Company Offers to Meet the Needs of Business-to-Business Customers: Strategies and Orientation
Mikko Mäntyneva

“Culture eats strategy for breakfast.”
Peter Drucker
Father of management

Companies develop and refine their market offer by creating new products for current and potential customers. Customer-focused research and development (R&D) is expected to shorten the time to market, improve cash flow, and reduce risks. It considers both customer strategy as well as customer orientation. In practice, this means that customer strategy directs current and potential customers to a company’s offering, while customer orientation allocates R&D activities to meet customers’ needs. This paper contributes to customer-driven R&D research by investigating whether a company’s offer meets customer needs that can be supported by customer strategy and orientation. Specific focus is given to companies operating in business-to-business (B2B) markets. The paper is based on an analysis of quantitative survey data from 292 respondents representing key account management and sales management professionals in Finnish firms across several industries. The findings indicate that offering meeting customers’ needs are supported by customer strategy and orientation. The paper provides guidelines on how companies can align their research and development activities to address both existing customers as well as current and potential needs and requirements.

Introduction

The question of whether a company’s market offer meets the needs and requirements of its current and potential customers is crucial from the perspective of its competitiveness. In case there is not a good match between market needs and what a company intends to sell, the investments in new products related to research and development (R&D) activities will be difficult to justify.

R&D can be interpreted as one of the most critical areas of a company’s competence related to business success or failure (Calabrese et al., 2005). While implementing R&D activities, successful companies understand that they should be proactive in their customer relationships, and involve customers in ongoing dialogue and relationship building (Alam & Perry, 2002; Yakhlef, 2005). Modern agile and iterative product and service development methods are often efficient, but in case the target market’s needs and requirements for newly developed products are not served, the outcome will be unsatisfactory. On the other hand, it can be assumed that in case a company has a customer-focused culture, and its customer strategy emphasizes meeting and satisfying the needs and requirements of its existing customers, it will help to increase the company’s overall competitiveness.

This article assumes that a company’s competitiveness in markets depends on its value proposition, that is, that what is being offered to customers meets the customers' needs and requirements. The value proposition consists of products, services, and solutions. The role of R&D is important for a company’s competitiveness in selected markets and individual major business-to-business (B2B) customer relationships. In case a company’s offering does not meet their customers’ needs, it is assumed that customers will find other suppliers. This explains why a company’s offering can be extended and improved by its R&D activities (Svendsen et al., 2011; Chuang et al., 2015).

While previous marketing and R&D literature has
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covered customer needs as a basis for product development (Krasnikov & Jayachandran, 2008), the customer strategy perspective presented in this article contributes by providing additional information on the topic. Also, from the perspective of managing an overall R&D portfolio, time to market and cash flow perspectives are both important. It should be therefore be emphasized that R&D should not be implemented in isolation, but rather from the perspective of a company’s current customer base, which especially in B2B markets provides better opportunities to shorten the time to market, as well as improve the cash flow of product related R&D investments.

In B2B markets, in which a few individual customers may generate the majority of a company’s revenues, the company must focus on its current customers, and how the value proposition meets their needs. Another perspective is whether the market offer could be further developed to increase customer satisfaction, customer loyalty and commitment, share of customer, customer profitability, and other relevant aspects that support a company’s growth and prosperity. Increased competition for relatively few available B2B customers in a market serves to emphasize the importance of a company’s market offer. Matching its offer with the needs of a company’s current and potential customers makes it more immune to competitive pressures.

This article focuses on studying whether a company’s market offer meets the needs of customers and is supported by their customer strategy and orientation. This raises the research question: can a company’s market offer meet B2B customers’ needs in a way that is supported by customer strategy and orientation? The objectives of this paper are to (1) study the market offer, customer strategy, and customer orientation further as theoretical constructs, especially in the context of B2B markets, (2) empirically explore customer strategy and orientation as determinants of a company’s market offer to meet customer needs, and (3) test the related hypotheses. In doing so, this paper contributes to the literature on customer-focused R&D in a B2B setting.

The rest of the paper is organized as follows. The second section presents a brief literature review and introduces the research hypotheses. A brief description of the data and the applied research methodology is covered in Section 3. Subsequently, the research results based on hypothesis testing are discussed, then the last section introduces managerial implications, as well as concluding remarks.

Conceptual Model and Hypotheses

In this section, theoretical concepts of a company’s market offer to meet customer needs supported by customer strategy and customer orientation in B2B markets is developed.

Market offer to meet customer needs

Companies aim to modify and extend their offer to utilize potential growth opportunities in markets. Normann (2001) implies that a company proactively intends to generate new offerings in which customer value is created in a way that adds value for the provider as well. Part of this activity focuses on creating completely new products. While creating new products, input from a company’s customers should be linked to the R&D process as a way to avoid expensive decisions and mistakes based on erroneous assumptions (Koufteros et al., 2005). One example of a common erroneous assumption is a market need exists for a developed product, even if it really does not. Another example of a faulty assumption is overestimating the market need.

In B2B markets, customers have requirements that are closely linked to their needs. However, these requirements may not necessarily be negotiable, and therefore the supplier simply has to meet them. Therefore, a company has to consider customer requirements while designing new products (Narver et al., 2004).

While considering customers’ needs and requirements, organizations should possess effective means to capture relevant information from their customers and markets. Thus, the integration of sales, marketing, and R&D activities is important for meeting an organization’s overall goals (Day & Van den Bulte, 2002). One of the reasons for product failures in the market is due to the supplier’s inability to take customer requirements as an input for product development (Narver et al., 2004).

A dialogue should be opened for two-way communication between the supplier and its customers. Through dialogue, a company is able to customize its offering to better meet customers’ needs and potential requirements. In B2B markets, a natural way to promote this dialogue is to involve the company’s sales force. Besides selling, they have a good chance to collect feedback and may sense the potential of unfulfilled needs, as well as noticing important customer requirements. It is also possible that some products are tailored primarily to meet the needs of certain individual customers, or a
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small group of customers. Therefore, it is important that creating or refining new products is based on well identified customer needs and potential requirements.

A company’s market offer often does not consist of physical products. Since in most economies the companies are more and more involved with some kind of service offering, it is also important to make a potential service offering meet customers’ needs. Both modern agile and more traditional product and service development methodologies are available. Both of these have their own strengths and weaknesses. On many occasions, the perspective of co-creation is also relevant, meaning that products and services are not just created within the selling organization, but ongoing dialogue is also necessary to make the collaborative efforts a reality.

Customer Strategy

Customer strategy can be seen from two main perspectives: how to retain and develop existing valuable customer relationships, and how to attract and gain new customers (Grönroos, 1994). While linking customer strategy to a company’s market offer, the question remains to whom we want to allocate a company’s limited R&D resources. At the same time, it is not only about R&D, but it is also about managing risk and cash flow. It is considered less risky to serve already existing customers, rather than trying to develop and commercialize new products and services for completely new markets or potential customers (Ansoff, 1957).

Customer strategy depends on a company’s business strategy. In order to generate future revenue growth, an important perspective on business strategy is to identify in which markets a company identifies opportunities in the future and, as an outcome of that, what customers can be found in those markets. This means deriving the objectives of how to manage a company’s customer relationships and support its growth opportunities within existing and potential customers. This means that business strategy and customer strategy are being formulated in practice at the same time that strategy is being developed, (Payne & Frow, 2006).

If a company can divide its customer base into different groups with different needs and expectations, then they can be better served (Day, 2003). A well-prepared customer-segmentation analysis, for example, improves the odds of managing customer relationships effectively in a way that fulfills customer needs (Rigby et al., 2002). A standard approach to implementing this segmentation is to apply similar customer needs as segmentation criteria (Blocker & Flint, 2007). Segmentation is a normal approach for allocating activities in B2B markets, but it has received less attention than segmenting consumer markets (Goller et al., 2002). One reason for this could be that consumer markets have been taken care of traditionally by mass marketing activities, while in B2B markets, more tailored personal sales activity is required.

While considering allocation of R&D activities to meet individual customer needs, some customers may be prioritized based on perspectives like strategic and business value, future potential, and operational risks (Storbacka et al., 2011). These criteria can then be applied to consider whether tailored R&D activities for specific customers are justified.

Customer strategy is thus closely linked to customer prioritization. Customer prioritization can be defined as the degree to which certain customers are treated in a different way than others, according to a customer’s importance to the company (Homburg et al., 2008). Prioritizing customers is a rather typical practice for companies operating in B2B markets (Reinartz et al., 2004). This has its reflections also on creating new products. The resources allocated to meeting customer needs should be based on priorities that are linked to customer strategy and related objectives (Zeithaml et al., 2001).

Thus, customer strategy is about supporting a company’s offer to meet customer needs in B2B markets. The following hypothesis is tested:

H1: Customer strategy has a positive direct effect on offers to meet customer needs.

Customer Orientation

R&D activities should not be implemented in isolation. Involving the sales force in R&D can help companies capture useful customer data and insights (Judson et al., 2006). According to Rwango (1995), customers are often unsure of their needs, and sometimes irrational in the expression of those needs. Relevant caution should therefore be taken. Wrongful assumptions about customer needs and requirements can lead to product development delays or market failure. Both of these outcomes may prove very costly for a company. However, for most companies, their customers have
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heterogeneous needs. This means that companies need to consider the potentially different needs of their various customers.

Customer orientation reflects the culture of a company as it tries to determine the perceptions, needs, and wants of its target markets, and to satisfy them through the design, communication, pricing, and delivery of appropriate and competitively viable offerings (Deshpandé et al., 1993). Although this definition applies more to business-to-customer (B2C) markets, it can also be adapted for B2B markets. However, business customers are usually interested in more or less tailored value creation from their suppliers. This is in line with Jolson (1997) who argues that value creation is related to a company’s ability to provide products and services that meet customers’ needs.

The importance of a market-oriented culture is important for all levels and functions of a modern organization (Narver & Slater, 1990). Deshpandé et al. (1993) propose a more divergent view of market orientation, suggesting it is synonymous with customer orientation. According to Berry and Yadav (1996), a customer-oriented approach aims at developing long-term relationships with customers, understanding their needs and requirements, and then moving to match them. Fournier et al. (1998) emphasize the importance of an ongoing dialogue with customers. Customer needs and preferences can be actively collected via customer feedback. In practice, this can be done both via formal and informal means. With B2B customers, one way to collect customer feedback can be based on the sales force’s or account manager’s communication with customers. This feedback and related insights gathered in dialogue with customers can be used to develop and further improve a company’s market offer.

In B2B markets, companies are dependent on relatively few customers. Therefore, it is important from a perspective of customer loyalty, customer satisfaction, and customer profitability that they are able to fulfill the needs of their customers. In this paper, the existing and potential customers form the market for a company’s products and services. Market orientation is a similar concept to customer orientation. Uncle (2000) defines “market orientation” broadly in operational terms as the processes and activities associated with creating and satisfying customers by continually assessing their needs and wants, and doing so in a way that there is a demonstrable and measurable impact on business performance. Kohli and Jaworski (1990) define “market orientation” as the organization-wide generation of market intelligence in order to identify existing and forthcoming customer needs, dissemination of intelligence both horizontally and vertically within the organization, and organization-wide action, or responsiveness to market intelligence. Slater and Narver (1995) define “market orientation” as consisting of three major components: 1) customer orientation, 2) competitor focus, and 3) cross-functional coordination. Each of these components should be appropriately linked with a company’s industrial context.

Narver and Slater (1990) define “customer orientation” as having adequate understanding of one’s target buyers in order to be able to continuously create outstanding value for them. Customer orientation at the organizational-level emphasizes culture and processes that promote the importance of customers’ needs, as well as being able to fulfill these needs. Saarijärvi, Kuusela, Neilimo, and Närvän (2014) emphasize the customer value dimension through a mechanism of customer value. The value dimensions are considered important, but it is evident that value attributes to customers are at least partly implicit, and thus difficult to interpret and communicate. However, customer orientation is about gaining insights about customer needs and converting that information to be applied in a company’s R&D activities. In this paper, “customer orientation” is defined as a seller’s orientation to understand implicit and explicit customer needs, so as to modify the existing product and service offering, as well as operational procedures, to better meet these needs. This customer orientation can be demonstrated by involving customers to participate in suppliers’ R&D activities, along with collecting in-depth feedback on customer needs.

Consequently, the second research hypothesis is:

H2: Customer orientation has a positive direct effect on market offers that meet customer needs.

Empirical Research

In this section, methodological issues are discussed, covering data collection, research variables, and data analysis-related procedures.

Data Collection

This research targeted large and medium-sized Finnish organizations. Data was collected through an Internet survey. The survey questions were answered by
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participants in a two-day training program that concentrated on key account management. The data collection was done before implementing the training program on multiple occasions during 2010–2019. The respondents represented key account management and sales management professionals. Even though there was no sampling method used while collecting the data, it is expected that due to the relatively large number of respondents the data accurately represent the research population. The total number of respondents was 292. Respondents were guaranteed anonymity, thus, industry and other background data was not collected.

Because the data collection was tailored to meet the needs of participants in a key account management training program, the research instrument was based on that. The survey instrument consisted of various areas related to customer relationship management within organizations. The following standard procedures (Churchill, 1979) were followed for developing new scales. First, a literature review on customer relationship management was conducted (Rackham & DeVincentis, 1998). Second, field interviews with key account management and sales management professionals were conducted to better understand the research domain. Third, based on the literature review and qualitative insights, an item pool for potential research variables was developed. All questionnaire items were measured using a five-point Likert-type scale (1 = strongly disagree to 5 = strongly agree).

Two independent sum variables were constructed for measuring customer strategy and customer orientation. All of the constructs were based on marketing literature (Homburg et al., 2008; Bhattacharya et al., 2008; Sin et al., 2005; Lin et al., 2010; Frow & Payne, 2009; Coviello & Joseph, 2012; Perks et al., 2009; Wang & Feng, 2012). Customer strategy as an independent sum variable was constructed from four variables (Clear customer strategy, Customer strategy communicated, Clear objectives and metrics, and Customer strategy directs action). Exploratory factor analysis showed factor loadings between 0.62 and 0.88, and therefore all individual variables were included in the sum variable customer strategy. The internal consistency of this sum variable was measured using Cronbach’s alpha coefficient (0.88). Customer orientation as an independent sum variable was constructed from four variables (Customer needs, Customer feedback collected, Customer orientation improved, Customers participation in R&D). Exploratory factor analysis showed factor loadings between 0.46 and 0.74, and therefore all individual variables were included in the sum variable customer orientation. Cronbach’s alpha for the sum variable of customer orientation was 0.72. For both of these independent sum variables Cronbach’s alpha values were good, that is, at least 0.70 (Nunnally, 1994). The dependent variable measured whether the company’s offering was meeting the needs of its customers.

Testing hypotheses
A regression analysis test was applied to the data in order to check the relationship percentage between variables. Linear regression was used to estimate the linear equation coefficients, involving one or more independent variables that best predict the value of the dependent variable. The value of R Square indicated that there was a 22.5% relationship between customer needs, improved customer orientation, competitive new products, and offer that meets customer needs. The regression model as a whole significantly predicts the response (offer that meets customer needs) (F2,289=41.840, p<.001).

The results indicate that customer strategy has a statistically significant association with market offers that meet customer needs; hence, this study’s proposed hypothesis H1 is supported.

Furthermore, the results indicate that customer orientation has a statistically significant association with offers that meet customer needs; hence, this study’s proposed hypothesis H2 is supported.

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<th>Table 1. Model Summary</th>
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Table 2. Coefficients

<table>
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<th>Standardized coefficients</th>
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<th>P</th>
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<td></td>
<td>B</td>
<td>Standard Error</td>
<td></td>
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<tr>
<td>(Constant)</td>
<td>1.748</td>
<td>0.174</td>
<td>10.031</td>
<td>&lt;0.001***</td>
</tr>
<tr>
<td>Customer strategy</td>
<td>0.044</td>
<td>0.017</td>
<td>2.641</td>
<td>0.009 **</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>0.100</td>
<td>0.019</td>
<td>5.216</td>
<td>&lt;0.001***</td>
</tr>
</tbody>
</table>

Notes: *p<0.05, **p<0.01, ***p<0.001

Theoretical and Managerial Implications

Two hypotheses concerning a company's market offer that meets customer needs were set and tested. The findings of the hypothesis test supported Hypothesis 1 and Hypothesis 2. They showed that customer strategy, as well as customer orientation, both positively affect a company's offer that meets customer needs in B2B markets.

The examination of standardized coefficients revealed that customer orientation (0.345) has almost twice the effect of customer strategy (0.175) on offers that meet customer needs. Based on these findings, it can be concluded that customer orientation has a more important effect on offers that meet customer needs in B2B markets. This appears logical while customer orientation as a sum variable was constructed from such variables as Customer needs, Customer feedback collected, improved Customer orientation, and Customer participation in R&D; all of them describing the importance of meeting customer needs.

Several theoretical implications can be derived from the findings. The first contribution stems from covering market offers with customer strategy and customer orientation in the same study. Prior research focused more on customer orientation while implementing a company’s R&D activities, but rarely both (Narver et al., 2004; Svendsen et al., 2011). However, theoretical development of the conceptual model and empirical findings in this study suggest a connection between a company’s market offer and its customer strategy and orientation.

The findings also contribute to the existing customer relationship literature in marketing by further documenting customer strategy within a B2B context. This study extends other research on customer strategy by considering it from the perspective of offers that meet customer needs (Nijssen, et al., 2012). This perspective contributes to a deeper understanding of the interaction between a company’s market offer, and both customer strategy and orientation.

When it comes to managerial implications of the findings, companies operating in B2B markets should take systematic and consistent measures to clarify their customer strategy and improve their customer orientation. This is expected to improve the effectiveness of their R&D activities while they are better allocated to meet the needs and requirements of a company’s current and potential customers. This is expected to improve the time to market and cash flow perspectives of companies’ R&D activities, and therefore reduce the financial risks involved. In organizations that lack a clear customer strategy and customer oriented culture, the competitiveness of a company's offering is not self-
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evident (Chuang et al., 2015). This means that further efforts should be made to clarify whose customers’ needs and requirements a company intends to meet, and how a company’s market offer should be developed further to meet those identified needs.

Conclusion

Companies have and develop their offerings further including the products and services. On a cultural and strategic level, developing a market offer should be based on fulfilling the needs of a company’s current markets. The prioritization of customers and the broadening of target markets is closely linked to managing a company’s R&D portfolio, along with projects related to it. In case it seems that customer or market demand does not justify creating a new product and service, then that particular project should not be continued further. In B2B markets, winning major new customers may take time. Therefore it is less risky to focus on fulfilling the needs of a company’s current customers. Customer relationship management literature (see Frow & Payne, 2009; Wang & Feng, 2012) encourages the maintenance and development of existing customer relationships. Developing a company’s market offer and commercializing it through cross-selling to customers that the company already has, provides a less risky avenue to generating revenue from the new components of a company’s offering. That is, its product and service portfolio.

While allocating a company’s R&D efforts, their innovation portfolio is relevant (Klingebiel & Rammer, 2014). Focusing on meeting the needs of a company’s current customers is less risky than targeting new potential customers and their potentially different needs and requirements. Especially in case a company intends to expand its market offer by utilizing new technologies, it increases the risk not only from the viability of a technology perspective, but also from a cash flow perspective. In B2B markets, a company is able to commercialize and sell a new offer’s components, that is, products and services to its existing customers rather than its competitors customers. Therefore, customer strategy and orientation is considered to be an important aspect guiding a company’s R&D activities on a strategic level. Whether actual R&D activity is implemented through agile or more traditional product development project methods is considered here to be a more tactical issue.

As with most empirical studies, this particular research also has its limitations. Limitations that result from the research data collection and analysis methods (cumulative data collection and regression analysis), may inspire further research to be conducted using alternative approaches, that would produce further empirical evidence on how customer strategy and orientation affect company offers that meet customers’ needs. This paper has focused on R&D to meet the needs of B2B customers. It may be that some needs of a company’s customers are rather customer-specific, and therefore affect also the allocation of a company’s R&D resources. On B2C-related R&D, markets are segmented and after that prioritized. This means that product/market strategy provides a more traditional approach to meet the needs of a broader market.
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