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Creating superior customer value for B2B firms through supplier firm capabilities

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ABSTRACT

In a dynamic global business-to-business (B2B) environment, innovation and marketing appear crucial to providing supplier firms' positional advantage through the ability to create value for customers. Our examination is grounded in seeking to address the research question: To what extent is the creation of superior performance, relationship, and co-creation value driven by market orientation, product innovation and marketing capabilities in B2B firms? The results of a survey of 155 large B2B firms show product innovation capability and marketing capability partially mediates the relationship between a firms' market orientation and its ability to create value (performance and co-creation), except for the role of marketing capability which we found acted as a full mediator of the relationship between market orientation and relationship value.

1. Introduction

The evolution in marketing thought increasingly suggests that simply being market oriented is not enough to create value and gain marketplace advantages; firms must attempt to deliver two types of value: 1) build relationships with business customers; and 2) collaborate with them (Prahalad & Ramaswamy, 2000) and to do this they need value creating capabilities. Encouraging these value creating activities may represent the next frontier in advantage seeking behaviors (Bendapudi & Leone, 2003; O'Cass & Ngo, 2011), especially in the B2B environment. Such outcomes may represent specific types of value customers are looking for and can help the firm understand their customers, and better identify their needs (Lusch & Vargo, 2006; Payne, Storbacka, & Frow, 2008). However, while focusing on these two increasingly important value creating activities we cannot neglect the importance of delivering to customers' superior performance value in the core product.

Importantly, the path to achieving marketplace advantages is through developing and commercializing value offerings (Lindgreen & Wynstra, 2005) which are delivered via specific capabilities such as product innovation and marketing. Given the existing theoretical foundations and practical issues confronting B2B firms (Lindgreen & Wynstra, 2005), an area that warrants attention is the level of emphasis firms place on marketing and product innovation in their effort to create superior customer value for their business customers. Firms may attempt to enhance customer value and competitive advantage through superiority in marketing and/or product innovation, but a lack of understanding and control over these functions has the potential to create inferior capabilities in these areas which may weaken the ability to create superior value over rivals.

A critical issue facing managers is in deciding the competitive means to achieve superiority in the delivery of customer value in B2B markets. To address this issue we adopt the view that three specific capabilities which provide important benefits are essential. The first capability involves stimulating product renewal and change (Berry, Sweeting, & Goto, 2006; Damanpour, Walker, & Avellaneda, 2009; Ostrom, Bitner, Brown, & Burkhard, 2010; Song, Song, & Di Benedetto, 2009) through the development and application of the firm's product innovation capability. Most executives would support the view that innovation is the key to growth in increasingly competitive business environments. Innovative firms have historically dominated their industries (Chandrashekaran, Mehta, Chandrashekaran, & Grewal, 1999; Marinova, 2004). The capability to innovate helps to constantly align the firm with changing market needs in the effort to capitalize on opportunities. Product innovation capability represents an ability to develop new solutions to satisfy customers' current and future needs (Adler & Shenbar, 1990). Building on Abell, Felin, and Foss's (2008) approach to capabilities, product innovation capability is defined here as the routines and processes firms have in place for undertaking innovation related activities in areas such as developing new products, extending product ranges, improving existing product quality, improving production flexibility and exploiting the most-up-to-date technologies. Firms with superior innovation capability employ a learning-by-doing effect, and it is extremely

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hard for rivals to duplicate this know-how in the market (Cavusgil, Calantone, & Zhao, 2003). We argue that product innovation capability is important in the effort to create superior performance value, co-creation value and relationship value. This is evidenced when one considers that markets are increasingly characterized by shorter product life cycles, more dramatic changes in customer's preferences and a tendency for customers to seek newer products.

The second capability involves effectively marketing the offering. Many firms devote significant effort to marketing to protect their customer base (Berry, 2002) and build their product, company reputation and build brand success (Ngo & O'Cass, 2010). Marketing capability is defined here as the routines and processes deployed to engage in marketing activities in areas such as pricing, product distribution, marketing communication, selling, and marketing planning. Since marketing processes are often firm specific (Day, 1994), a unique marketing capability is developed as marketing knowledge and skills are combined to execute marketing actions (Vorhies & Morgan, 2005). Thus, marketing capability is difficult for competitors to imitate and cannot be easily substituted because of the idiosyncratic way firms' integrate their knowledge about markets and marketing. Hence, it is suggested that firms with superior marketing capability can develop and maintain better pricing, distribution, selling, marketing communication, marketing information and marketing planning (Morgan, Vorhies, & Mason, 2009; Vorhies & Morgan, 2005; Vorhies, Morgan, & Autry, 2009), providing them the opportunity to create superior performance, relationship and co-creation value and communicate this to customers.

Successful firms cannot, and do not rely just on their product innovation capability when striving for superior performance. Instead they conduct product innovation and marketing activities simultaneously. While product innovation enables the creation of the customer base because the innovation creates value, marketing helps to protect this valuable asset (and appropriate the value back for the firm) (Berry, 2002; Berthon, Hulbert, & Pitt, 1999). In addition, the commercialization of an innovation requires complementary downstream capabilities such as marketing (Hill & Rothaermel, 2003; Teece, 1986).

The third capability involves market sensing which helps leverage product innovation and marketing capabilities to achieve superior value creation (Ostrom et al., 2010). We believe that undertaking market oriented behaviors is of paramount importance because of the greater necessity of direct firm-customer interactions in B2B markets. The behavioral approach to market orientation (MO) views it as the generation, dissemination and responsiveness to market intelligence (Kohli & Jaworski, 1990; Morgan et al., 2009). In this sense MO provides firms with market-sensing capabilities that should lead to the development and deployment of superior value creating capabilities (innovation and marketing) that provide the mechanism for value creation for customers (Day, 1994; Hult & Ketchen, 2001; Kirca, Jayachandran, & Bearden, 2005). Remarkably, these fundamental linkages between the firms' product innovation and marketing capabilities, and its market sensing capabilities (e.g., MO) and value creation outputs have not been addressed in any empirical study to date.

In this paper, we propose an important theoretical conjecture. We believe that marketing capability and product innovation capability are primary market-linking capabilities that help realize the value of market-sensing capability (MO) in the effort to create three forms of value (e.g., performance, relationship and co-creation value).

Our paper proceeds as follows: First, we explain the underpinnings of our theoretical contentions, and develop specific hypotheses focusing on the relationships between MO, product innovation and marketing capabilities and value creation in the form of performance, relationship and co-creation value. Subsequently, we discuss the research procedures used to gather the data to test the hypotheses. Next, we present the analytical procedures and results. The final section discusses the findings, contributions and implications of the study and outlines future research.

2. Theoretical background and hypotheses development

2.1. Essential components of value creation

In designing its value offering, the B2B firm needs to give significant attention to interpreting and responding to what value it perceives customers are looking for. By doing this better than competitors, the firm can obtain an advantage (e.g., Slater, 1997; Woodruff, 1997) through the delivery of superior value. Indeed, Day and Wensley (1988, p.2) argue that superior performance requires a firm to achieve "positional superiority based on the provision of superior customer value". The key task for managers then, is to decide how to gain such advantages (through offering specific types of value in the value proposition), especially those that distinguish their offering from competitors (Day & Wensley, 1988; Hult & Ketchen, 2001).

DeSarbo, Jedidi, and Sinha (2001) argue that creating superior value is a strategic issue that should be of interest to researchers and practitioners because of the economic consequences for firms. A strategic approach to value creation has been emphasized by Payne and Holt (2001) who indicate that value creation is part of the strategic process. We theorize that in a strategic sense the value offering is a supplier firm's interpretation of and responsiveness to business customer requirements via the delivery of superior performance in its value offering mix of performance value, relationship building value, and co-creation value. A closer look at the extant literature indicates that value creation from the firm perspective operates at the level of positional advantage and thus we embed our theory in the work of Day and Wensley (1988), Day and Wan den Bulte (2002), and Hult and Ketchen (2001). Theoretically and practically, a key task then for managers is to decide what positional advantages (components of a value offering) distinguish their businesses in the marketplace, premised on what value customers are looking for (O'Cass & Ngo, 2011).

We argue that designing a value offering that matches customers' expectations provides the means to gain a marketplace advantage. While the basis for a firm's value offering can be quite extensive and may cover many types of value, the focus here is on three types of value (performance value, co-creation value and relationship value). Essentially, customers may look for superior value in various aspects of the offering but we limit our attention to these three types. Customers can seek performance value via superior product performance (Mittal & Kamakura, 2001), relationship value via close customer-firm relationships (Ravald & Gronroos, 1996; Ulaga & Eggert, 2006) and co-creation value through working to co-create the product (DeSarbo et al., 2001; Payne et al., 2008; Prahalad & Ramaswamy, 2004; Ramirez, 1999).

Day and Wan den Bulte (2002) indicate that positional advantage consists of both product advantage and relational advantage, and in this sense O'Cass and Ngo (2011) indicate firms should attempt to achieve a mixture of both types of advantage to yield a superior positional advantage. Product advantage can be obtained via product performance superiority with products that have innovative features, high quality, and meet customers' needs better (Kroll, Wright, & Heiens, 1999; Mittal & Kamakura, 2001), while relational advantage can be built upon developing and nurturing customer relationships (Dyer & Singh, 1998; Ravald & Gronroos, 1996). Drawing upon positional advantage theory, we argue that designing a value offering that matches customers' expectations provides the means for supplier firms to achieve positional advantage. In particular, firms need to understand customer expectations and transform these expectations into a bundle of value deliverables in the form of product advantage (product performance value) and relational advantage (relationship and co-creation value).