



Customer value creation in B2B relationships: Sawn timber value chain perspective



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ABSTRACT

The ability to facilitate superior customer value creation is critical for firms' long-term success. The topic has been studied extensively in marketing literature, but less consideration has been given to customer orientation and customer value creation in the forestry context. Through 18 qualitative interviews with suppliers and customers in the Finnish sawn timber value chain, sawmills' customer orientation was analyzed. We find that the concept of customer orientation was realized rather narrowly at sawmills and customer orientation appeared as random actions instead of a systematic part of firms' organization culture. Customers' needs are more manifold and extend beyond product characteristics and process efficiency. The main challenge hindering the renewal of product-oriented business models toward service logic and customer orientation seems to be in attitudes and traditions.

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Introduction

Adaptability to a rapidly changing business environment is critical for any firm's success (Teece, 2007). The sawmill industry is considered a traditional business – that is, commodity and production oriented (e.g. Brege et al., 2010; Stendahl et al., 2013; Toppinen et al., 2013; Pelli et al., 2017). Simultaneously, the financial state of the industry is described as “long standing economic recession” (Mattila et al., 2016). A combination of slowing demand, decreasing sawn timber prices and increasing production costs have significantly affected the profitability of the sector in recent years (Lähtinen and Toppinen, 2008). Low barriers to imitation increases the challenge (Brege et al., 2010). In order to foster growth and succeed in the future, the industry needs new and creative combinations of all its resources instead of focusing only on products (Lähtinen, 2009). Value-added strategies, defined as investments in customer relationships, market positions and a brand reputation (Brege et al., 2010), have found to affect positively to sawmill industry's profitability (Lähtinen and Toppinen, 2008; Hansen et al., 2006; Roos et al., 2002). Similar effects are reported with forward integration (Brege et al., 2010). Thereby, shifting the focus from

products to the customers in collaboration with stakeholders is needed in order to benefit from this untapped resource.

If a firm's competitive advantage is based on minimizing costs, its success depends on relatively high demand as well as simple and homogenous customers' needs (Han and Hansen, 2016). This is not the case in the sawmill industry, where customer demands have become more diversified and complex (Gustafsson, 2003; Han and Hansen, 2016), and the demand fluctuates according to construction activity. For decades, a firm's competitive advantage is connected with customer orientation (e.g. Levitt, 1960; Narver and Slater, 1990; Woodruff, 1997). Customer oriented firms can deliver superior value to their customers, resulting in significant growth opportunities (Woodruff, 1997; Teece, 2010), and customer value is regarded as “one of the most central themes in marketing” (Keränen and Jalkala, 2013, p. 1308). Decisive for customer value creation is a firm's organizational culture (Homburg and Pflesser, 2000) that aim to enhance understanding of customers' needs and pursue measures to meet the needs. The topic is also noted by the scholars in forestry research. However, the studies aiming at improving the understanding of customers' needs and linking those needs with a sawn timber value chain are often on a very general level, having the focus on collaboration (Mattila et al., 2016; Toppinen et al., 2011; Larsson et al., 2016), innovation (Hansen et al., 2015) or on the importance of customer orientation and value (Han and Hansen, 2016). Another challenge is that the customers in question are not downstream value chain manufacturers, being for instance for-

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est owners (Mattila and Roos, 2014), consumers (Toivonen, 2012; Holopainen et al., 2014), or retailers (Gustafsson, 2003). Thereby, the existing literature lacks a systematic approach to value creation in the sawn timber value chain.

Customer-orientation can be a promising possibility for the sawmill industry that could improve the offering by learning extensively about the customers (Han and Hansen, 2016) and by facilitating customer value creation via purposeful products and services (Spetic et al., 2016; Korhonen, 2014; Dasmohapatra, 2009). Changing market needs can be reacted more quickly by networking with value chain actors (Mattila et al., 2016; Jarillo, 1993). Yet, even though many of the sawmills seem to consider themselves relatively customer oriented already by providing many services, the means to increase competitive advantage focus mainly on production efficiency (Toppinen et al., 2013). Importance of co-operation with value chain actors is not seen strategically important especially in upstream value chain (Toppinen et al., 2011). From a managerial perspective, many sawmills are still struggling with understanding the value of customer orientation and finding the appropriate practices to facilitate customer value creation.

This article aims to address the above-mentioned problem and gap in the forestry marketing literature. It adopts the service logic perspective on customer orientation and customer value in the wood products industry. According to the service logic (Grönroos, 2008; Grönroos and Gummerus, 2014), the customer is a resource and a premise for the entire business rather than an object in a transaction. Our research questions are:

RQ1: What are the needs of sawmills' B2B customers as defined by customers themselves, and how do these needs differ from the way in which sawmills see them?

RQ2: How could the business of sawmills be developed based on the direct (further processor) and indirect (industrial end-customers) customers' needs.

We applied a qualitative research method to analyze the questions. As sawmills do not operate in isolation but they need other value chain actors to add value to their customers, we approach the phenomenon through analyzing the value chain. We interviewed a total of 18 industry experts and executives in wood supply, the wood products industry and among its main industrial end customers, namely the construction industry. Though wood suppliers are not sawmills' customers, were included them to the analysis, because we wanted to better understand the constraints that this operation causes to the sawmills' ability to facilitate customer value creation. By including various stakeholders in the sawn timber value chain, systematic and more comprehensive understanding was achieved.

Our article is structured in six sections. After this introduction, we provide a theoretical background about customer orientation and customer value co-creation in the B2B domain followed by the topic of the sawmill industry's customer orientation. Thereafter, we describe the context of the study and the methods used for data collection and analysis. The next section presents our findings from the empirical study and the final section includes conclusions and discussion as well as future research needs.

Theoretical background

Customer orientation

Research has shown that market-oriented firms maintain closer relationships with their customers and they are more agile to meet changing customer needs (Hansen and Nybakk, 2016). In several studies, market-orientation is linked with innovativeness (e.g. Han et al., 1998; Hurley and Hult, 1998; Wei and Morgan,

2004). In market oriented firms, the entire organization is focused to meet customer needs through three dimensions: competitor orientation, interfunctional coordination and customer orientation (Narver and Slater, 1990). The competitor orientation and interfunctional coordination refer to understanding of customers strengths and weaknesses enabling to react fast on market changes, and to sharing of customer and competitor –related information in order to meet customers' needs, respectively (Narver and Slater, 1990). The customer orientation has its focus in understanding customer needs. It is regarded as the central component of market orientation and an important factor for a firm's performance (Frambach et al., 2016; Narver and Slater, 1990; Kirca et al., 2005; Woodruff, 1997). In this study, our interest is in customers' needs, which is why we have focused particularly customer orientation.

As defined by Narver and Slater (1990, p. 21) customer orientation is "the sufficient understanding of one's target buyers to be able to create superior value for them continuously". In other words, the customer oriented firms take actions to satisfy their customers' needs with their offering in order to deliver superior value to their customers, and resulting finally in the improved financial performance of the firm (Slater and Narver, 1994). In addition to understanding customer needs, the customer orientation has been suggested to comprise several other components, such as committing to customers, providing after-sales services, facilitating customer value creation, measuring customer satisfaction, understanding customer's value chains as they are currently and how they may evolve, as well as committing to a long-term approach (Narver and Slater, 1990). Putting customers and customer value at the center of firm activities is not a new concept. In the 60s Levitt noted that firms are too focused on their production processes instead of satisfying the customer needs (Levitt, 1960). Yet, many firms still underestimate, misunderstand, or overlook these needs (Blocker, 2011).

Firms' customer orientation is found to affect positively on innovativeness in manufacturing firms (Wang et al., 2016). Innovativeness is often mixed with innovation, but the two are different concepts. While innovativeness is a firm's capacity to develop and implement new products (Ettlie and Rubenstein, 1981), innovation is a process where firms gather and make use of new ideas and knowledge to solve problems (Laursen and Salter, 2006). It refers to realization and introduction of new solutions, and their adoption by the end-users (Calantone et al., 2002). Innovation is seen as a main way to attain competitiveness and economic growth (Lawson and Samson, 2001; Zimmermann et al., 2016). It is an interactive process of knowledge generation, diffusion and application (Tödtling et al., 2009). Novel ideas are based on creativity, experience and experimental ability (Lo Nigro, 2016), as well as scattered knowledge beyond a firm boundaries (Gassmann and Zeschky, 2008). While products and services are becoming more complex, external knowledge is becoming increasingly important in order to be competitive in research, production, and marketing (Bilbao-Osorio and Rodriguez-Pose, 2004).

Knowledge about customer needs refers to current, latent, or future needs, which are potentially important but difficult to describe by the customer (e.g. Slater and Narver, 1998; Blocker et al., 2011). Blocker (2011) suggests that continuous sensing of customers' latent and future needs is the most consistent driver of customer value. In order to uncover these needs, interaction with the customers is needed, in which one of the goals is to understand the customer's business environment and changes within it (Payne et al., 2008). Understanding customers and their needs does not guarantee competitive advantage unless a firm has the capability to implement actions to satisfy those needs (Day, 2000), as well the ability and willingness to adapt the business to meet changing customer needs (Eggert et al., 2006; Gatignon and Xuereb, 1997).

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