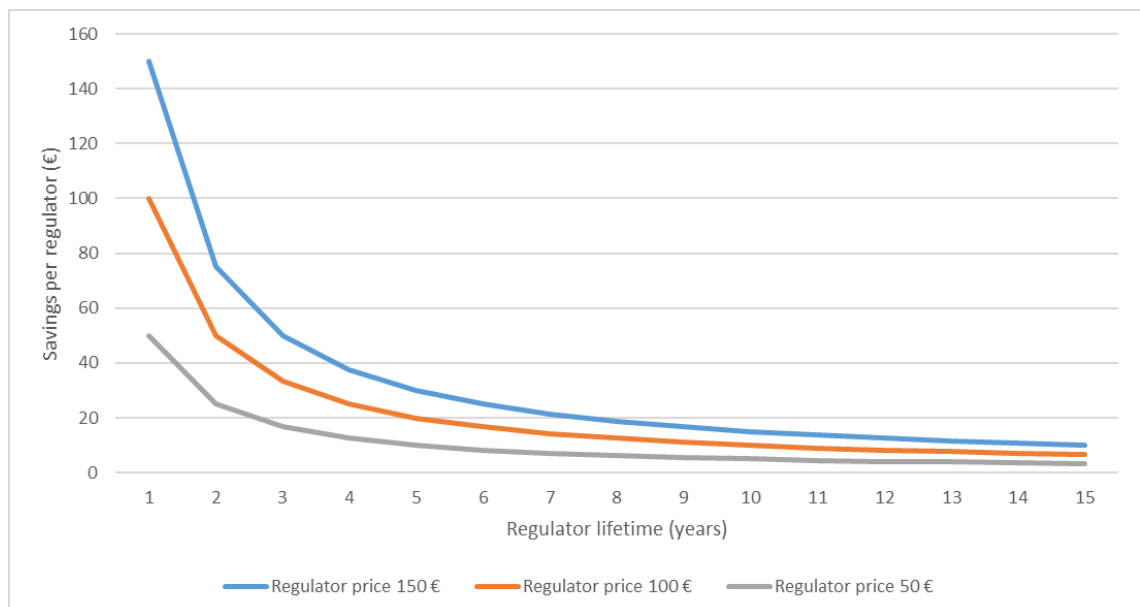


Figure 31. Scenarios for purchase cost savings.

The annual monetary worth of time savings and consequently reduced labor costs associated with gas cylinder switches (switching from using an empty gas cylinder to using a

full gas cylinder) depends on (1) time savings per switch, (2) the number of switches in a year, and (3) the cost of labor. The annual monetary worth of these labor cost savings can be formulated as follows:

$$\text{Annual labor cost savings} = (\text{Time}_T - \text{Time}_C) \times \text{Hourly labor cost} \times \text{Quantity}_{\text{Switches}}$$

where Time_T is the time customer takes to perform a gas cylinder switch without the case company's offering (typically with a traditional gas cylinder), Time_C is the time customer takes to perform a gas cylinder switch with the case company's offering, Hourly labor cost is the hourly cost of labor of the worker performing the gas cylinder switch, and $\text{Quantity}_{\text{Switches}}$ is the average number of gas cylinder switches in a year.

All of the factors affecting potential labor cost savings are also customer-specific. To give an idea of the magnitude of potential savings, Figure 32 illustrates potential savings per gas cylinder switch with different labor costs (20–50 €/h) and possible time savings per switch (1–5 minutes). Labor cost includes wages and all indirect labor expenses associated with gas cylinder switches.

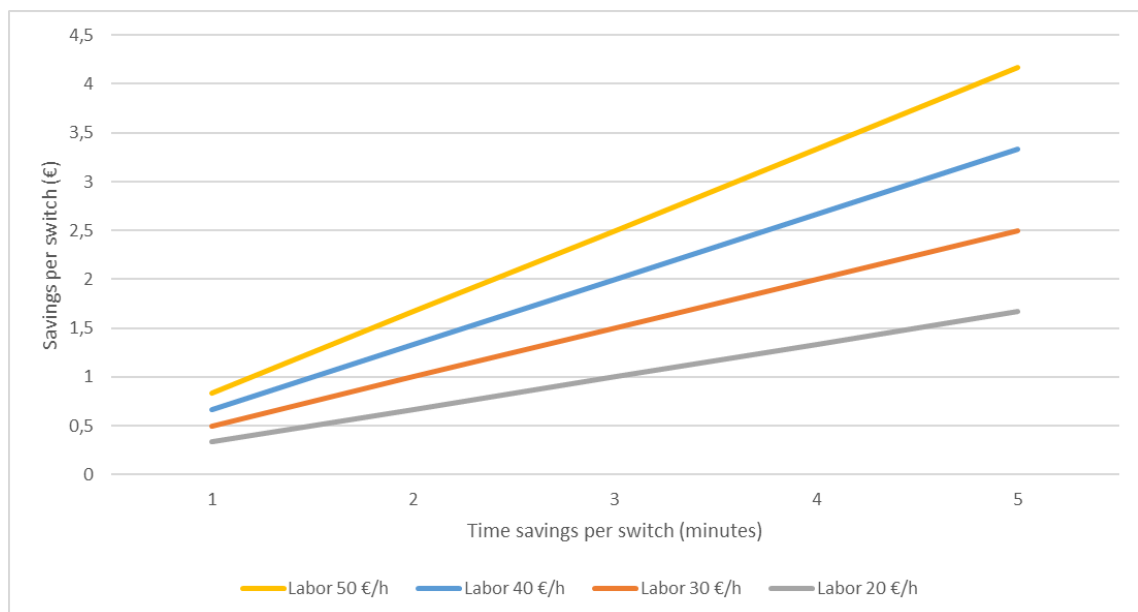


Figure 32. Scenarios for labor cost savings.

The equations for annual purchase cost and labor cost savings derived from identified benefits serve as value word equations that can help the case company show customers how its offering's distinguishing features translate into monetary worth (cf. Anderson et al. 2006). These selected benefits are argued to be the most prominent benefits that are relevant to the majority of potential customers. Thus, the value word equations derived from these benefits are promising tools for communicating resonating focus value propositions in both direct and indirect channels.

5.5 Utilizing the customer value model in indirect channels

The case company currently attempts to promote the communication of its offering's benefits by providing resellers with comprehensive knowledge of its offering's features and benefits. The case company could enhance resellers' capabilities to communicate the offering's value by utilizing the developed customer value model to provide resellers with a predetermined quantification of customer value. The developed scenarios that are presented in Figure 31 and Figure 32 serve as quantifications of value that can be used by the case company's resellers to communicate value to end customers. Despite the developed scenarios representing rough estimates, and although only customer segment level value quantification can be done without obtaining data from an individual customer's use situation, rough value quantification that is based on customer segment level data enables communicating the size of the value potential to an individual prospective customer. The benefit of providing resellers with predetermined quantifications of value is that resellers do not need to invest a lot of resources nor have advanced capabilities to assess and communicate customer value. Instead, resellers can help their customers understand the value potential of the case company's offering by simply showcasing the value quantification figures prepared by the case company. This idea is illustrated in Figure 33.

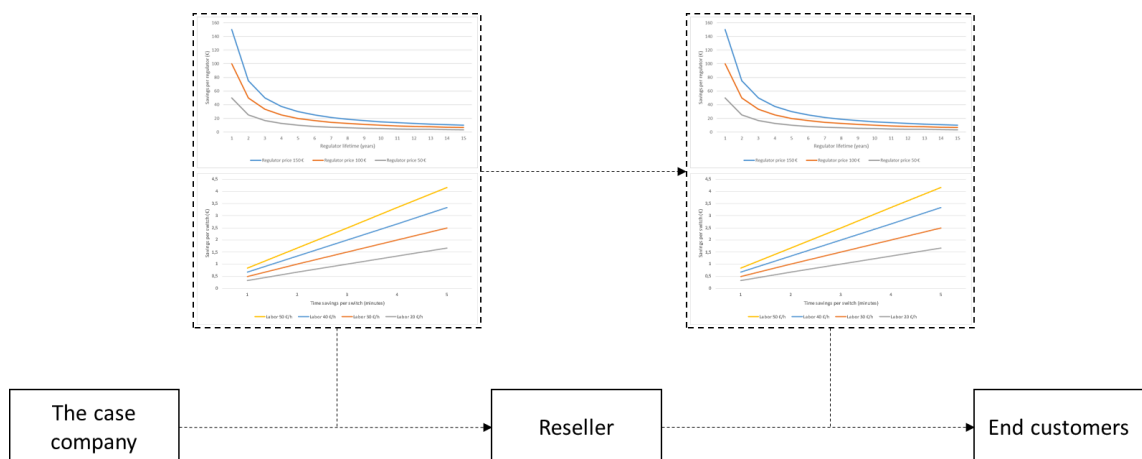


Figure 33. Communicating the size of the value potential.

However, some potential drawbacks of value quantification being done based the customer segment level data are that customer-specific factors are not considered and that prospective customers do not understand or approve the value calculation logic (see Töytäri et al. 2011). Therefore, quantifying and communicating customer value at the individual customer level may be a more effective way of communicating value and it may consequently yield better sales results.

To quantify value at the individual customer level, detailed data is required from the individual prospective customer that the value quantification concerns. Collecting this data should be the reseller's task because the reseller controls the customer interface. In practice, this would mean that the reseller works with the customer to determine, for example, the price the customer pays for regulators, the average lifetime of the customer's regulators, the time the customer takes to perform a gas cylinder switch without and with the case company's offering, and the customer's hourly labor cost. The customer may have data readily available or the customer might be able to provide estimates, but also testing and measuring (especially in regard to cylinder switching time) may be required. Collected data can then be inserted in the developed value word equations to determine customer-specific value.

The case company cannot provide resellers with a predetermined quantification of value for individual customers but the case company can, instead, attempt to ensure that resellers understand the value calculation logic. The developed value word equations are a promising tool for communicating the value calculation logic. Because the value word equations explicitly reveal which data is required to assess customer value, resellers can utilize the value word equations to guide and structure their value assessment processes. The value word equations thus facilitate the generation of value quantifications at the individual customer level in the case company's indirect channels, as Figure 34 illustrates.

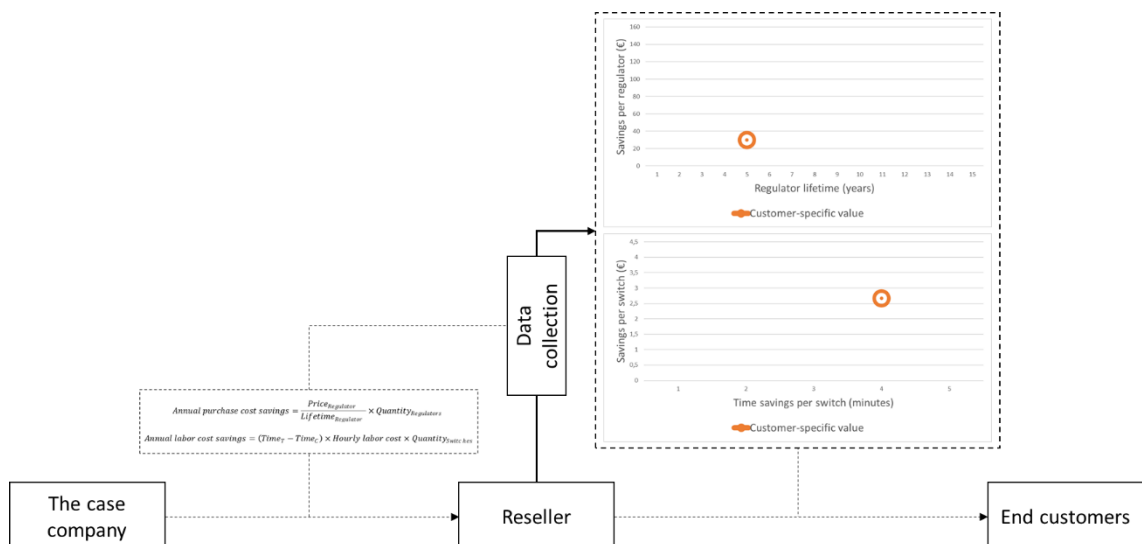


Figure 34. Communicating customer-specific value.

As illustrated in Figure 34, the value word equations the case company communicates to resellers guide resellers in regard to which data they should collect from customers to generate value quantifications. After collecting data from an individual customer's processes, a reseller can insert the data in the value word equations to quantify the value

the offering would have for that particular customer. Instead of scenarios and the rough size of the value potential, resellers are consequently able to communicate tailored estimates of customer value. By conducting value assessments together with customers and by communicating the value calculation logic, resellers are also likely able to make the value assessments credible in the eyes of customers.

From a broader perspective, the developed customer value model has potential to positively impact the case company's indirect sales. The studied offering is targeted at a market that is dominated by one of the case company's competitors. The case company pursues growth in the market with a technically advanced offering and highlights the superior benefits of the offering in sales communication. Furthermore, the case company deems indirect channels the key to sales growth and resellers' capabilities to communicate the offering's value important. However, the interviewees pointed out that there is significant variation in resellers' capabilities and motivation to actively sell the product and communicate its benefits.

The interviewees' comments and observations made during the study suggest that the case company understands how the offering's features translate into benefits for customers, but the case company has not investigated the monetary value of these benefits. Consequently, the case company has focused on features and benefits when training resellers to communicate the offering's value. The customer value model developed in this thesis can help the case company turn resellers from product experts to customer value experts. Although the developed model cannot be considered a comprehensive model of customer value, as it is based on a small amount of data gathered mainly internally in the case company, the developed model serves as a basis for proceeding from communicating benefits to communicating value. However, a successful shift from benefits-orientation to value-orientation in the case company's indirect channels requires both the case company and the resellers to acknowledge the importance of expressing benefits in monetary terms and the importance of not expecting the customer to spontaneously realize the monetary value of the offering's benefits.

This study did not investigate whether some resellers already communicate monetary value to end customers. Especially resellers specialized in welding may already be able to translate the offering's benefits into monetary worth, at least to some extent. This could partly explain why some resellers are delivering better sales results than others. The developed customer value model could, in particular, help enhance the capabilities of those resellers that do not have extensive knowledge in welding.

To conclude, the developed customer value model can be used to communicate value potential on a general level and value estimates on an individual customer level. By communicating to resellers both a predetermined quantification of value and the value calculation logic, the case company can provide its resellers with both an easy-to-use means of communicating the value potential (the predetermined quantification of value) and the underlying logic that allows capable resellers to make customer-specific value calculations. The case company should encourage resellers to make customer-specific value calculations since they are typically more effective sales tools, but resellers that do not have the required skills or resources would still be able to demonstrate the size of the value potential to customers by showcasing the predetermined quantification of value.

6. DISCUSSION

6.1 Customer value and value in indirect channels

The predominant view of marketing postulates that customer value concerning market offerings (i.e. products and services) is customer-specific value-in-use that is created when the customer uses the market offering (e.g. Vargo & Lusch 2004). In business markets and specifically on an organizational level, customer value is often defined as the difference between the benefits and sacrifices associated with obtaining and using the offering (e.g. Ulaga & Chacour 2001; Eggert & Ulaga 2002; Kotler & Keller 2016). Because of the financial orientation in business markets, customer value, benefits and sacrifices have a monetary impact and should be determined in monetary terms (e.g. Anderson & Narus 1998; Anderson et al. 2009). Monetary impact on a company can only occur through a change either in the company's costs or in the company's revenue. In regard to offerings and on an organizational level, customer value in business markets can thus be conceptualized as the monetary net impact a supplier's offering has on a customer's costs and revenue.

From the supplier's perspective, the ability to enable superior customer value creation is fundamental to long-term success (Woodruff 1997; Slater 1997), and customer value is argued to be the cornerstone of business market management (Anderson et al. 2009). A company's processes, such as research and development, production and logistics processes aim at making market offerings available for customers' usage. Grönroos and Voima (2013) explain that a company's processes and actions are essentially value facilitation that results in outputs (e.g. physical products) with potential value that can be transformed into "real" customer value in the customer's usage process. This implies that, although customer value is created through usage, the offering's characteristics determine how and to what extent the offering can be used to create customer value. Superior customer value thus stems from superior value potential. Customer value orientation reaches throughout a company's functions because, to enable superior customer value creation and ensure long-term competitive advantage, a company needs to develop, produce and deliver offerings with superior value potential.

The value potential of an offering largely lies in the offering's characteristics and technical features that translate into benefits and monetary value when the offering is used by a customer (Wouters & Kirchberger 2015). To transform value potential into customer

value, an offering needs to move from production to use, which typically involves a customer purchasing the offering. Customers' purchase decisions are driven by their perceptions of value (Woodruff 1997; Tuli et al. 2007), but customers might not initially understand how an offering helps them create superior value (e.g. Anderson & Narus 1998; Anderson et al. 2009). If customer managers, that are increasingly incentivized to reduce costs (Anderson & Narus 1998; Anderson et al. 2006), are not convinced of the superior value of an offering, they will likely opt for a cheaper alternative (e.g. Anderson & Narus 1998; Anderson et al. 2014), or it might at least be more difficult for the supplier to get a fair return on the superior value its offering provides (Anderson & Wynstra 2010). Therefore, helping customers understand how an offering enables superior customer value creation can result in better purchase decisions for the customers and better sales performance for the supplier (cf. Hinterhuber 2017). Customer value communication has been argued to be an effective way of helping customers understand how an offering results in customer value creation (e.g. Terho et al. 2012; Payne et al. 2017).

Customer value communication, typically, involves a customer value proposition (CVP) that a company uses to communicate how it aims to provide value to customers (Payne et al. 2017). Payne et al. (2017) argue that a company's resources, such as product knowledge and market knowledge, are the basis of formulating and communicating CVPs. With sufficient resources, a company is able to formulate resonating focus CVPs that resonate with customers' most important needs and are, therefore, considered to be the most effective CVPs (e.g. Anderson et al. 2006). Creating such CVPs requires forming thorough understanding of customers' use situations and the offering's benefits in customers' specific use situations (see Osterwalder et al. 2014). Payne et al. (2017) explain that companies can formulate CVPs at different levels of granularity, such as customer segment level and individual customer level. Customer segment level CVPs should logically be based on more collective information from target customers' use situations, whereas individual customer level CVPs should consider factors specific to individual customers and their use situations.

Effective CVPs should express benefits and value in monetary terms (e.g. Terho et al. 2012; Wouters & Kirchberger 2015). To quantify customer value and determine monetary value, companies need to conduct customer value assessment. While acknowledging that there are also other applications and benefits of customer value assessment (see Anderson et al. 2009; Keränen & Jalkala 2013), this thesis places customer value assessment under the CVP formulation process because customer value assessment is needed to determine monetary value that is communicated through the CVP.

Companies can enhance the effect CVPs have on customers by communicating CVPs effectively. While a CVP aims to deliver a message regarding how the supplier can provide value to the customer, effective communication of CVPs is essentially about convincing customers that they will actually realize the promised value and reducing the customer-perceived risk of not realizing the promised value. Especially recent research has identified means to make CVP communication more effective. In effective CVP communication, the value creation mechanism should be communicated explicitly (cf. Anderson et al. 2006), and the value creation mechanism can possibly also be tested in the customer's specific use situation (Keränen & Jalkala 2013). Companies can also demonstrate their value facilitation capabilities with references (e.g. Töytäri & Rajala 2015), and directly reduce customers' economic risks through guarantees of value (Terho et al. 2012) and value-based pricing (e.g. Storbacka 2011; Töytäri et al. 2011).

Although there is a significant amount of extant literature on customer value communication and customer value assessment, previous academic work focuses on the supplier-customer dyad (i.e. direct channels). Far less scholarly attention has been paid on customer value communication in indirect channels and especially on communicating value to the end customer when there is an intermediary between the focal supplier and the end customer. In most cases, sales through indirect channels has exceeded direct sales in B2B contexts (Goodman & Dion 2001), making the indirect distribution environment managerially and academically highly relevant. Furthermore, business customers' purchase decisions are based on their perceptions of value (Woodruff 1997), and this should logically be the case regardless of the channel. In indirect channels, intermediaries usually control the end-customer interface (e.g. Corey et al. 1989), reducing focal suppliers' possibilities of influencing end customers' perceptions of value through customer value communication, especially as suppliers' control over intermediaries has diminished (Weitz & Jap 1995; Achrol & Etzel 2003).

This thesis argues that, like in direct channels (see Terho et al. 2012; Hinterhuber 2017), communicating the customer value of an offering in indirect channels can improve sales performance. This improvement concerns the intermediary through increased sales volumes and margins and the focal supplier through increased sales in indirect channels. To shed light on the unexplored area of customer value communication in indirect channels, in the literature review section, a framework for customer value communication was created, and the framework was then connected with the indirect channel context to create a model of customer value communication in indirect channels.

6.2 The contribution of the theoretical analysis

The model of customer value communication in indirect channels is presented in Figure 35. Analyzing extant literature to construct the model resulted in identification of novel theoretical connections and ideas. The main areas of theoretical contribution are highlighted in the figure.

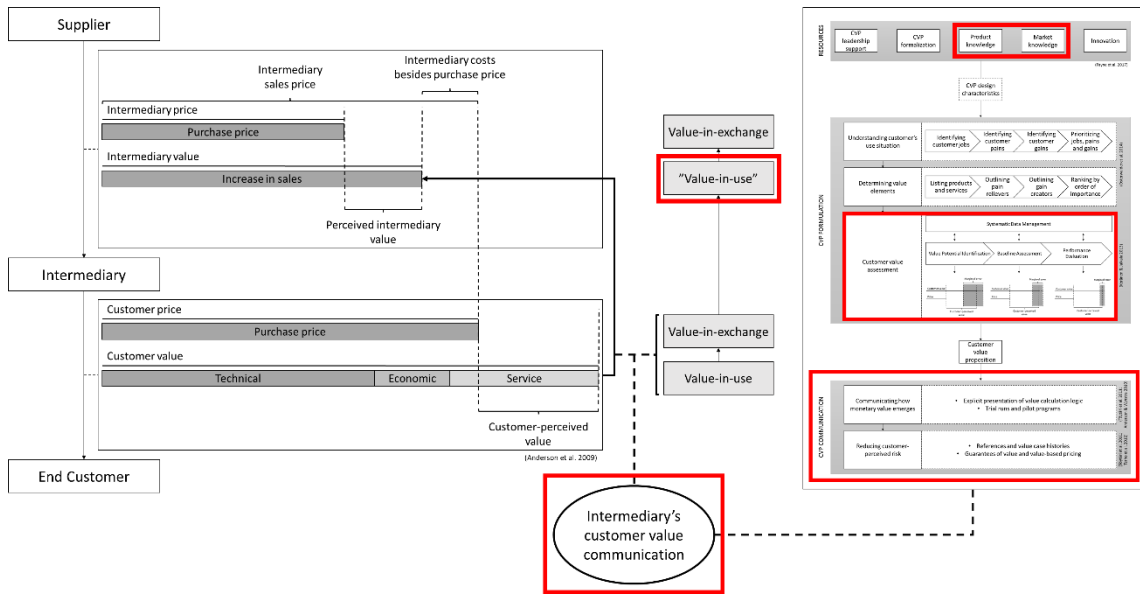


Figure 35. A model for customer value communication in an indirect channel and the main areas of theoretical contribution.

As shown in Figure 35, the findings of the theoretical analysis contribute to knowledge regarding value in indirect channels, customer value communication in indirect channels, and customer value communication in general. In regard to value in indirect channels, this thesis acknowledges the uniqueness of intermediary value. Previous literature identifies two perspectives to value associated with offerings, namely value-in-exchange and value-in-use (e.g. Vargo & Lusch 2004; Eggert et al. 2018). However, neither of these perspectives appears to be suitable for accurately conceptualizing intermediary value. Value-in-exchange is objectively reflected in an offering's price (Eggert et al. 2018), but although intermediary value is highly dependent on the intermediary's purchase and sales prices, the intermediary also incurs costs due to performing actions related to reselling the offering, and these costs impact intermediary value. Therefore, intermediary value is not purely value-in-exchange. On the other hand, value-in-use is subjectively perceived when using the offering (e.g. Vargo & Lusch 2004; Macdonald et al. 2016), but rather than using the offering for its intended purpose, intermediaries resell offerings. Intermediary value is therefore not purely value-in-use that essentially derives from an offering's characteristics, attributes and performance (cf. Woodruff 1997; Anderson et al. 2009).

Regarding customer value communication in indirect channels, this thesis argues for the academic and managerial importance of the topic. While the importance and positive consequences of customer value communication in the supplier-customer dyad have been widely discussed in previous literature (e.g. Anderson & Narus 1998; Terho et al. 2012; Töytäri & Rajala 2015; Wouters & Kirchberger 2015; Hinterhuber 2017), this thesis has extended research on customer value communication to the supplier-intermediary-customer channel and the intermediary-customer dyad. Similar to how communicating customer value can yield positive sales results in the supplier-customer dyad (e.g. Terho et al. 2012; Hinterhuber 2017), this thesis argues that customer value communication in the supplier-intermediary-customer channel can yield positive sales results for both the intermediary and the focal supplier. Although this thesis proposes that an intermediary's customer value communication is dependent on similar resources and processes as in any supplier-customer dyad, this thesis suggests that the role of the intermediary as a middleman between the focal supplier and the customer may pose inherent challenges to the intermediary's customer value communication. One such challenge derives from wide selections and consequent difficulties in maintaining adequate knowledge of each product and various use situations (see e.g. Frazier 2009). These challenges shape intermediaries' customer value communication and distinguish it from that of focal suppliers, increasing the need for research regarding customer value communication particularly in the context of indirect channels.

Regarding customer value communication in general, this thesis built on the resource-based model proposed by Payne et al. (2017) and a wide body of literature discussing customer value communication and assessment to create a framework for customer value communication. The developed framework captured the resources behind CVPs, CVP formulation processes and CVP communication. Novel ideas were presented in each of these areas.

First, regarding resources, this thesis argues that product knowledge and market knowledge are the most central resources in the actual CVP formulation process that is essential to customer value communication. This argument is underpinned by the fact that studies (e.g. Storbacka 2011; Terho et al. 2012; Töytäri & Rajala 2015) repeatedly emphasize the importance of communicating how an offering enables customer value creation in a customer-specific use situation, implying a strong connection between especially product knowledge and market knowledge. Moreover, the processes of CVP formulation identified in this thesis rely heavily on product knowledge and market knowledge. Therefore, although the other resources identified by Payne et al. (2017)

have the important role of facilitating CVP formulation, product knowledge and market knowledge are the resources that are most central throughout CVP formulation.

Second, regarding CVP formulation, this thesis argues that customer value assessment is an important part of CVP formulation. A significant number of authors have previously separately discussed CVPs (e.g. Ballantyne et al. 2011; Payne et al. 2017) and customer value assessment (e.g. Ulaga & Chacour 2001; Keränen & Jalkala 2013). For example Terho et al. (2012) and Wouters and Kirchberger (2015) have also discussed CVPs and value quantification in parallel, and in a similar vein, this thesis argues that one application of customer value assessment is generating monetary value quantifications for CVPs. In regard to customer value assessment as part of CVP formulation, the novelty value of this thesis lies in building on Keränen and Jalkala (2013) to view customer value assessment as an iterative process that produces more and more accurate estimates of customer value as data from the customer-specific use situation increases. This thesis argues that a rough estimate of customer value can be made with scarce data, but the margin of error associated with the estimate is high (that is, the difference between the estimate and the value realized by the customer through usage). As more data from the customer's use situation and the offering's application in the use situation is obtained, the margin of error decreases. However, in regard to customer value assessment prior to usage, a margin of error always exists since customer value cannot be determined before use (cf. Vargo & Lusch 2004; Grönroos & Voima 2013).

Third, regarding CVP communication, this thesis identifies two dimensions of effectively communicating CVPs. On the one hand, CVP communication should aim to clearly communicate the value creation mechanism to support quantified value propositions. This includes communicating the value calculation logic (e.g. Töytäri et al. 2011), but also trial runs and pilot programs enable the customer to gain first-hand experience of value-in-use (cf. Anderson & Wynstra 2010; Keränen & Jalkala 2013). On the other hand, CVP communication should aim to reduce customer-perceived risk of not realizing the promised value (cf. Terho et al. 2012). This thesis argues that the perception of risk can be reduced by presenting reference cases as evidence of value creation (cf. Keränen & Jalkala 2014; Töytäri & Rajala 2015) but suppliers can also reduce a customer's absolute risk by sharing some of the risk by tying the price the customer pays to realized value-in-use through value-based pricing and guarantees of value (cf. Storbacka 2011; Töytäri et al. 2011; Terho et al. 2012). While previous literature acknowledges the importance of both communicating the value creation mechanism and reducing customer-perceived risk, this thesis provides an organized model of effective CVP communication as a sum of these two factors. Furthermore, this thesis proposes a novel perspective to reducing

customer-perceived risk by arguing that the risk can be reduced in two ways: (1) by reducing the customer’s perception of risk, and (2) by reducing the customer’s absolute risk.

6.3 The contribution of the empirical study

The empirical case study resulted in findings that shed some light on the case company’s intermediaries’ customer value communication, how the case company influences customer value communication among its intermediaries, and how the case company could further develop its associated practices. The empirical findings mainly relate to the area of the framework highlighted in Figure 36.

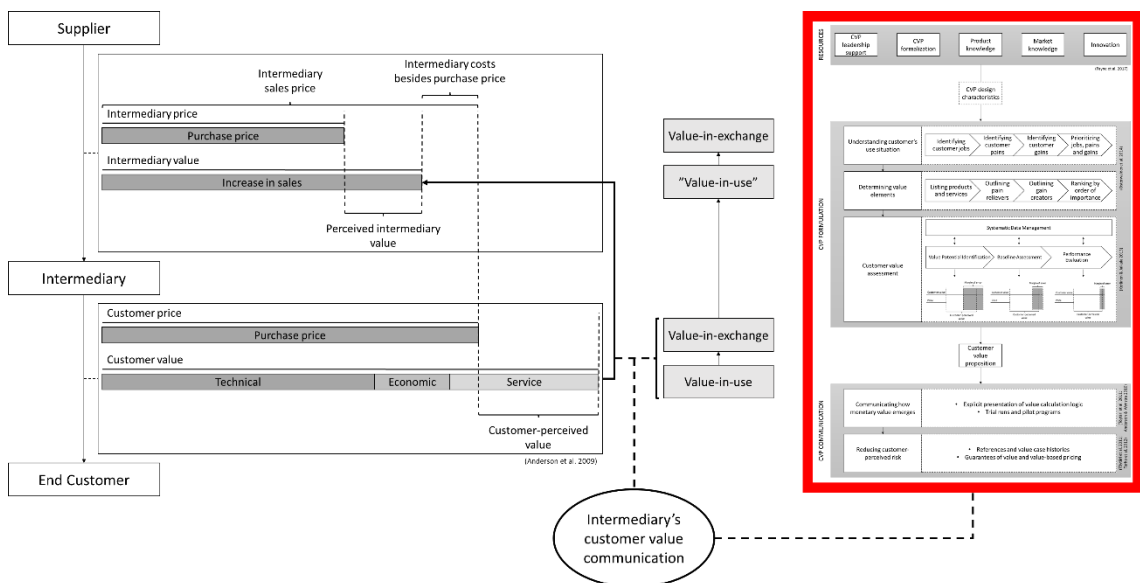


Figure 36. The main area of contribution stemming from the empirical study.

Connections between empirical findings and the developed framework were found in regard to every dimension of customer value communication (i.e. intermediaries’ resources, CVP formulation processes and CVP communication). Findings regarding each of these dimensions are next discussed in greater detail.

Based on the empirical findings, mechanisms of the case company’s influence on its resellers’ resources, CVP formulation and CVP communication can be identified. First, regarding resellers’ resources, the case company influences at least resellers’ CVP leadership support, product knowledge and market knowledge. In addition, helping resellers understand the value calculation logic associated with the offering can enhance resellers’ CVP formalization resource. The case company’s influence on reseller resources is illustrated in Figure 37. Next, each mechanism of influence is discussed in greater detail.

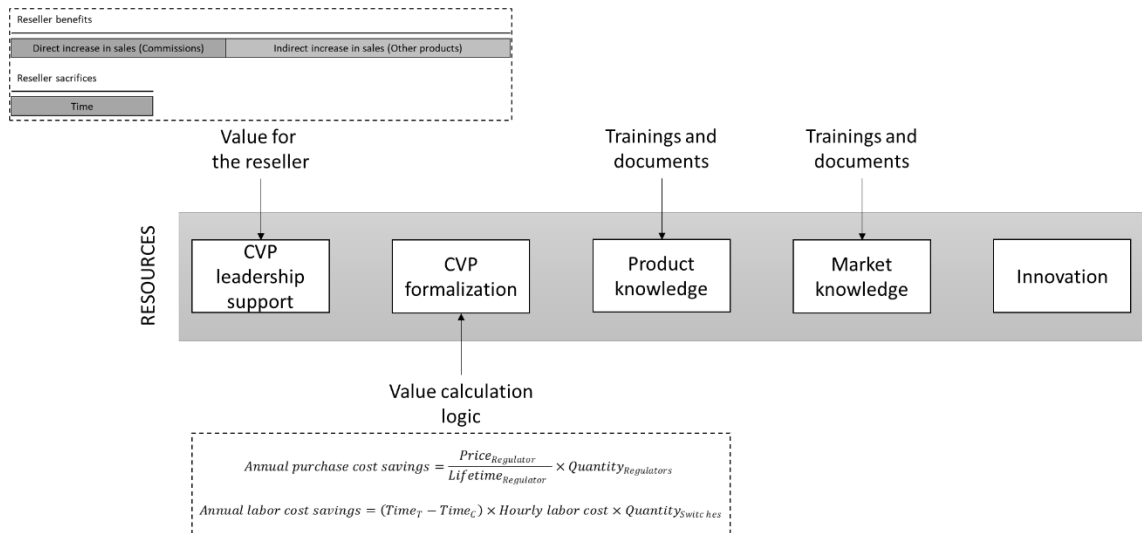


Figure 37. The case company's influence on resellers' resources.

First, in previous academic literature, value for the intermediary has been identified as a precondition for successful indirect distribution (e.g. Corey et al. 1989; Anderson et al. 2009). In discussions with the case company's representatives, value for the reseller was mentioned as a driver of reseller sales performance. More importantly, however, the interviewees pointed out that it is crucial that resellers realize the value the offering has for them because this often results in increased sales activity concerning the case company's offering.

This finding suggests that, similar to how customers' decisions are based on their perceptions of value (Woodruff 1997), intermediaries' decisions and actions are driven by their perceptions of value. A novel implication is that CVP leadership support, that refers to a signal coming from company management that indicates the strategic importance of CVPs (Payne et al. 2017), might play a somewhat different role in indirect channels than in the direct supplier-customer dyad. Intermediaries are selling several product lines that may be unrelated or competing, which means that focal suppliers "compete" for intermediaries' sales resources. From the supplier's perspective, it is important to ensure that the intermediary company's management considers CVPs concerning the supplier's offering a priority among all the CVPs concerning various and sometimes competing offerings within the intermediary's product portfolio. Value for the intermediary is most likely often a key driver of managerial support for CVPs concerning a certain supplier's offering. A supplier that is able to ensure CVP leadership support specifically in regard to its own offering is likely to make communicating its offering's value to end customers a priority in the intermediary organization.

Second, trainings and documents were identified as the case company's means of enhancing resellers' product knowledge and market knowledge. Both trainings and documents focused on enhancing resellers' knowledge of the product's features and applications, which are elements of product knowledge (cf. Payne et al. 2017). However, the trainings also included some elements of market knowledge as the case company's offering's benefits in customers' use situations as well as competing offerings were discussed.

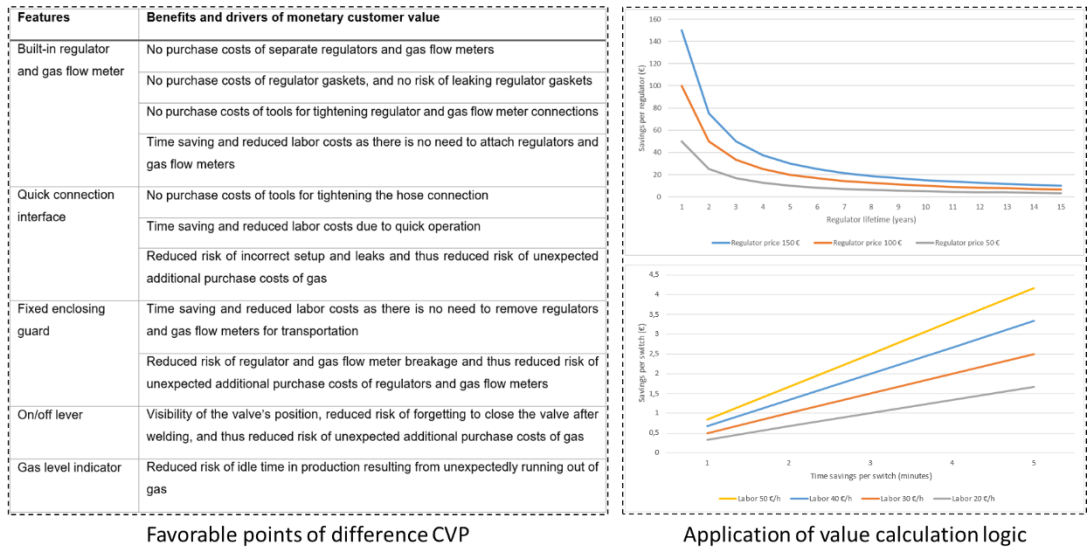
In the light of previous academic work, the findings regarding product knowledge and market knowledge are not surprising. Previous literature notes that the importance of transferring knowledge to intermediaries regarding product features and benefits, competing offerings, and selling skills is emphasized when products are positioned at the high-end (Frazier 2009). Vargo and Lusch (2004) state that knowledge and skills can be transferred in three ways: (1) directly, (2) through education or training, and (3) indirectly embedded in an object. In a distribution channel context, especially different types of trainings are common means of transferring knowledge and skills to intermediaries (e.g. Corey et al. 1989; Kotler & Keller 2016). In general, suppliers should transfer knowledge to intermediaries to ensure sufficient product and market knowledge that are central resources required for CVP formulation. Especially product knowledge is embedded in the supplier organization (Payne et al. 2017) and, while intermediaries can develop market knowledge through their interaction with customers (Lusch et al. 2007), focal suppliers should not take the risk that their intermediaries are not able to develop this knowledge entirely by themselves.

Third, clear communication of the value calculation logic, whose explicitness was developed during the case study, is expected to have an effect on the case company's resellers' CVP formalization resource. CVP formalization refers to the formalized processes a company has to formulate CVPs (Payne et al. 2017). Through interventions that occurred during the case study, value word equations (cf. Anderson et al. 2006) concerning key benefits of the case company's offering were formulated.

By communicating the value calculation logic associated with its offering, a supplier can enhance intermediaries' capabilities in regard to quantifying benefits. Furthermore, a value word equation formulated by the focal supplier provides intermediaries with a more practical tool that they can utilize in their CVP formulation and value quantification process. Wouters and Kirchberger (2015) argue for quantified CVPs and view developing CVPs as translating an offering's features into benefits and then into monetary worth. Formulating the value creation logic concerning an offering mathematically (e.g. in a value word equation) makes formulating a quantified CVP more straightforward and thus

contributes to the CVP formalization resource. For example, in the case context, the developed value word equations explicitly show which data resellers need to get from customers (e.g. regulator price, lifetime and quantity) and which mathematical operations they need to perform on the data to quantify benefits. Like a value assessment tool (see for example Keränen & Jalkala 2013), this provides guidance and a structural basis for resellers' CVP formulation process as well as customer value orientation at the resellers' sales force level (cf. Terho et al. 2017). In general, this thesis proposes that communicating the value calculation logic and formulating it mathematically for the intermediary can result in enhanced CVP formalization resources of the intermediary in regard to especially quantified CVPs. This is an important implication given the importance of quantifying benefits in customer value communication (cf. Anderson & Narus 1998; Terho et al. 2012; Töytäri & Rajala 2015; Wouters & Kirchberger 2015).

In regard to intermediaries' CVP formulation, it is important to understand the somewhat subtle differences between product and market knowledge resources and CVP formulation that the developed framework is grounded on. While product knowledge is about technical features and applications and market knowledge is about knowledge of customers' use situations and competing offerings (Payne et al. 2017), CVP formulation is fundamentally about connecting product knowledge and knowledge of a customer's use situation to determine how the offering benefits and provides value for the customer. Regarding resellers' CVP formulation, the case company participates in CVP formulation processes by essentially providing resellers with a predetermined favorable points of difference CVP. In addition, it is proposed that the case company can participate in resellers' CVP formulation processes and particularly in the customer value assessment phase by providing resellers with prepared application of value calculation logic, for example by utilizing the scenario analyses made during the case study. The case company's influence on resellers' CVP formulation is illustrated in Figure 38.



Favorable points of difference CVP

Application of value calculation logic

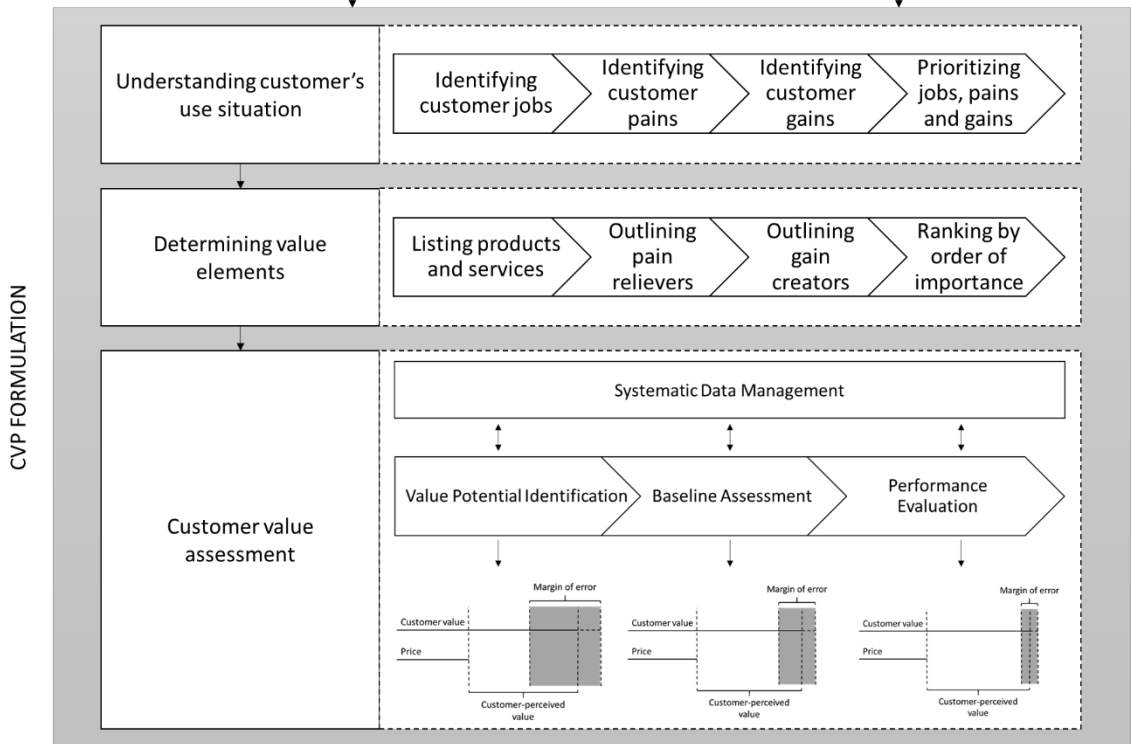


Figure 38. The case company's influence on resellers' CVP formulation.

First, the favorable points of difference CVP is the set of benefits the case company was found to systematically communicate to resellers. These benefits are based on the case company's product knowledge and knowledge of customers' use situations. The case company has performed the task of connecting product knowledge and knowledge of customers' use situation that is central to CVP formulation. Therefore, the case company is providing resellers with a predetermined CVP that resellers can communicate to their customers.

The predetermined CVP is an interesting concept because it has potential to reduce the need for detailed product and market knowledge among intermediaries in regard to CVPs, since this knowledge is already applied within the focal company. From a customer value communication perspective, predetermined CVPs could thus be a partial solution to intermediaries' challenge of maintaining detailed and up-to-date knowledge of offerings and customers' use situations related to several product categories (cf. Frazier 2009). However, a predetermined CVP may have some limitations. The case company's predetermined CVP, for example, is a favorable points of difference CVP since it basically lists all the benefits that distinguish the case company's offering from competing offerings (cf. Anderson et al. 2006). Formulating a resonating focus predetermined CVP is challenging because of variation in customers' use situations. Furthermore, the case company's predetermined CVP explains how the case company's offering benefits customers in general rather than how the offering benefits a given customer, making the predetermined CVP a customer segment level CVP (cf. Payne et al. 2017). While the concept of predetermined CVP is interesting, due to customer-specific use situations suppliers may often only be able to formulate it on a customer segment level, and formulating a resonating focus predetermined CVP may be difficult.

Second, prepared application of value calculation logic, such as scenario analyses of customer value based on the developed value word equations, is argued to be a potential means of participating in a reseller's CVP formulation process and particularly in the customer value assessment phase. Like the predetermined CVP, the conducted scenario analyses were based on the case company's knowledge resources (that is, on information received from interviewees). Such quantifications of value prepared by the case company are expected to help resellers quantify benefits for customers without resellers needing to have comprehensive product and market knowledge resources themselves.

By providing intermediaries with prepared value quantifications, focal suppliers can likely help intermediaries communicate value only at the customer segment level. Like discussed earlier regarding CVPs in general, customers' different use situations also decrease the generalizability of value quantifications. Although the importance of considering customer-specific factors especially in value quantification has been acknowledged (Töytäri et al. 2011), prepared value quantifications may provide a means for intermediaries to at least demonstrate the size of the value opportunity for a prospective customer (cf. Terho et al. 2012).

In regard to resellers' CVP communication, the case company does not appear to have means of supporting resellers' communication of CVPs including value quantifications.

This is not surprising since value quantification in the case company has been inadequate overall, and the case company also lacks means to support resellers in quantifying value. The possibility of cooperating with resellers to implement pilot programs, that have been identified as a means of value communication (e.g. Anderson & Wynstra 2010; Keränen & Jalkala 2013), was mentioned by one interviewee. However, the pilot programs are not used to actively demonstrate and communicate monetary value, leaving customers responsible for determining the monetary impact the offering has on their businesses. On the other hand, as illustrated in Figure 39, the developed value calculation logic and formulated value word equations are expected to enhance resellers' capabilities of explicitly communicating monetary value.

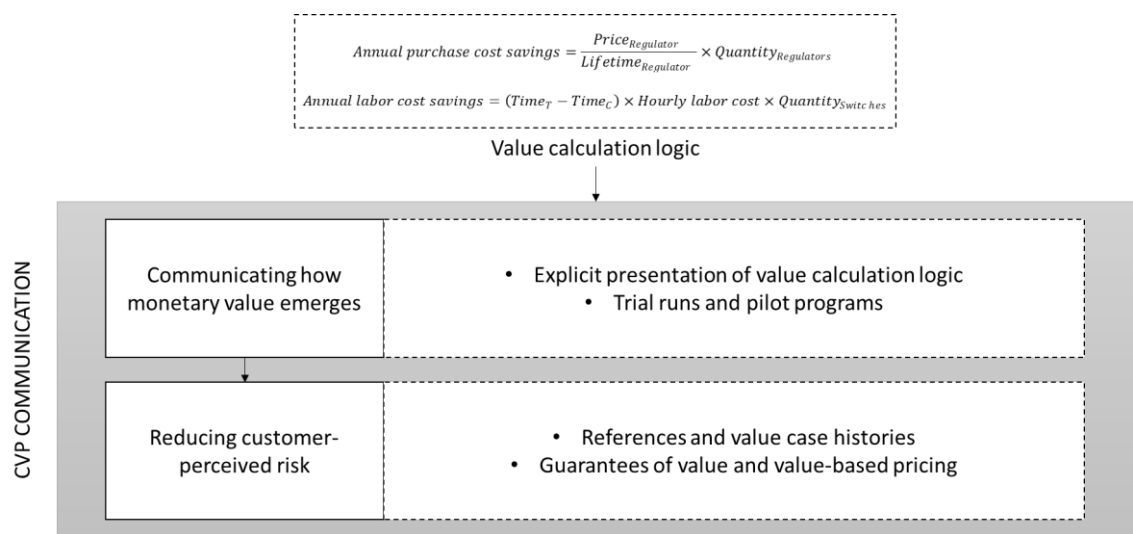


Figure 39. The case company's influence on resellers' CVP communication.

When communicating benefits in monetary terms, potential cost savings or increase in revenue must be explicitly communicated to prospective customers (Anderson et al. 2006; Terho et al. 2012) because otherwise customers might not believe the calculations (see Töytäri et al. 2011, p. 498). Moreover, Töytäri et al. (2011) point out that to increase credibility, the logic behind the calculations should also be communicated. Value word equations are proposed as a means of communicating value calculation logic explicitly (Anderson et al. 2006). Underpinned by these ideas presented in previous literature, this thesis proposes that, by explicitly communicating the value calculation logic to intermediaries, a focal supplier can enhance not only intermediaries' CVP formulation resources (as proposed earlier) but also intermediaries' CVP communication by providing intermediaries with knowledge and possibly also tools (e.g. value word equations) for explicitly communicating the value calculation logic to end customers.

6.4 Reliability, validity and limitations

The empirical case study introduced an example from practice in regard to how companies may support customer value communication in their indirect channels. Due to being an in-depth case study and building on qualitative data specific to a single case at a specific time, the precise structure of the research is unique (cf. Gummesson 2017; Saunders et al. 2019, p. 449). However, the data collection process and methods utilized in this study can provide a basis for future research studying the same phenomenon. In this study, data was analyzed by comparing the empirical findings to the developed theoretical framework. The empirical findings resonated with the developed framework, but the present empirical study has merely touched a vast research topic, and not all aspects of the framework were identified in the empirical data. For example, the effect value communication has on intermediary value remained empirically unexplored. Future research may be able to complement the findings by identifying novel connections between practice and the developed framework.

The theoretical framework was developed based on an extensive review of theories regarding customer value assessment and customer value communication. Since the empirical findings aligned with the framework, the findings have illuminated the role of customer value assessment and customer value communication in indirect channels. However, due to its exploratory nature, this study remained on a rudimentary level. Moreover, the generalizability of the findings is limited. In particular, it was assumed that the use situations of the case company's customers are quite homogenous, which enabled formulating a general customer value model. This is not the case with all products, and customers' use situations may vary a lot. Varying use situations result in the value calculation logic changing between customers. This probably poses challenges to supporting intermediaries' customer value communication because there is not a specific value calculation logic that can be relied on.

Regarding the empirical study, a few important limitations should be considered. Overall, the study explored a novel research avenue, which means that the findings still represent rudimentary understanding of the research topic. Moreover, the study involved only a single case, which may limit the generalizability of the findings. The case study was conducted from the focal supplier's perspective, meaning that the possible insights of intermediaries and even customers remain unexplored. Lastly, besides customers, also the intermediaries discussed in the case study represent a homogenous group in terms of the way they operate, meaning that the possible effects of the various characteristics of different types of intermediaries could not be examined.

Further empirical research could attempt to counter the limitations of this study particularly by studying customer value assessment and customer value communication from the intermediary's perspective. It would also be interesting to investigate whether customer value communication in indirect channels is shaped by the unique characteristics of different intermediaries, such as agents, distributors and dealers. Based on the empirical findings, the concept of a CVP that is predetermined by the focal supplier and utilized in intermediaries' customer value communication was briefly discussed in this thesis. Further research regarding the popularity and effectiveness of such predetermined CVPs could increase knowledge of contemporary practices related to customer value communication in indirect channels.

7. CONCLUSIONS

Customer value is a central concept in business marketing. To achieve and maintain competitive advantage, companies need to provide customers with offerings that enable superior customer value creation. Because of the financial orientation inherently present in business markets, the value of an offering for a business customer is ultimately the monetary net impact the offering has on the customer's business. While especially the negative impact caused by the price of an offering is usually explicit, the positive impact caused by the benefits of an offering may appear ambiguous to a prospective customer since the positive impact is realized only when the customer uses the offering. Given that customers' perceptions of value are key drivers of their purchase decisions, the importance of reducing the ambiguity of value has been acknowledged in the sales literature. Customer value assessment and customer value communication have emerged as central means of reducing the ambiguity of value in sales.

Despite the significant role of indirect distribution channels in business markets, academic discussion on customer value assessment and customer value communication has been limited to a direct channel context. The objective of this thesis was to discuss the role of customer value assessment and customer value communication in indirect distribution channels.

Based on the critical review and synthesis of previous literature, this thesis suggests that customer value communication has three dimensions: resources, CVP formulation, and CVP communication. *Resources* reflect a company's organizational and individual capabilities to communicate value. *CVP formulation* is about formulating a message that explains how the company's offering induces a positive monetary impact on a customer's business. *CVP communication* includes means of increasing the credibility of the message in the customer's eyes.

In regard to customer value assessment, this thesis proposes that, from a sales perspective, customer value assessment can be viewed as part of CVP formulation and thus as part of customer value communication. Increasing the amount of customer-specific data behind customer value assessment reduces the uncertainty associated with the assessment, thus making customer value communication more effective.

This thesis argues that the fundamental purpose of customer value communication is similar in indirect distribution channels as in direct channels. Customers' purchase deci-

sions are driven by their perceptions of value regardless of the channel. Therefore, intermediaries should be able to communicate the value associated with a focal supplier's offering. However, both previous literature and the findings of the empirical study imply that intermediaries' capabilities may often be inadequate for effective value communication. Focal suppliers can enhance intermediaries' capabilities through trainings and other means of sharing knowledge. This thesis suggests that, in addition to traditional product knowledge, focal suppliers should ensure that intermediaries understand the monetary value and the underlying value creation logic of their offerings.

Lastly, intermediaries typically have a large number of suppliers and are likely not able to maintain the capabilities required to communicate the value of innumerable dissimilar offerings. The challenge of maintaining adequate capabilities to communicate the value of numerous different offerings forces intermediaries to focus on certain offerings. Consequently, as implied by the findings of the empirical study, focal suppliers need to ensure that their offerings receive sufficient attention from intermediaries. This thesis suggests that an intermediary is likely to focus on those offerings that provide superior value for the intermediary. Hence, the focal supplier needs to ensure not only the value of the offering for the intermediary but also the superiority of the value in comparison to other offerings within the intermediary's selection.

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