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Value Creation in Markets

A Critical Area of Focus for Business-to-Business Markets

Arun Sharma
R. Krishnan
Dhruv Grewal

The business market has been undergoing a paradigmatic change. The rise of the Internet, market fragmentation, and increasing global competition is changing the "value" that business marketers provide. This paradigmatic transformation requires changes in the way companies are organized to create and deliver value to their customers. Business marketers have to continuously increase their contribution to the value chain. If not, value migrates from a given business paradigm (e.g., minicomputers and DEC) to alternate business paradigms (e.g., flexibly manufactured PCs and Dell). This article focuses on ways in which business marketers are creating value in the Internet and digital age. Examples from business marketers are discussed and managerial implications are highlighted.

INTRODUCTION

Scholars have suggested that business markets are going through an evolution similar to the Industrial Revolution. The fundamental methods of doing business are evolving rapidly toward the use of a ubiquitous information platform (Internet). As we move toward an information era, the business processes and paradigms of the industrial era will increasingly become obsolete. Growth in

Address correspondence to Arun Sharma, Department of Marketing, University of Miami, P.O. Box 248147, Coral Gables, FL 33124. Tel.: 305-284-5935; fax: 305-284-5326; E-mail: asharma@miami.edu.

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Enhanced information availability will change the way businesses evaluate the "value."

the industrial era was based on information asymmetry; one side of the relationship had more information than the other. In the present era of information ubiquity, both buyers and sellers have increasing information about the other. Business customers' power is growing as the explosion of technology and the globalization of markets effectively increase customers' choices. This enhanced information availability will change the way in which businesses evaluate the "value" that they, their suppliers, and their customers generate. The article examines the impact of environmental changes on value creation in business firms by building on earlier research by the lead author and his colleagues [1].

At this stage in the article it may be interesting to trace "value generation" in business markets. From traditional small-lot production strategies, the first change in "value" was derived when mass marketing came into vogue after World War II. In the post-WW II era, firms began to have better access to mass production technology, better transportation and communication facilities, greater financial resources, and more sophisticated human resources management. Consumers and business customers were satisfied with standardized products at reasonable prices. Value was generated through the efficiencies of mass markets and mass marketing. The emphasis was on products rather than on markets, leading companies to adopt organizational forms and value measurement systems that centered on products [1].

As more firms entered the market, the resulting increase in product variety rendered mass-market techniques less effective [1]. This value shift occurred primarily in the 1950s when the marketing concept was first recognized. McKitterick [2], Borch [3] and Keith [4] articulated tenets of the marketing concept that were popularized by Kotler [5], and that were soon widely adopted. This turn took place as business customers realized that mass production and mass-marketing activities did not satisfy their unique (non-mass market) needs.

With an increasing emphasis on markets, segmentation was a logical destination for marketers. The earliest references to segmentation were from Smith [6], who suggested a rational and more precise adjustment of products and marketing efforts to user requirements through the use of segmentation. An explicit recognition of several demand schedules resulted, where only one such schedule had previously been recognized. In this era, value migrated from mass-market solutions to segment-based solutions. Buyers were willing to pay more for "business solutions" that were developed specifically for their needs. This shift in value generation led to a number of changes in marketing thought and practice.

In the organizational context, marketing thought leaders developed the concept of "market orientation" [7, 8]. They suggested that organizations should focus on the markets that they serve. In practice, firms organized around markets and segments (i.e., created segment-based organizations). For example, AT&T divided its marketing department into groups dedicated to household and business markets, with subsequent subdivisions within each market, while IBM organized itself into "vertical" industry-based groups [1].

At the start of the new millennium, we propose that the availability of the Internet will change the way business

ARUN SHARMA is Professor of Marketing at the University of Miami, Coral Gables, Florida.

R. KRISHNAN is Professor of Marketing at Cal Poly, San Luis Obispo, CA 93407.

DHRUV GREWAL is Toyota Chair of E-Commerce and Electronic Business at Babson College, Babson Park, Massachusetts.