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Value in business markets: What do we know? Where are we going?

Adam Lindgreen[a,*,1], Finn Wynstra[b,1,2]

[a]Eindhoven Centre for Innovation Studies, Department of Organisation Science and Marketing, Faculty of Technology Management, Eindhoven University of Technology, TEMA 0.07, Den Dolech 2, P.O. Box 513, 5600 MB Eindhoven, The Netherlands

[b]Erasmus Research Institute of Management, Erasmus University Rotterdam, P.O. Box 1738, 3000 DR Rotterdam, The Netherlands

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Abstract

This article presents a review of the existing literature on value in business markets, from the perspective of both business marketing and purchasing and supply management, in three steps. First, some of the early research strands on value are examined including value analysis and engineering, the augmented product concept, consumer values, and economic value of customers. Then this seminal research and more recent research are categorized according to two distinct levels of analysis: the value of goods and services versus the value of buyer–supplier relationships, and different understandings of the role of business marketing and purchasing and supply are discussed. Lastly, a number of future research avenues, which can be organized around the value of products/relationships on the one hand and value analysis/creation/delivery on the other, are considered.

Keywords: Business marketing; Buyer–supplier relationships; Goods; Services; Relationships; Value analysis; Value creation; Value delivery

1. Introduction

The creation of 'value' is key in marketing (Albrecht, 1992; Alderson, 1957; Anderson, 1982; Anderson & Narus, 1999; Doyle, 2000; Drucker, 1973; Woodruff, 1997). Indeed, the role of marketing is "to assist the firm to create value for its customers that is superior to competition" (Tzokas & Saren, 1999: 53). If this takes place the firm can arguably deliver superior value to its shareholders (Doyle, 2000; Rust, Zeithaml, & Lemon, 2000). This is key because customers, who are satisfied with a firm's goods or services that offer them value, ceteris paribus, remain loyal to that firm and place their future purchases with that firm (Bolton & Drew, 1991; Eriksson & Löfmarck-Vaghult, 2000; Fornell, 1992; Reichheld, 1996; Rust & Zahorik, 1993; Scheuing, 1995). Notable studies in this area have been the Profit Impact of Market Strategy (PIMS) research, which examines the relationships between service, quality, and profitability (Buzzell & Gale, 1987; Chusil & Downs, 1979), as well as Zeithaml's (2000) recent synthesis of evidence about the profit consequences of service quality.

The examples of rice merchants in ancient China (Grönroos, 1996) and traders in pre-industrial society (Sheth & Parvatiyar, 1995) are evidence that the concept of value is not new in marketing and illustrate that buyers and sellers have long gained value from their business relationships and, as a result, have continued to stay in these relationships. Although a number of marketing writers began to study value from the mid-20th century (Payne & Holt, 1999) including Churchill (1942), Womer (1944), and Barton (1946), who all examined brand loyalty and repeat purchasing, it is fair to say that only recently has the value concept been used by practitioners, and studied by academics, in a much more explicit way than previously. In this context it is useful to realize that the emphasis on creating value was not always necessary in the past where firms could still achieve high profitability because markets were regulated, production resources were scarce, distribution

* Corresponding author. Tel.: +31 40 247 3700; fax: +31 40 246 8054.
E-mail addresses: a.lindgreen@tm.tue.nl (A. Lindgreen), fwynstra@rsm.nl (F. Wynstra).

[1] Both authors contributed equally and have been listed alphabetically.

[2] Tel.: +31 10 408 1990; fax: +31 10 408 9014.

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channels were controlled, or poorly performing firms were acquired and rationalized (Doyle, 2000). Such opportunities are now fast disappearing because of dramatic changes in marketing's context that in turn lead to fundamental changes in what is important in marketing. These trends include changes in physical distance and time, as well as liberalization of economies, deregulation of industries, globalization of markets, rising customer expectations, and new information technology (e.g. Doyle, 2000; Hunt, 2000; McKenna, 1991; Sheth, Sisodia, & Sharma, 2000).

Value is not only an increasingly relevant concept in the area of marketing, but also interesting from the perspective of purchasing and supply management, as it can be said to be very closely connected to the concept of 'total cost of ownership' (Wouters, Anderson, & Wynstra, 2005). Information on the total cost of ownership quantifies the costs besides the direct purchasing price, which are involved in acquiring and using alternative offerings and are comprised of transaction costs related to purchasing activities (e.g. ordering, freight, and quality control), inventory holding costs (e.g. capital, storage, handling, insurance, and obsolescence), as well as costs associated with poor quality (e.g. rejection, rework, downtime, and warranties) and delivery failure to customers (Carr & Ittner, 1992; Ellram, 1995). Understanding and trading off these various costs – or value – related to purchasing decisions is all the more relevant given the emphasis on concepts such as total cost and value in a more strategic perspective on the purchasing function and process. Van Weele (2001), for example, distinguishes between six phases with respect to purchasing orientation: transactional orientation, commercial orientation, purchasing coordination, internal integration, external integration, and value chain integration. In the latter three phases there is a cross-functional approach to purchasing, and total cost/value considerations have replaced an exclusive focus on price.

Perhaps surprising then is that firms often do not know how to define value, or how to measure it (Anderson & Narus, 1998). In fact, there has been only little research examining what value is, "[despite] its importance for the marketing discipline, little research effort has been devoted to examining what this value is, how it is produced, delivered and consumed and how it is perceived by the customer" (Tzokas & Saren, 1999: 53). This belief is echoed by Woodruff (1997: 150), "[We] need richer customer value theory that delves deeply into the customer's world of product use in their situations". Collins (1999) undertook a bibliometric study using key words in abstracts, titles, and headings during an ABI Inform electronic search in order to identify papers and articles associated with customer retention, relationship marketing, customer value, and relationship value over the 14-year period 1985–1998 and concluded that both customer and relational value are not significant sub-fields within marketing, as the frequency of publications on value has been relatively low.

Why is it that only limited research has been conducted? With regard to customer value some people argue that the concept is still poorly understood and that it is the customers and not the firms who are driving the value creation process (Tzokas & Saren, 1999). Another argument is that existing schools of thought such as (social and) relational exchange theory do not adequately address why, and how, values are created, and what motivates customers and suppliers to engage in exchanges (Sheth, Gardner, & Garrett, 1988). It is also reasoned that the research, which does exist, originates not from marketing or purchasing and supply management, but rather from strategy and strategic management, psychology and sociology of consumer behavior, accounting, and finance (Tzokas & Saren, 1999) and that this has made it difficult for both marketing and purchasing and supply management to control the value creation and delivery process.

The Marketing Science Institute has, therefore, defined the understanding of markets and the delivering of superior value as a research priority (Parasuraman & Grewal, 2000). The need for research concerns not only theory on value, but also marketing tools for understanding what consumers value and for designing systems that can deliver this value. Specifically in the area of business marketing both the Center for Business and Industrial Marketing (CBIM) and the Institute for the Study of Business Markets (ISBM), respectively at Georgia State and Pennsylvania State University, give particular attention to value research in their research programs (Ulaga, 2001).

This article develops an overview of existing research literature on value in business markets, both from the perspective of the marketing and the purchasing and supply process. First, some of the early research strands on value are examined including value analysis and engineering, the augmented product concept, consumer values, and economic value of customers. Then this seminal research and more recent research are categorized according to two distinct levels of analysis: the value of goods and services versus the value of buyer–supplier relationships. Lastly, a number of future research avenues, which can be organized around the value of products/relationships on the one hand and value analysis/creation/delivery on the other, are considered.

2. Seminal research on value

For an initial review of the existing literature on value please refer to Payne and Holt (1999) and Tzokas and Saren (1999) who are affiliated with an international academic group, which under the umbrella of 'relationship marketing' has explored themes such as (marketing) relationships, creation of value, and value of (marketing) relationships. Doyle's (2000) recent book on value-based marketing also provides an extensive overview of how firms can design and implement marketing strategies that provide value to