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THE B2B ELEMENTS OF VALUE

How to measure—and deliver—what business customers want

BY ERIC ALMQUIST, JAMIE CLEGHORN, AND LORI SHERER

It's Saturday, and a chief operating officer who last week negotiated a multimillion-dollar deal for a fleet of vehicles for her company is feeling pretty good. To reward herself, she's shopping for a convertible sports car to enjoy on weekends. Surely the price-value calculation she makes for a fun personal purchase is different from the one she made when negotiating at work, right?

IN BRIEF

THE CHALLENGE
As B2B offerings become ever more commoditized, the subjective, sometimes quite personal considerations that business customers bring to purchasing decisions are increasingly important.

THE CRITICAL INSIGHT
Understanding the full range of rational and emotional factors in business purchases—and tailoring value propositions accordingly—can help firms avoid the commodity trap.

THE NEW APPROACH
Evaluate how products and services stack up on 36 discrete sources of value that research has shown matter to B2B buyers. Thoughtfully incorporate the ones that determine loyalty into offerings.

Maybe those two calculations are not all that different. Her fleet decision obviously included objective criteria such as price, warranties, and service levels, but other, more subjective criteria figured in as well. For instance, the vehicles have to reflect the company's brand. And their design and handling need to appeal to the employees who drive or ride in them, especially with the higher-end models for executives.

In reality, the differences between business-to-business and consumer decisions are not cut-and-dried. True, B2B sellers need to optimize prices, meet specifications, comply with regulations, and follow ethical practices. Procurement teams rigorously evaluate vendors and run total cost-of-ownership models to ensure that rational, quantifiable criteria around price and performance shape their analyses.

But today meeting those criteria is table stakes. As B2B offerings become ever more commoditized, the subjective, sometimes quite personal concerns that business customers bring to the purchase process are increasingly important. Indeed, our research shows that with some purchases, considerations such as whether a product can enhance the buyer's reputation or reduce anxiety play a large role. Recognizing the full range of both rational and emotional factors behind business purchases—and tailoring the value proposition accordingly—is critical to avoiding the commodity trap.

To help B2B suppliers understand the spectrum of customer priorities, we analyzed scores of quantitative and qualitative customer studies that our firm had conducted for clients over three decades, examining what mattered most to buyers. From this research, we identified 40 fundamental "elements of value." They fall into five categories: table stakes, functional, ease of doing business, individual, and inspirational.

Like our related framework for consumer markets (see "The Elements of Value," HBR, September 2016), our B2B model sorts the elements into the levels of a pyramid, with those providing more objective value at the base and those that offer more subjective value higher up. The model traces its conceptual roots to the hierarchy of needs that the psychologist Abraham Maslow first described in 1943. Then on the faculty at Brooklyn College, Maslow argued that human actions are motivated by an innate desire to fulfill needs ranging from the very basic (security, warmth, food, and rest) to the complex (self-esteem and altruism). Our elements of value approach extends those insights to people in corporate roles and their motivations for buying and using business products and services. (See the exhibit "The B2B Elements of Value Pyramid.")

At the base of the pyramid are the table stakes: *meeting specifications* at an *acceptable price* in *compliance with regulations* while abiding by *ethical standards*. Above the table stakes are functional elements, which address companies' economic or product performance needs, such as *cost reduction* and *scalability*. Delivering on those has long been a priority in old-line industries such as manufacturing. As both buyers and sellers, B2B companies still focus most of their energy on functional elements.

Elements within the third level make it easier to do business; some provide purely objective types of value, by, say, increasing a customer's productivity (*time savings, reduced effort*) or improving its operational performance (*simplification, organization*). But here we encounter the first set of elements that involve subjective judgments from buyers. They include things that enhance relationships between parties, such as a good *cultural fit* and a seller's *commitment* to the customer organization.

SUBJECTIVE CONSIDERATIONS SUCH AS WHETHER A PRODUCT CAN REDUCE ANXIETY PLAY A LARGE ROLE IN PURCHASES.

The elements at the next level provide additional types of subjective value, addressing individual buyers' priorities, whether they are personal (*reduced anxiety,* appealing *design and aesthetics*) or career related (increased *marketability* or *network expansion*).

Here the elements of value can address highly emotional concerns. A fear of failure often nags at buyers who spend large amounts of money and make decisions that may affect revenues or many employees. When you're purchasing mission-critical software, negotiating loans, or leasing real estate, the risks abound. Consider one U.S. telecommunications provider's

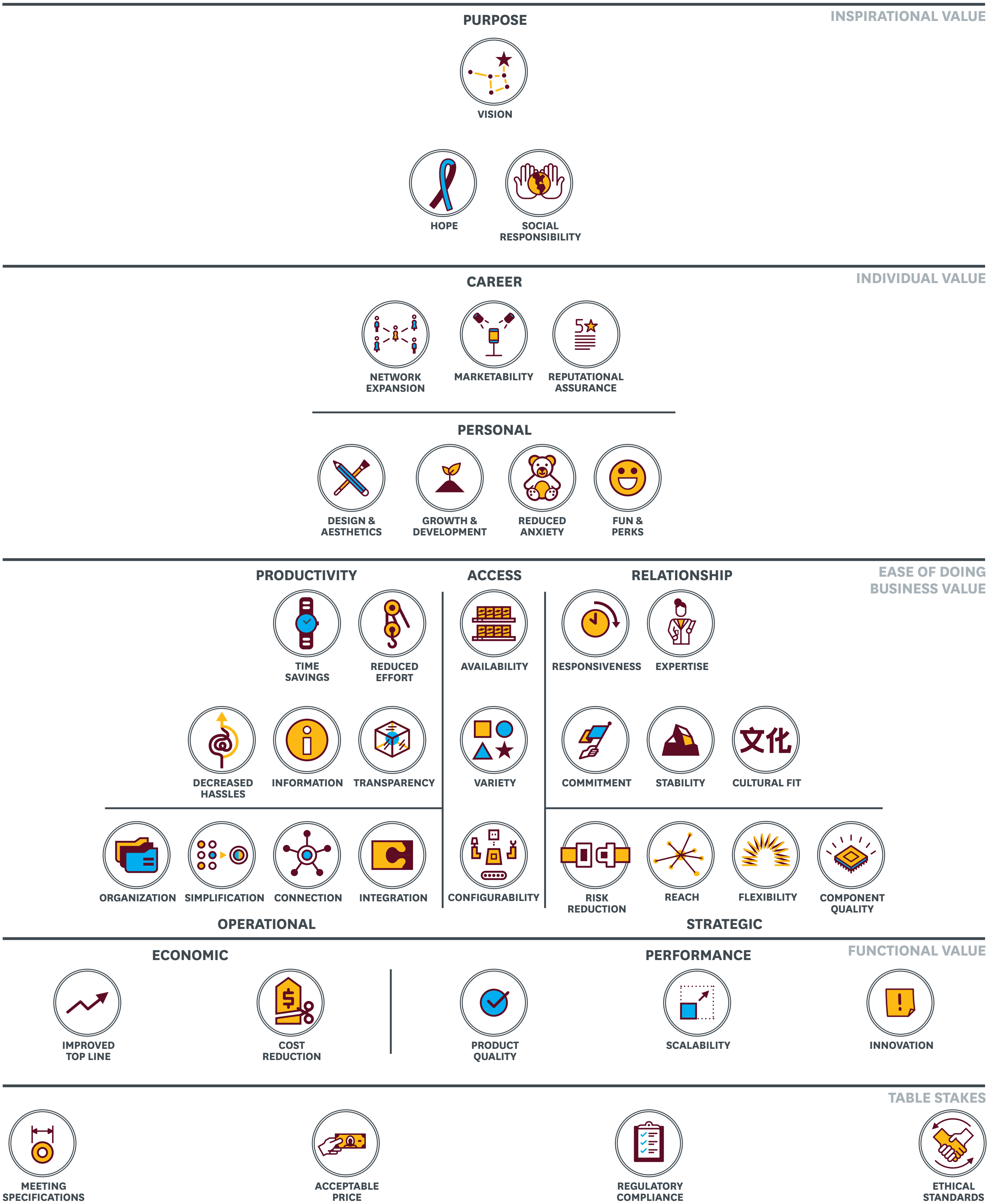


ILLUSTRATION BY NIK SCHULZ

The B2B Elements of Value Pyramid

Bain has organized the 40 distinct kinds of value that B2B offerings provide customers into a pyramid with five levels. The most objective kinds of value are found at the base, and the higher a level is, the more subjective and personal the types of value it contains.

decision to upgrade its fiber-optic video service several years ago. It chose a China-based vendor that offered the lowest price and looked good on paper. Once installed, however, the new network was plagued with outages, and the telecom firm had to deal with technical support based 12 hours away in China. From the customer's perspective, the vendor's poor communication and relationship missteps—such as launching major changes without notice—were big problems. Though the firm eventually switched network vendors, it wasted a great deal of time and money and took a hit to its reputation with customers. This goes to show why some suppliers benefit from offering *risk reduction* and providing *reputational assurance* to individuals who are accountable for purchases.

At the top of the pyramid are inspirational elements: those that improve the customer's *vision* of the future (helping a firm anticipate changes in its markets), provide *hope* for the future of the organization or the individual buyers (for instance, that they can move to the next generation of technology easily and affordably), or enhance a company's *social responsibility*.

Elements at the base of the pyramid have long been easy to measure, and competing on them has been straightforward. The more emotional elements at the middle and upper levels have traditionally been difficult to isolate and quantify and, therefore, harder to implement. But the battle for differentiation is shifting toward these less transactional aspects. For a strategist or a product manager, mastering the intangibles of the customer's total experience—all the service, support, interactions, and communications wrapped around an offering—is much harder than making an offering faster, cheaper, or more durable.

The B2B elements of value framework helps companies address that broader challenge. If they use modern survey techniques and statistical analysis to quantify all the elements on a consistent basis, they can learn what customers truly value and which aspects of an offering merit investment. Executives can bring scientific rigor to a previously visceral area of decision making. Let's look now at how firms can go about achieving this.

WHICH ELEMENTS MATTER MOST

To understand how delivering on the elements affects company performance—and particularly, customer loyalty—we collaborated with Research Now and Lucid to survey more than 2,300 corporate decision makers in two industries: IT infrastructure and commercial insurance. Specifically, we gathered information on their perceptions of how the sellers in those industries performed on the 36 non-table-stakes elements of value. (We did not include the table stakes in the analysis because they're prerequisites for being in business, not areas for differentiation.)

Our analysis of the results reveals how much excelling at multiple elements pays off. In IT infrastructure it's strongly correlated with higher customer loyalty. (See the exhibit "More Value, Greater Loyalty.") In fact, performance on the elements and customer loyalty have a nearly one-to-one statistical relationship.

We defined excellence in an element as receiving a score of 8 or above on a scale of 0 to 10, and strong performance as being rated that well on six or more elements by at least 65% of decision makers. We then looked at how performance correlated with customer loyalty, by comparing the vendors' Net Promoter Scores (a key metric of loyalty, calculated by subtracting the percentage of customers who are detractors from the percentage who are promoters). We found that the average NPS of strong performers was 60% higher than that of companies excelling at only one to five elements—and was several times higher than that of companies excelling at no elements. More is clearly better, although it's obviously unrealistic to try to inject all elements into a product or service.

We also found that IT infrastructure customers were more apt to make repeat purchases from the strong performers. On average, 43% of respondents said they were highly likely to buy from them again, while just 21% were highly likely to buy again from companies receiving no excellent scores.

In addition, the analysis indicated which elements matter most. IT infrastructure is commonly considered a commodity market for hardware boxes with similar functionality. And indeed, the survey respondents, when asked to rank the importance of elements, put *cost reduction* at the top of the list.

However, IT infrastructure vendors still have plenty of room to differentiate by delivering on elements at all levels. Even though the respondents stated that cost reduction was most important in their decisions, their answers to other questions suggested otherwise. When we calculated how much each element influenced NPS (by analyzing the impact of the 36 elements on whether respondents were promoters or not), *product quality, expertise,* and *responsiveness* emerged as the strongest predictors of customer loyalty. Cost reduction was not even among the top 10. (See the exhibit "Which Elements Matter Most to IT Infrastructure Buyers?")

Seven of the top 10 elements reside in the pyramid's ease-of-doing-business level, suggesting that IT infrastructure suppliers can break out of the commodity trap by excelling at providing both objective and subjective value. Take Microsoft's Azure cloud computing platform, which performed the best in our data on 10 IT infrastructure providers, getting high scores from respondents on 20 of the 36 elements, including *time savings, decreased hassles,* and *responsiveness*. (Azure also had the highest NPS.) In follow-up interviews, respondents revealed why, saying that Azure stood out for providing immediate visibility and recovery of deleted or otherwise lost files and for automating cloud management tasks—automatically increasing processing and storage capacity as needed, for instance.

TO EXPAND ITS VALUE PROPOSITION, EQUIPMENT MAKER JOHN DEERE ENHANCED ELEMENTS RELATED TO PRODUCTIVITY.

The commercial insurance customers we surveyed showed similar high loyalty to providers (insurance carriers, in this case) that scored well on many elements. However, the gap between strong and weak performers was not as wide, signaling that earning customer loyalty is more difficult for carriers. That may be because much of the value in commercial insurance historically has been delivered by brokers, who have strong relationships with many carriers' customers.

In commercial insurance we again saw that the elements that customers said were most important to them differed from those that, according to our statistical analysis, determined their loyalty. When asked what they wanted most from their insurance carriers, respondents came up with a fairly predictable list: *risk reduction, cost reduction, availability, stability,* and *reduced anxiety*. Still, when we used regression analysis to determine which aspects prompted loyalty to carriers, other elements proved more important: *product quality, expertise* in the customer's business, and *responsiveness*. Clearly, elements that pertain to the ease of doing business and introduce both objective and subjective types of value present areas of opportunity for insurers as well.

PUTTING THE ELEMENTS TO WORK

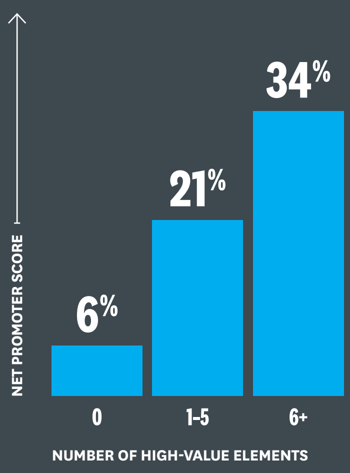
Improving on the elements that are the source of their offerings' core benefits will enable vendors to better meet customer needs. They can also judiciously add elements to expand their value proposition without overhauling the products or services themselves. Doing either requires taking the customer's point of view, not an inside-out, operational perspective. A product or service might function just fine, but if customers find the purchasing, order tracking, or technical support process terrible, many will seek out other suppliers.

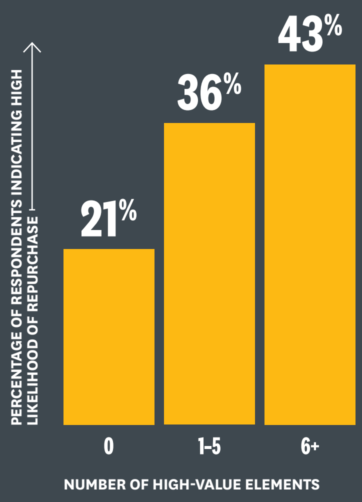
When B2B companies conduct a full elements analysis, they are often surprised to find big gaps between their self-assessments and customer opinions of the overall experience of buying and using their offerings. In commercial insurance, for instance, elements analyses show that brokers particularly value carriers' *stability, product quality, variety* of offerings, and *responsiveness*. When one large carrier surveyed its brokers, it found that it fared well in product quality relative to key competitors but lagged in the relationship elements, particularly responsiveness. This carrier is now investing in responsiveness and in improving the overall value proposition for brokers.

In a different industry, agricultural markets, the elements point to the broad commercial potential of developing new types of services. The equipment maker John Deere has long excelled at *expertise* and the *configurability* of its products, as well as at providing *reputational assurance* through the quality of its products. To expand its value proposition, Deere recently invested in enhancements related to productivity. These include remote diagnostics and the MyJohnDeere app, which provides farmers information about soil conditions and weather data. Deere is also focusing

More Value, Greater Loyalty

Customers' likelihood of recommending an IT infrastructure company, as indicated by Net Promoter Score, rises in tandem with the number of high-value elements provided. (High-value elements received a rating of 8 or above on a 0-to-10 scale from at least 65% of the 1,050 corporate decision makers surveyed.) Likelihood of repurchasing a product also rises with the number of high-value elements.

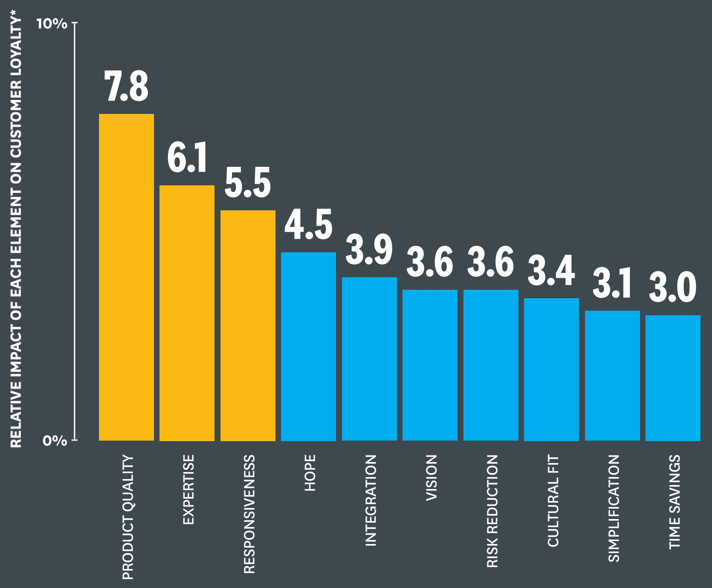




NOTE NET PROMOTER SCORE IS CALCULATED BY SUBTRACTING THE PERCENTAGE OF DETRACTORS (CUSTOMERS SCORING A FIRM 6 OR BELOW ON A 0-TO-10 SCALE) FROM THE PERCENTAGE OF PROMOTERS (CUSTOMERS SCORING IT 9 OR 10). TABLE-STAKES ELEMENTS (SUCH AS MEETING SPECIFICATIONS AND AN ACCEPTABLE PRICE) WERE NOT INCLUDED IN THIS ANALYSIS. **SOURCE** BAIN & COMPANY

Which Elements Matter Most to IT Infrastructure Buyers?

In surveys, customers stated that cost reduction was the element of value most important to them. But a statistical analysis of the ratings they gave suppliers on each element and of the suppliers' Net Promoter Scores revealed that product quality, vendor expertise, and responsiveness drove customer loyalty far more. In fact, when all the elements beyond table stakes were ranked on their impact on loyalty, cost reduction came in 27th.



*PERCENTAGES INDICATE HOW MUCH EACH ELEMENT CONTRIBUTED TO PREDICTING THAT A CUSTOMER WOULD BE A LOYAL PROMOTER OF THE VENDOR. THE TOTAL OF ALL 36 ELEMENTS IS 100%. **SOURCE** BAIN & COMPANY on economic elements that could increase loyalty; it has introduced FarmSight analytics, which help customers reduce fuel costs, and AutoTrac self-driving tractors, which reduce labor costs. As it has made each enhancement, Deere has systematically gathered feedback, both from customers and from its close-knit dealer network.

Note that each of Deere's innovations has digital and data analytics components. When managers are unsure of where to focus their efforts to innovate with technology, an elements analysis can be useful. Say a firm's technology budget allows for building a self-service portal for inventory checking or a back-end system to manage the supply chain, but not both. Which should the firm choose? To answer the question, the company could survey and interview customers about the relative importance of each element, as well as the company's performance on the elements. By analyzing both data sets and doing follow-up interviews with a sample of respondents, the company would be able to determine where buyers' (and influential stakeholders') priorities lie, where it falls short relative to competitors, and which areas merit investment.

FM Global, a commercial insurer in property coverage, has built a distinctive value proposition around *risk reduction*, drawing on the expertise of several thousand engineers. In fact, it prioritizes prospective customers according to their likelihood to implement its recommendations and thereby decrease risks. The company was one of the first in the industry to invest heavily in data analytics and machine learning. FM Global combines customers' internal property data with publicly available data, creates algorithms that predict when a customer is likely to suffer damage such as a fire or a broken pipe, and then sends out alerts. The customers avoid costly business interruptions and losses, and FM Global benefits because its customer retention rate is among the highest in the industry.

GETTING STARTED

Any B2B company can use an elements analysis to examine and improve its value proposition. To identify the elements your customers prize most and determine how best to enhance your offerings, follow these five steps:

Benchmark your company's value proposition against your competitors' by surveying your customers on how your products and services perform relative to rival offerings on the 36 non-table-stakes elements. A quantitative survey with a sample large enough to produce reliable results can reveal dramatic insights.

Talk with customers to understand their experience. Conduct follow-up interviews to explore their needs and sources of satisfaction and frustration, and the compromises they make in using your products and services. Since many people can be involved in buying decisions, especially at larger organizations, it's worth mapping who is on the buying team, who has influence on it, and the different priorities and sources of value for each. (A business unit head may want to address market needs in Southeast Asia, while an end user may want a product that's easy to learn.) Make sure to conduct interviews in a spectrum of customer organizations, especially those at the leading edge of growth in their industries. Avoid using an existing customer panel or user group, whose members might say what they think you want to hear. And consider conducting the interviews through a neutral third party, because customers are more likely to provide honest feedback to an intermediary.

Imagine ways to increase value for customers. Once you have identified a set of elements warranting attention, hold daylong ideation sessions to determine which core elements to focus on first. The participants might include product planners, pricing experts, salespeople, service representatives, and other customer-facing staff, and even customers themselves. Typically, a good way to prepare for such sessions is by developing advance reading materials, such as the competitive benchmark surveys and interviews; giving homework (for example, "Come with five ideas"); and talking to devoted customers of competitors.

Refine, test, and learn. Assess the best ideas from the ideation session by discussing their appeal with customers and your firm's ability to deliver on them. That will allow you to revise value concepts before further development, understand how they fit into the overall customer experience, and identify the tangible results that customers would expect from any enhancements. Those insights can inform rapid, successive improvements to the concepts prior to a market test or a broader rollout.

Apply the acid test. After introducing enhancements, reevaluate how you stack up against competitors, ideally by rerunning the original research. Especially in fast-moving markets, your competitors will probably have carried out their own innovations while you redesigned your value proposition. Objective follow-up analysis is important to ensure that your initiatives have actually delivered the value customers are seeking.

Let's look at this process in action, through the case of a struggling global technology equipment company that was acquired by a private equity firm. Many PE funds have been using a version of the elements analysis as part of their due diligence on target companies in order to gain insight into their growth prospects. In this case, however, the PE firm did an elements analysis after the acquisition to determine how to reverse declining sales. The core products of the company, which sold mainly through distributors and value-added resellers, were losing ground to lower-cost competitors in Europe, particularly to an emerging-market firm whose technology had become good enough to commoditize the market. The situation became critical in 2015, when revenue fell more than 20%. Working with Bain, the new PE investors addressed the following three questions to determine where to invest:

How does our value proposition compare with competitors'? Surveys and interviews of salespeople and the company's channel partners, as well as of end customers, highlighted several critical elements

IT'S WORTH MAPPING WHO IS ON THE BUYING TEAM, WHO HAS INFLUENCE, AND THE DIFFERENT SOURCES OF VALUE FOR EACH.

of value where the company fell short. First, the company was not easy to do business with: It was weak on *responsiveness*, taking several weeks to deliver inventory. Second, channel partners believed the company lacked *commitment* to relationships, sometimes circumventing them by selling directly to certain large customers. Third, *integration* with the channel partners was subpar, because the company lacked good data on what and how much the partners were selling every week, which aggravated the inventory problems. "By far the most complex manufacturer to deal with," noted one customer. Finally, the company lacked a good entry-level product offering, which the emerging-market competitor had exploited to great advantage. On top of all that came the realization that the company's products no longer had a performance edge that merited a price premium.

How do we bridge the gaps and seize opportunities to differentiate in the market? To address the weaknesses the data and interviews had pinpointed, the company decided to increase the level of sales support for channel partners, providing better training and tools in areas such as customer segmentation, market identification, and pricing to simplify their sales process. To appeal to the partners' owners, it offered back-end rebates that rewarded growth and loyalty; to motivate salespeople in the channel, it simplified the discount price structure and made selling easier. To fix inventory issues, it placed its own employees inside key distribution partners to clean up the flow of data and get ahead of stock-outs. To address the gap at the entry level of the market, it accelerated investment in a lower-end product family.

Can we launch a minimum viable product without breaking the bank? Making all those changes at once would have been hugely expensive, and getting the channel partners on board was critical. So the company fielded small regional tests of the economic incentives and the new sales support, making adjustments based on the feedback from the partners. That collaboration helped jump-start the company's effort to become easy to do business with. At the same time, the company ran models on how the changes would affect the economics of each major channel partner and the company's own P&L.

Once the technology equipment supplier rolled out the changes more broadly, and the improved value proposition took hold, it was able to reverse course and returned to single-digit, profitable revenue growth. Its customer loyalty scores have improved as well, and the company is on track for even greater gains.

MANAGERS OF B2B suppliers face dozens of options when trying to decide where to allocate scarce resources to improve and market their offerings. The mix of objective and subjective priorities, and the often conflicting perspectives within a single corporate customer, can be tricky to untangle. The elements of value allow managers to identify what matters most to each set of important stakeholders and how the company can stand out from the competitive pack.

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