



## How sales strategy translates into performance: The role of salesperson customer orientation and value-based selling



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### ABSTRACT

The role of selling has become increasingly analytical and it is a central topic on senior management's agenda in business markets. Still, sales strategy remains an under-researched topic in the business-to-business marketing domain. Very little is known about how to implement it effectively or about the mechanisms of how sales strategy affects performance, despite its apparent importance for firm success. Drawing on a large-scale sample of 816 salespeople and directors from 30 sales organizations, and employing multilevel structural equation modeling, this study sheds light on the chain of effects that transforms sales strategy as an organizational variable into selling performance captured on the individual salesperson level. The findings demonstrate that a firm's sales strategy is related to market performance and affects salesperson selling performance both directly and indirectly. Further, the results show that each sales strategy dimension affects salesperson performance in a unique way. Of the three dimensions of sales strategy studied, only segmentation directly impacts salesperson selling performance. Prioritization and selling models impact salesperson performance indirectly, via their impact on customer orientation and value-based selling. These results lead to actionable implications for the effective implementation of sales strategy in business markets.

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### 1. Introduction

Business-to-business firms' selling practices are becoming increasingly analytical and top-management focused (Homburg et al., 2000; Homburg et al., 2008a, 2008b; Leigh & Marshall, 2001; Storbacka et al., 2009). While the conceptualization of sales strategy (Panagopoulos & Avlonitis, 2010) has been an important step in studying these more strategic rather than operational aspects of selling, few empirical studies have shed light on the effect of sales strategy on performance. Most research on sales strategy remains conceptual or provides only anecdotal evidence (e.g., Ingram et al., 2002).

How can firms increase the performance outcomes of their sales strategy? "By effective implementation" is the most straightforward answer. Marketing and organizational scholars have long identified strategy implementation as an important mechanism linking strategy to performance outcomes (Bonoma, 1984; Noble & Mokwa, 1999). They

widely agree that effective implementation is pivotal for translating a strategy's performance potential into actual firm performance, and some have even suggested that strategy implementation is more important for performance outcomes than the strategy itself. As Sterling (2003, p. 27) observes, "effective implementation of an average strategy, beats mediocre implementation of a great strategy every time."

Yet, current business marketing studies provide only little guidance for firms on how to implement their sales strategies effectively. This limitation is due to the fact that surprisingly little is known about the mechanisms that translate sales strategy into performance in business markets. The limited understanding stems from three important gaps in the literature. First, it was not until recently that a study conceptualized sales strategy and provided initial evidence for a significant impact of sales strategy on performance, but it raised the question of why the performance relationship was rather weak and underlined the need to study more closely "the chain of effects" of how sales strategy affects performance (Panagopoulos & Avlonitis, 2010, 54). Second, empirical research on sales strategy has focused thus far on organizational-level variables when studying the relationship between sales strategy and performance (Panagopoulos & Avlonitis, 2010). Although research has produced critical insights into firm-level issues affecting the effectiveness of sales strategy, the role of salespeople and their behaviors in the implementation of a firm's sales strategy have remained almost

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unstudied. This is in contrast to prior research which suggests that salespeople are the key to strategy implementation and that salespeople's customer orientation is particularly important to this end (Noble & Mokwa, 1999; Saxe & Weitz, 1982). Third, scholars have recently stressed the relevance of a specific salesperson behavior – value-based selling – in successfully transforming a firm's value proposition into sales performance in business markets (Anderson et al., 2009; Terho et al., 2012; Töytäri et al., 2011). Yet no empirical research has investigated how value-based selling relates to salesperson performance or how the concept contributes to the sales strategy–performance link.

In this study we address these important concerns by developing and testing a theoretical model of *how sales strategy translates into performance in business markets*. Our focus lies principally on salespeople and their role in implementing sales strategy. Specifically, the study (a) develops a model of how three conceptually distinct facets of sales strategy affect salespeople and their selling performance; (b) tests the hypothesized direct, mediated, and moderating effects of these facets on salesperson selling performance; and (c) further investigates the relationship between sales strategy and organizational market performance employing multilevel structural equation modeling, based on a large-scale data set of 816 salespeople and directors from 30 independent sales organizations.

The study makes several important contributions to the existing literature. First, our research offers novel insights into the complex mechanisms that translate sales strategy into salesperson performance. It shows that each sales strategy dimension affects salesperson performance in a unique way and, in addition to a direct effect, the performance outcomes of the sales strategy depend on salespeople's customer orientation and value-based selling behavior. Since sales strategy dimensions and sales force behaviors vary across firms, our results can explain the modest overall effect of sales strategy on performance found in prior research (Panagopoulos & Avlonitis, 2010). Second, sales strategy's moderating effect on the relationship between salespeople's customer orientation and performance as well as value-based selling's mediating role in the relationship between customer orientation and salesperson performance can help explain why prior meta-analytic research (Franke & Park, 2006) has not found a consistent effect of customer orientation on salesperson performance. Third, our study provides an operationalization of value-based selling and shows that it plays a key role in linking organizational- and individual-level determinants of performance on business markets. Finally, from a methodological perspective, our research demonstrates that multilevel analysis is well suited to strategy implementation research. Strategy implementation spans different hierarchical levels within an organization, such as sales directors and individual salespeople. Multilevel analysis can model causal processes that take place within and also between hierarchical levels, thereby enabling a deeper understanding of the practical challenges of strategy implementation.

## 2. Sales strategy in business markets

Traditionally, most marketing literature has considered sales as a tactical activity related to implementing marketing strategies. However, recent studies have found that the role of selling in business firms is in practice often much more central than the marketing literature suggests (Haas et al., 2012; Homburg et al., 2008a, 2008b), and that there is currently an evident change in the selling practices of business firms, which are moving from an operational focus toward a more strategic one (Geiger & Guenzi, 2009; Leigh & Marshall, 2001; Storbacka et al., 2009). This change toward more analytical and senior-management focused aspects of selling has been associated with the fact that leading business-to-business firms are shifting from a goods-dominant logic to a service-dominant logic, in which they emphasize high value-added offerings (e.g., complex services, integrated solutions and hybrid offerings) and a value co-creation perspective (Grönroos, 2008; Tuli et al., 2007; Ulaga & Reinartz, 2011; Vargo & Lusch, 2004). In this type

of business the focus of selling is not only on executing strategy but also, increasingly, on driving strategic initiatives toward both customers and the organization (Storbacka et al., 2009, 2011). The recent study by Panagopoulos and Avlonitis (2010) provides a conceptualization of sales strategy and can therefore be seen as an important step in advancing sales research beyond the tactical aspects of selling.

Sales strategy has been defined as “the extent to which a firm engages in a set of activities and decisions regarding the allocation of scarce sales resources (i.e., people, selling effort, money) to manage customer relationships on the basis of the value of each customer for the firm” (Panagopoulos & Avlonitis, 2010, p. 48). The main difference between a firm's sales strategy and its marketing strategy is that sales strategy decisions pertain to how the firm relates to and interacts with individual customers within a market segment, whereas marketing strategy has a broader market-level focus and addresses questions related to generating and sustaining competitive advantage (Ingram et al., 2002; Spiro et al., 2008).

In the present study, we are particularly interested in how sales strategy dimensions – customer segmentation, customer prioritization, and selling models – affect salespeople and their performance. Our conceptualization of sales strategy is based on Panagopoulos and Avlonitis's (2010) research. However, given our focus on salespeople and their role in implementing sales strategy, we omit their multiple sales channel dimension for the purpose of our analysis.

We present our conceptual model in more detail in Section 3. The research model extends current knowledge concerning firms' sales strategy in four important ways. First, it substantiates empirical evidence for the influence of sales strategy on organizational performance. Second, our multilevel perspective enables us to study the effects of sales strategy on individual salespeople's performance rather than just firm performance. We thereby extend current findings that are based on senior management's overall assessment of their sales forces' performance. Third, our study produces new insights about the differential performance outcomes of individual sales strategy dimensions. This complements earlier sales strategy research, which has analyzed the performance relationship based on an aggregated sales strategy construct. Fourth, and most importantly, Panagopoulos and Avlonitis (2010, p. 54) raised the question of why the found link to performance is relatively weak, and underlined the need to further explore “the chain of effects” of how sales strategy affects performance. To this end, we extend the analysis to the impact of sales strategy on salespeople's customer-directed selling approaches, hypothesized to play a critical role in transforming sales strategy into performance. We focus on two customer-directed selling concepts, namely salespeople's customer orientation and value-based selling. These concepts have been identified as particularly important determinants of salesperson performance in business markets, where the dominant question has been the creation of value in close, long-term customer relationships (Haas et al., 2012; Ulaga & Eggert, 2006). While customer-oriented salespeople play a critical role in building such relationships (Saxe & Weitz, 1982; Zablah et al., 2012), business-to-business salespeople are effective to the extent to which they create value for customers (Anderson et al., 2009; Blocker et al., 2012; Saxe & Weitz, 1982; Terho et al., 2012).

## 3. A multi-level framework of the performance effects of sales strategy

Fig. 1 presents our conceptual multilevel model of how sales strategy affects performance. As shown in the figure, in addition to the organizational-level effect of sales strategy on market performance, we investigate how sales strategy dimensions (selling models, customer prioritization, and customer segmentation) affect salesperson performance, as well as exploring important individual-level relationships between salespeople's customer orientation, value-based selling, and performance.

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