VALUE-BASED COMPETITIVE ADVANTAGE IN THE FINNISH WELDING EQUIPMENT MARKET

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ABSTRACT

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The competition in industrial markets in general has become intense and fierce. Supplier companies are increasingly facing difficulties in differentiating their market offerings in the minds of customers. New ways of creating competitive advantage are sought after, and the notion of customer value is gaining in importance. It has been recognized that understanding the way in which customers judge and value suppliers’ market offerings is crucial for achieving competitive advantage (Graf & Maas 2008, 2).

This study contributes to the understanding of customer value in business markets, especially in the Finnish welding equipment market. It provides valuable practical implications for welding equipment suppliers about chances to benefit of the customer value concept when striving for competitive advantage. This study applies general theories of competitive advantage and customer value in business markets. The purpose of this study is to explore and to analyze customer value drivers in the Finnish welding equipment market, and to discuss how these value drivers relate to the competitive advantage of welding equipment suppliers. A customer value approach is used in order to assess by which means a supplier’s market offering can best meet customers’ requirements.

A qualitative approach was used to conduct this study. The data was gathered in 13 semi-structured phone interviews with welding equipment buyers from various fields of engineering. The data was analyzed in relation to the existing theory, relying on the notion that customer value is a subjectively perceived, multidimensional construct. During the analysis, it was identified that customer value in the Finnish welding equipment market consists of 16 different value drivers which can be categorized under economic, product-related, service-related and relational benefits.

Customer companies, however, have diversified preferences and requirements guiding their selection of welding equipment suppliers. The most difficult task for a supplier is to decide which value elements and which customer segments to concentrate on. Based on the analysis, the key to achieve competitive advantage in the Finnish welding equipment market is on identifying the service gaps and providing customers with improved service and relational benefits. The chances for a supplier to succeed in competition can be increased by providing service elements for those customers that currently lack it and making the interactions personal.
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1 INTRODUCTION

1.1 Background of the study

It has been widely recognized that understanding customers is the core of marketing, and it continues to receive high priority. It is not a surprise that understanding customer behavior and creating new approaches to generate customer insights are currently among the top research priorities of the Marketing Science Institute. Especially in a dynamic market place where changes occur repeatedly, companies are forced to find new ways to understand the decision-making process of their customers (MSI 2008, 3).

The construct of customer value helps to understand the customer incentive to purchase, and therefore it is an essential concept to study (Anderson & Narus 2004, 7). Most conceptual and empirical contributions to the customer value literature posit a direct impact of customer value on behavioral outcomes of customers (Eggert & Ulaga 2002, 111). As summarized by Huber, Herrman and Morgan (2001, 44), customer value normatively focuses on customers’ evaluation at the time of a purchase. It has been argued that customers buy products not because of their transactional value but for the sake of the product benefits that will satisfy their needs and personal values.

According to Anderson and Narus (2004, 5), value is viewed as the cornerstone of business market management because of the predominant role that functionality and performance play in business markets. This has been noticed also by Eggert and Ulaga (2002, 109) when they note that businesses buy for economic rather than emotional reasons, and customer value should be considered as a critical dimension in business marketing. Knowing where value resides from the customers’ point of view has become critical, and delivering superior value to customers remains an ongoing concern of companies in today’s markets (Ulaga & Chacour 2001, 525).
Especially when studying business markets, relying on customer value concept is more eligible than for example the concept of customer satisfaction. In contrast to customer satisfaction, the concept of customer value is not only about assessing customers’ perceptions of the quality of a supplier’s product offering, but includes also perceptions of costs, price and competitive product offerings (Ulaga & Chacour 2001, 527–528). As Eggert and Ulaga (2002, 109) note, it has been noticed that the value construct is a good predictor of outcome variables in business markets. The orientation of customer value is rather strategic, and it aims at assessing by which means a supplier’s market offering can best meet customers’ requirements. Understanding customer requirements helps a supplier to determine what to deliver, and therefore the linkage between customer value and competitive advantage is also taken into consideration in this study.

This study focuses on welding supply industry in Finland. It aims to explore and to analyze customer value drivers in the Finnish welding equipment market. It also intends to discuss the critical factors that are essential for a supplier to notice when striving for competitive advantage. The Finnish welding equipment market seems to be dominated by two strong suppliers, and in the background of the study is an increasing interest to assess the chances for an additional supplier to enter the market and achieve competitive advantage.

New ways of creating competitive advantage are welcome in the welding supply industry and therefore relying on customer value concept and identifying the value drivers is reasonable. Understanding the way in which customers judge and value products is crucial for achieving competitive advantage (Graf & Maas 2008, 2). As Vargo and Lusch (2004, 2) describe, marketing thought in general has shifted its focus away from the exchange of tangible goods more towards exchanging intangible, specialized skills, knowledge and processes. This integration of goods and services – known as service-dominant logic – is also welcome in the welding supply industry where the excessive focus on products’ core benefits and the need to add services in market offerings have been recognized (American Welding Society 2008, 6). Therefore, the identification and assessment of value drivers may uncover new opportunities for a welding equipment supplier to succeed in competition.
1.2 Purpose of the study

The purpose of this study is to explore customer value drivers in the Finnish welding equipment market and to analyze their impact on the selection of a welding equipment supplier. The identification of value drivers is essential since the purchase decisions seem to be guided by the perceived customer value. As Aaker, Kumar and Day (1998, 8) discuss, each market has unique attributes that customers employ to judge the competitive offerings. These attributes can only be understood through a careful analysis of the decision making of customers.

The concept of customer value provides foundations for this study. Although value is assessed from the customers’ point of view, this study aims to provide information for welding equipment suppliers about factors that affect customers’ purchase decisions in the Finnish welding equipment market. As described by Khalifa (2004, 645), customer value is considered central to competitive advantage and long-term success of business organizations. Understanding which drivers create value for customers provides suppliers with information about chances to create competitive advantage.

This study is conducted to find answers for the following questions:

- *Which value drivers can be identified in the Finnish welding supply industry?*
- *How do these value drivers relate to the competitive advantage of a welding equipment supplier?*

1.3 Structure of the study

This study is composed of five sections: introduction, literature review and theoretical background of the study, research methods, empirical analysis, and conclusive remarks. The structure is illustrated in Figure 1. The first section of this study highlights the background and the relevance of this study. It shortly describes the actuality of the research topic and poses the research questions. It also introduces the settings for this study as well as the central topics that build up the foundations for this study.
The second section leads the reader through the theoretical background of the study. This section introduces the previous literature and existing theories of customer value in business-to-business markets, and relates it to the theories of competitive advantage. The concepts that are relevant to this study are also explained in this section.

The third section introduces the research methods of this study. It shortly describes how the data are generated and analyzed. The quality of this study is assessed in the third section as well. The analysis of customer value in the Finnish welding equipment market follows in section number four. In that section, the value drivers are being explored and their relevance discussed. The sources of competitive advantage are also being evaluated. Eventually, the findings of this study are concluded in section number five.

Figure 1 Structure of the Study
2 CUSTOMER VALUE IN BUSINESS MARKETS

The concept of customer value builds up the foundations for this study. As Graf and Maas (2008, 15) state, customer value is a unique, independent area of research that makes valuable contributions to better understanding customer needs, decisions, and behavior. Although customer value has recently been studied a lot, the conceptualization of it is still in its infancy.

In the marketing literature, the value perceived by customers has been described with various terms (Woodall 2003, 1; Ulaga & Chacour 2001, 527). In this study, I will use the term “customer value” to portray this demand-side value or, in other words, the value perceived by customers. This term is used mainly because it is a commonly understood term and traditionally recognized as the value received by the customer (Matthyssens & Vandenbempt 2008, 318). This term has been used by various academics, for example by Anderson et al. (2004; 2006; 2007), Khalifa (2004), Matthyssens & Vandenbempt (2008) and by Ulaga (2001). Based on the frequent use of this term and since the books and articles by these authors serve as my salient references, I find it logical to use this term also in my study.

The construct of value in marketing has been extensively assessed by various researchers (Ulaga & Chacour 2001, 527). Different academics have defined customer value in different ways, but the core idea of it remains the same. Most researchers define customer value as the ratio of benefits received versus burdens endured by the customer (Ulaga 2001, 318). Lapierre (2000, 123) concurs by stating that customer value can be defined as the difference between the benefits and the sacrifices perceived by customers. Walters (1999, 249) also encapsulates the concept of customer value to the bundle of benefits customers expect from a given product or service.
As Edvardsson and Enquist (2009, 1) describe, in addition to economic value, customer value includes value that is linked to values. From the customer’s perspective, value is an overall personal assessment of all the quality attributes of a supplier’s market offering in relation to the purchase price and other sacrifices. Also according to Anderson and Narus (2004, 6), customer value consists of multiple components. They have defined value in business markets as the worth in monetary terms of the economic, technical, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering. By benefits they mean net benefits, where any costs a customer incurs in obtaining the desired benefits, except for purchase price, are included. Walters and Lancaster (1999, 647), for their part, state that the value of any product or service is the result of its ability to meet customers’ priorities. Customer priorities are all the things that are so important to customers that they are willing to pay a premium for them.

In this study, I shall rely on Ulaga and Chacour’s (2001, 525) definition of customer value. They comprehensively define customer value in business markets as

“The trade-off between the multiple benefits and sacrifices of a supplier’s offering, as perceived by key decision-makers in the customer’s organization, and taking into consideration the available alternative suppliers’ offerings in a specific use situation.”

With this definition, they have succeeded in accurately combining the diverse ideas about customer value that academics have presented in the marketing literature. An important remark is that people within the customer company as well as competition between various suppliers are included in this definition.

In this section, I will take a detailed look at the construct of customer value. Customer value in general can be characterized by four distinctive features; it is created in interaction between the supplier and the customer, it is a subjectively perceived construct, it consists of multiple elements and dimensions, and it is relative to competition. These features are discussed below.
2.1 Creating customer value

Traditionally marketing and value creation have been viewed through the goods-dominant logic. According to this logic, the purpose of economic activity is making and distributing products that can be sold. To be sold, these products must be embedded with utility and value during the production and distribution processes and they must offer superior value in relation to competitors’ offerings (Vargo & Lusch 2004, 4). This is the value-in-exchange notion where value is viewed as embedded in a product that is being exchanged (Grönroos 2007a, 180).

It has been recognized, however, that a company needs to confirm that value is added from the customer’s perspective. For example Aaker (2008, 139) has noted that a successful business strategy needs to add value for the customer, and this value needs to be real rather than merely assumed. Value is more likely to be real if it is driven from the customer’s perspective rather than from that of the business operation (Aaker 2008, 140). Also, according to Gummesson (2003, 483), a company should offer something of value to the market, and in order to do so it is necessary to know the customers, feel what the market needs, and make sure it is accessible to customers.

However, it has been argued whether it is the supplier at all who creates value for customers. According to the service-centered view of marketing, value is not something produced by the supplier and embedded in a product but defined by and co-created with the customer. The concept of service views value as co-created, rather than produced in the factory. Service points the firm towards focusing on social and economic processes and co-creation of value (Vargo & Lusch 2008, 4). Being service-centered means more than simply being customer-oriented; it means collaborating with and learning from customers and being adaptive to their individual needs (Vargo & Lusch 2004, 6). As Tzokas and Saren (1997) note, the emphasis in the value-creating process should be on the customer and not on the supplier, and the dialogue between the two companies is the key in this process (Lindgreen & Wynstra, 2005, 738).
This view of value is the value-in-use notion; value is created when products are used by customers (Grönroos 2007a, 180). The actual value is not created by the supplier but by the customer through the relationship, partly in interactions between the customer and the supplier. Therefore, a company can only make value propositions for its customers but it can not determine how value is actually perceived (Vargo & Lusch 2004, 11). Thus, the focus is not on products but on customers’ value-creating processes where value emerges for customers (Grönroos 2007a, 181). As Wikstrom (1996, 360) argues, the role of companies has changed from that of providing goods and services to one of designing a system of activities within which customers can create their own value (Lindgreen & Wynstra 2005, 738).

### 2.2 Subjective nature of customer value

Having an accurate assessment of value provides a solid foundation for a supplier when trying to create and deliver customer value (Anderson & Narus 2004, 7). However, in practice, assessing customer value is rather difficult. Customer value is a subjectively perceived construct, and different customer segments perceive different values within the same product offering (Eggert & Ulaga 2002, 110). Customer value is a theoretical concept, and it captures the customer’s perspective of a product offering. According to Woodruff (1997, 142), customer value stems from customers’ learned perceptions, preferences, and evaluations. Therefore, customer value is a subjective assessment of the positive and negative consequences associated with the purchase, use, and consumption, including values linked to the provider (Edvardsson & Enquist 2009, 1).

Value is co-created with the customer and assessed on the basis of customers’ consumption experiences. According to this view, the assessment of value is linked to the customers’ needs, wants, values, knowledge, and skills. This view of value emphasizes the importance of customers’ activities, involvement, emotions, and experiences in assessing value (Edvardsson & Enquist 2009, 33). It deals with the customer’s perspective and does not detract from the fact that it eventually concerns a subjective notion of an individual customer’s judgment of the value of a product offering (Huber et al. 2001, 43).
The “real” customer value is difficult to estimate because the supplier’s assessment of customer value may differ from that of the customer. For example, the supplier may overestimate the value of a certain market offering to a customer, while the customer may underestimate the value. The supplier may have a significantly different perception from the customer of the benefits or the monetary worth of the benefits that the customer company actually receives from a market offering (Anderson & Narus 2004, 6).

Walters (1999, 249) notes that customers formulate criteria upon which their value requirements are based and which also serve as an evaluative criteria when choosing among competitive offers. However, according to Anderson and Narus (2004, 7), customer firms often do not have an accurate understanding of what suppliers’ market offerings are worth to them. The customers may easily understand their own requirements, but they might be unaware of what fulfilling these requirements is worth to them or how different ways of meeting the requirements may affect their costs. Sometimes customers are not even capable enough of judging the added value easily, for example when it comes to evaluating the quality issues (Aaker 2008, 140).

The lack of accurate assessment of an offering’s value and the subjective nature of value lead to a situation where suppliers need to find proper ways to identify and deliver the desired value for customers. According to Walters & Lancaster (1999, 643), value delivery comprises all those activities involved in delivering the product-service attributes that are considered to be necessary to create satisfaction and to maintain an ongoing, long-term relationship with customers and in so doing build competitive advantage.

Therefore, it is essential for a company not only to identify what customers value and to make its offering superior on those elements that matter most, but also to demonstrate and document the value of this superior performance and to communicate it in a way that conveys a sophisticated understanding of the customer’s priorities (Anderson et al. 2006, 94). Demonstrating customer value in advance is essential because prospective customers must convincingly see the cost savings or added value they can expect from using the supplier’s offering instead of the next best alternative (Anderson et al. 2006, 96).
2.3 Multidimensionality of customer value

Since customer value is a subjectively perceived construct, it is important for a supplier to understand its multidimensionality. The value dimensions can be described as benefits and sacrifices (Ulaga & Chacour 2001, 530). As Graf and Maas (1998, 5) describe, customer value is an overall view of tradeoffs between benefits and sacrifices that occurs in interaction between the customer, the product and a specific use situation.

It has been recognized that customers seek value by either reducing their sacrifices or by finding a weighed combination of sacrifices and benefits (Woodall 2003, 2). Either way, customer value is created when customers perceive greater benefits than sacrifices (Rintamäki, Kuusela & Mitronen 2007, 623). Since the total customer value consists of multiple benefits and sacrifices of a supplier’s offering, it is relevant to discuss what these benefits and sacrifices are in business markets.

The sacrifices can be divided into two categories: monetary and non-monetary costs (Woodall 2003, 12). According to Kotler and Keller (2006, 141), the total customer costs are a bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing the given market offering. A natural example of monetary sacrifice related to every purchase is the actual purchase price of a product. As Anderson and Narus (2004, 6) note, customers pay a price in order to receive some benefits. Other obtaining costs may be for example costs of use, search costs, acquisition costs, delivery and installation costs, costs of repair as well as training and maintenance costs. Non-monetary costs are, for example, time and effort as well as psychological and relationship costs (Woodall 2003, 14).

The benefits instead are more diversified. In the literature concerning customer value, various sets of benefits have been identified and discussed. For example Anderson and Narus (2004, 6) describe four different sets of benefits that customer companies receive in exchange for the price they pay for a market offering. These are the economic, technical, service, and social benefits. Kotler and Keller (2006, 141) also note that the total customer value consists of a bundle of economic, functional, and psychological
benefits. Doyle (2000) recognizes that the perceived value consists of benefits that are a function of the product’s performance and design, the quality of the services that augment it, the staff who deliver it, and the image of the brand that the company succeeds in communicating (Lindgreen & Wynstra 2005, 736).

An important remark is that although benefits related to the physical product itself are highly essential, customers do not engage only on transactions that offer the best product benefits. According to Lindgreen & Wynstra (2005, 737), buyer and supplier companies do not do business with each other only because of the value of goods and services that are being exchanged. Apart from any of the economic, technical, service and social benefits embodied in the product offering, there might be other factors concerning the supplier firm that make their offering more attractive than that of other suppliers. These are described as relational benefits and occur when engaging in a relationship with the supplier.

Woodruff (1997, 142) instead describes customer value as a customer’s perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate achieving the customer’s goals and purposes. According to this definition, customer value is a hierarchical construct that comprises not only product attributes and attribute performances but also desired consequences in specific use situations. Customer value links products together with the use situation and related consequences.

The same idea is captured by Woodall (2003, 9–11) when he states that benefits consist of both product and service attributes as well as outcomes that are consequences of using a product. Also, as discussed by Rintamäki et al. (2007, 627), customer value can be divided into utilitarian value that tends to be more directly related to the core product, as well as personal and more abstract value that differentiates and complements the utilitarian benefits.

The multidimensionality of customer value is clarified in Ulaga and Chacour’s (2001, 530–534) model of components of customer value. According to this model illustrated in Figure 2, customer value is defined as a trade-off between quality and price. According to this approach, all benefits are either related to price or to quality. The
quality-related aspects function as an expression of perceived benefits, and the price-related aspects represent the perceived sacrifices. In this model, quality is defined as being composed of product, service and promotion related components.

In spite of the diversified definitions, all above-mentioned academics have identified several set of benefits that together compose the net customer value. It is important to notice that many other elements besides the physical goods alone impact how customer value is perceived. How a firm handles all these elements influences the customers’ value-creating processes, some of which take place during the simultaneous production and consumption process, some of which afterwards. Essential is that customer value is not created by one element alone but by the total experience of all elements (Grönroos 2007a, 186). Therefore, by taking a value-in-use perspective, the supplier needs to carefully design and manage as many elements of the customer interface as possible. Some elements are more critical to the customer than others, and that notion can be used as a foundation for competitive advantage (Grönroos 2007a, 187).

In order to identify and understand the value drivers in the Finnish welding equipment market, I will rely on the literature to clarify the multidimensionality of customer value. Therefore, for this study, I have interlinked separate interpretations of the customer value components by different academics and divided the benefits into economic, product-related, service-related and relational benefits. These benefits are discussed below in more detail.
2.3.1 Economic benefits

Economic benefits are in monetary terms described benefits that customers expect to get when choosing a product. As described by Smith and Nagle (2005, 41), economic value for a customer is a product’s objective worth compared to the availability of competitive substitute products. It is the feeling of saving money either due to the lowest purchase price or to the best trade-off between quality and price. According to Sweeney and Soutar (2001, 211), economic value is the utility derived from a product offering due to the reduction of perceived short-term and long-term costs.

2.3.2 Product-related benefits

According to the conventional view of marketing, the purchase decisions in business markets are based on the functionality or performance of the product (Anderson & Narus 2004, 5). Functionality and performance are elements that are mainly connected to the core benefits of a product. These kinds of benefits can be regarded as intrinsic indicators of quality and tend to relate to the physical and technical attributes of a product (Graf & Maas 2008, 5). Physical and technical attributes comprise for example the product characteristics, ease of use, and consistency of products (Ulaga & Chacour 2001, 534). According to Woodruff (1997, 142), desired physical product attributes create the foundation for customer value.

2.3.3 Service-related benefits

For customers in business-to-business markets, the value they derive from an offering is often more than its physical properties (Brennan, Canning & McDowell 2007, 264). Therefore, as Grönroos (2007a, 18) notes, service as a process supports customers’ value creation. When accepting that value-in-use is a more accurate way of describing how customers capture value from goods for themselves than value-in-exchange, suppliers of physical goods need to find ways of impacting customers’ purchase decisions. Only by creating interactive contacts with customers can firms influence the consumption process beyond the goods’ capability of doing so.
What suppliers can do is, first of all, to add more resources to the goods themselves to support customers’ use of goods. This can be done by providing for example advice, training, delivery, maintenance and repair services. In other words, instead of providing customers with a good alone as a value-supporting resource, the supplier should provide the customer with a number of different resources – goods, service activities, information, and access to advice – in a value-supporting process. This way the goods can be turned into services for customers. Increasingly, customer interfaces include more and more elements beyond the goods themselves (Grönroos 2007a, 198).

According to Brennan et al. (2007, 264–266), for situations where service elements or advice giving have a role in creating the value of the offering, these elements also need to be considered from the offering’s inception. Especially for those offerings where the physical product itself is highly substitutable, because all competitors can achieve much the same standard, the sole basis for differential advantage may be the additional elements of the service. In addition, those companies who recognize the nature of the uncertainties that a customer faces and are able to help to provide solutions to those uncertainties, put themselves in a stronger position competitively.

2.3.4 Relational benefits

According to Lindgreen and Wynstra (2005, 737), the factors concerning a supplier firm that make their offering more attractive than that of other suppliers are described as relational benefits. Relational benefits are a key aspect that customers consider in the overall value of the offering (Olaru, Purchase & Peterson 2008, 555). These benefits include for example the supplier’s reputation, mutual trust, location, and innovative capability. Understanding relationship-related value drivers enables suppliers to recognize how they can contribute to value creation beyond simply selling products (Ulaga & Eggert 2004, 312).
Ulaga and Chacour (2001, 530–534) refer to relational benefits when they discuss about promotion related quality. These promotion related quality components include benefits such as supplier image, personal relations, and reliability of supplier, and can be compared to relational benefits as defined by Lindgreen and Wynstra (2005, 737–738) and Lapierre (2000, 125). Relational benefits can be regarded as extrinsic indicators of quality. They are not connected to the physical product itself but may have a strong impact on how customers value suppliers’ offerings (Graf & Maas 2008, 6).

### 2.4 Value-based competitive advantage

The identification of the customer value concept alone is not enough. The companies need to know how to benefit from it in the real world situations, too. Customer value is the result of a cognitive comparison process, and therefore understanding the cohesion between customer value and competitive advantage helps the supplier to turn customer value into a benefit (Eggert & Ulaga 2002, 110).

No matter which industry we are dealing with, there is always competition. Even if no direct, in-kind market offerings exist, there is always a competitive alternative (Anderson & Narus 2004, 6). Competition occurs when companies within an industry provide customers with similar products to fill specific needs. Strategically, an industry may be distinguished from another by the fact that it proposes products with similar sources of competitive advantage. This means, the industry is the location where companies either win or lose a competitive advantage (Passemard & Kleiner 2000, 111). In general, a competitive advantage is a combination of elements of a business strategy that provides a meaningful advantage over existing and future competitors (Aaker 2008, 120; see also Porter 1980; Walley & Thwaites 1996; Matthyssens & Vandenhempt 1998).

Creating competitive advantage over rival firms is the aim of strategic market planning (Brennan et al. 2007, 98). A company needs to choose a proper competitive strategy in order to create competitive advantage, i.e. to take offensive or defensive actions to create a defendable position in an industry, to cope successfully with competitive forces, and thereby yield a superior return on investment (Porter 1980, 34). Unless the company
has or can develop a real competitive advantage, an attractive long-term return will be unlikely. To achieve a competitive advantage, a strategy should exploit organizational assets and competencies and neutralize weaknesses (Aaker 2008, 10).

Generally, a competitive strategy is about creating and maintaining competitive advantages over rival companies (Porter 1980). Competitive advantage translates to higher productivity of the enterprise. To get a competitive advantage against its competitors, a company should supply its customers either with the same value than the competitors and be more efficient in production, i.e. use the cost-leadership strategy, or elaborate specific activities that generate a greatest final value and authorize higher purchase prices, i.e. use the differentiation strategy (Passemard & Kleiner 2000, 112).

According to Porter (1980, 3), the essence of creating a competitive strategy is relating a company to its environment. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. The core of competitive advantage is to know what customers want and find a way to give it to them.

Traditionally companies have been recognized to have two generic strategic approaches for creating a defendable position in the long run and for outperforming other firms in an industry: cost leadership and differentiation strategy (Porter 1980, 35–39). Although these strategic approaches have been criticized by several writers (Walley & Thwaites 1996, 165), they build up a good frame for competitive strategies. According to Walley and Thwaites (1996, 164), companies compete in terms of both cost and product differentiation but their competitive advantage will be derived primarily from either cost or differentiation advantage.

Since the chances to follow the cost-leadership route to competitive advantage are limited because there can only be one cost leader in a market or market segment, the suppliers need to concentrate on differentiating their market offering from that of the competitors (Walley & Thwaites 1996, 167). Differentiating the product or service offering of the firm is about creating something that is industry wide perceived unique (Porter 1980, 37). According to this approach, in order to achieve competitive advantage the company needs to be able to provide distinction and uniqueness (Ma
Therefore, the differentiation is the ability of the enterprise to supply its customers with a same product but of a better quality (Passemard & Kleiner 2000, 112).

However, in order to achieve competitive advantage, distinguishing a company’s products adequately from those of competitors is not always easy. In industrial contexts, the difficulties in differentiating product offerings are common since industrial markets in general have become more and more commoditized, i.e. the products and services of different companies are perceived more or less the same (Matthyssens & Vandenbempt 2008, 317). Products are rather heterogeneous having the same technical attributes and offering equivalent core benefits.

According to Grönroos (2007b, 75), creating technical advantage is difficult because competitors can introduce similar solutions relative quickly. A number of companies within an industry can produce approximately the same technical quality. The offerings over time tend to become undifferentiated in the minds of customers, with price becoming the sole basis for deciding among them (Anderson & Narus 2004, 178). Hence, the competition in industrial markets is growing more intense and fierce, and nearly all companies are confronted with the need to respond to ever faster commoditization, price pressure, time-based competition and so on (Matthyssens & Vandenbempt 1998, 340). Therefore, to fight commoditization, companies have to continually search for new ways to differentiate their market offerings in ways that customers value (Anderson & Narus 2004, 178).

In order to differentiate from competitors, the relation between customer value and competitive advantage becomes essential. The customer value approach aims to identify how customers evaluate competing offerings, assuming that when purchase decisions are made, they are made with value as a key driver (Evans 2002, 15). The identification of value drivers can provide information for suppliers about the elements on which to concentrate in order to differentiate from competitors and achieve competitive advantage. As Eggert and Ulaga (2002, 110–111) note, value is relative to competition: delivering a better trade-off between benefits and sacrifices in a product or service, i.e. offering better value than competition, will help a company to create competitive advantage. Customer value measurement explicitly benchmarks the supplier’s offering with competition.
According to Walters (1999, 248), a value based competitive advantage can be established by identifying those benefits, or attributes, which offer suppliers an opportunity to increase the attractiveness of their market offer to their target customers. This idea is coherent with that of Anderson, Narus and Van Rossum (2006, 94) about distinguishing a supplier’s market offerings from those of competitors’ through points of difference, i.e. those value elements that make the supplier’s offering either superior or inferior to the next best alternative. When striving for competitive advantage, it seems essential for a supplier not only to recognize that the customer has alternative options, but also to identify the value elements that are favourable compared to those of competitors.

The cohesion between competitive advantage and customer value is also recognized by Lapierre (2000, 124) when he states that in a hypercompetitive environment, where sources of both product- and process-based competitive advantages are quickly imitated by competitors, a commitment to the concept of customer value is essential to creating competitive advantage. Lichtenthal, Wilson and Long (1997) have noticed that in order to build competitive advantage, organizations need to understand which drivers create value for customers (Lapierre 2000, 122). A value driver can be defined as an attribute of a product considered by a purchaser to be the primary reason for selecting that product which in turn will increase the value of the purchaser’s output, i.e. an industrial product or service Walters (1999, 248).

2.5 Summary of the theoretical background

This study discusses customer value in business markets as a subjectively perceived, multidimensional construct. The theoretical construct of customer value captures the customer perspective of a product offering (Huber et al. 2001, 43). According to the previous literature regarding the subject, customer value is individually defined by the key decision-makers in the customer organization, and it is an overall assessment of all quality attributes of a supplier’s market offering in relation to all sacrifices. In this study, as illustrated in Figure 3, customer value is regarded as a constitution of economic, product-related, service-related, and relational benefits as well as monetary
and non-monetary sacrifices (e.g. Ulaga & Chacour 2001, 525; Edvardsson & Enquist 2009, 1).

![Customer Value Diagram](image)

Since customer value is the result of a cognitive comparison process and because it directly impacts the purchase decisions of customers’, it is inevitably linked to the chances for a supplier to achieve competitive advantage. The strategic orientation of customer value construct aims at assessing how value can be created for customers and by which means a supplier’s market offering can best meet customer’s requirements (Eggert & Ulaga 2002, 110).

The logic behind committing to the customer value concept is to create an understanding of factors that have impact on customers’ purchase decisions and to use this understanding in building competitive advantage over rival firms. The examination of value drivers enhances a supplier’s possibilities to recognize customers’ criteria for selecting a product and in so doing sheds light on the chances of creating competitive advantage over rival firms.

**Figure 3 Construct of Customer Value**

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3 RESEARCH METHODS AND DESIGN OF THE STUDY

This study focuses on exploring and analyzing customer value drivers in the Finnish welding equipment market. These drivers can be regarded as customer motivations to buy. The identification and understanding of value drivers can provide information for welding equipment suppliers about the elements on which to concentrate in order to create competitive advantage. A careful analysis of customer motivations provides information that is needed to decide which customer value propositions to pursue in order to gain competitive advantage (Aaker & McLoughlin 2007, 19).

3.1 Qualitative Research

This study is conducted by using qualitative research methods. Qualitative research is a powerful tool in understanding customer motivations. Getting inside the customer can provide strategic insights that do not emerge any other way (Aaker 2008, 32). Therefore qualitative research is practical when studying factors that lie behind customers’ purchase decisions. Qualitative methods focus primarily on the kind of evidence that enables us to understand the meaning of what is going on (Gillham 2000, 10). These methods are useful when interested in deep exploration of a phenomenon in order to provide rich, detailed, and holistic description (Daymon & Holloway 2002, 6). A desire to explore and present various subjective perspectives of participants is associated with qualitative research (Daymon & Holloway 2002, 6).

Qualitative methods tend to be associated with an interpretive worldview. In fact, all research is claimed to be interpretive. When applied to business, interpretive methods are characterized by efforts to understand the complexity of the business world and its products, services, and markets, and to add meaning to strategies, actions, and events (Gummesson 2003, 482). Interpretive research is keen to explore people’s intentions, motivations and subjective experiences. Therefore, working with an interpretive stance provides foundations for understanding social reality from the point of view of those in it (Daymon & Holloway 2002, 4). The goal of any qualitative study is to see the
research topic from the perspective of the informants, and to understand how and why they have come to this perspective (Cassel & Symon 2004, 11). The fundamental assumption of qualitative research is that the participant’s perspective on the phenomenon of interest unfolds as the participant views it, not as the researcher views it (Marshall & Rossman 1999, 108).

A general and widely-used approach to interpretation is hermeneutics. Hermeneutics is a conscious search for meaning and understanding. In a broad sense, hermeneutics can be applied in all types of data, e.g. in the flow of spoken and written words and numbers, symbols, observations, feelings, and thoughts (Gummesson 2005, 311–314). A hermeneutic process of interpretation embraces not only explanation, but also preunderstanding and understanding of the phenomenon. Preunderstanding stands for what is already known about the phenomenon under study at the beginning of the research process, and understanding is the improved knowledge that occurs as a result of a study. This kind of movement from preunderstanding to understanding is called a hermeneutic circle. The notion of hermeneutic cycle is used to describe the transition from what we knew to what we have learnt (Gummesson 2003, 484).

According to Gummesson (2003, 491) hermeneutics is often used not only for interpreting spoken and written language, but also the non-verbal language of signs such as gestures, facial expressions and symbolic objects in order to achieve close access to reality. However, because of the chosen data collection method, this study is concentrated only on analyzing what is actually being said and leaves all non-verbal language and hidden meanings out. According to a phenomenological approach, the researcher has only one legitimate source of data, and that is the views and experiences of the participants themselves. This means, the participants’ views are taken as a fact. It is not essential to deeply analyze participants’ expressions and use of language. Instead, the meaning of word is taken to be what it references or corresponds with in the real world (Goulding 2005, 302). Therefore, in this study, I will concentrate on analyzing what is being said instead of how opinions are being expressed.
3.2 Generating data

As Gummesson (2005, 309) describes, qualitative research can be characterized by data collection, analysis, and interpretation in part taking place simultaneously. Data are generated, which means that they are the construction of the researcher. Data are often created in interaction, for example with a respondent in an interview. Data are compared with data, with existing theory, and with results from previous research.

3.2.1 Sample

In qualitative research, the purpose of the study determines whom to select for the study, when and where. This means, a purposeful sampling is usually applied when selecting a proper sample (Daymon & Holloway 2002, 159). The prescription and purposefulness of the sample is also according to the phenomenological view of qualitative study. Participants are selected only if they have experience of the subject under study (Goulding 2005, 302). The tendency of qualitative research is to concentrate on rather small samples in order to create deep analyses of the phenomenon. Therefore, the criterion for scientific research is not the quantity but the quality of the data (Eskola & Suoranta 2003, 18).

A common characteristic of qualitative studies is to look for diversity. Most qualitative studies set a premium on diversity because they seek to show the range of ways that a phenomenon is experienced within the chosen context (Cassel & Symon 2004, 16). Therefore, in this study, various engineering companies have been selected to be studied. The sample includes small, middle-sized and big companies from various fields of engineering. The reason for including these companies in the sample is to provide as rich information about value drivers in the Finnish welding equipment market as possible.

Engineering companies from different industries sometimes use different kinds of welding machines to produce their diversified products, and their value drivers might be different. Also the location of the company might have an impact on how value is
perceived, and therefore the respondents were selected from different parts of Finland. The interviewees are welding specialists in the selected customer companies, such as welding engineers or technicians that have a high degree of expertise and are familiar with welding machines.

The size of the sample was not determined beforehand since I didn’t have clear preconceptions about the value drivers in the Finnish welding equipment market, and the estimations about the amount of data needed were difficult to make. Therefore I decided to keep on generating data until no new information arises. This way of proceeding is called data saturation: it is logical to think enough data has been collected when new cases do not provide any additional, relevant information (Eskola & Suoranta 2003, 62). There is no need to continue collecting data if further cases are not adding to the findings or if the cases start to repeat themselves.

By proceeding this way, I ended up conducting 13 interviews with 12 different companies. I kept on interviewing until the answers started to repeat themselves and became foreseeable. Two separate interviews were conducted with one of the companies because the person that was interviewed first had only been working for the company for three months and couldn’t provide me with much of information. One interview was conducted with an educational institute that provides training for welders, the rest of the interviewed companies were actually manufacturing companies. I also conducted three preliminary interviews but included them in the final sample since they were successful and provided me with rich information. The interviews were conducted between February 13th and March 9th 2009.

3.2.2 A semi-structured phone interview

The most common method of data gathering in qualitative research is an interview (Cassel & Symon 2004, 11). Also in this study, the data are generated through interviews. Interviews are conducted by phone because of the smoothness of the method. The participants are situated in different locations, and therefore a face-to-face interview would be extremely time-consuming and difficult to organize. Phone interviews make it possible to generate diversified data with companies located all over
the country. All interviews are recorded with an mp3-player in order to transcribe the data and in so doing facilitate the analysis. The weak point of a phone interview is that it only allows the researcher to analyze voice and words – not for example gestures or face expressions. However, in this study, the most essential data is generated from words, not from meanings hidden behind what is or is not said.

The aim of an interview is to uncover participant’s thoughts (Eskola & Suoranta 2003, 85). An interview as the data collection method was selected because it is a useful way to gather large amounts of qualitative data quickly. By conducting a semi-structured interview the researcher explores a few general topics to help uncover the participant’s views, but otherwise respects how the participant frames and structures the responses (Marshall & Rossmann 1999, 108). This means, a low degree of structure is imposed by the researcher, and open-ended questions are widely used (Cassel & Symon 2004, 11).

In a semi-structured interview, similar questions about preset themes are posed to the participants. However, the sequencing of questions is not necessarily the same for every participant and depends on the process of each interview and the responses of each individual. Thus, a semi-structured interview is not based on a formal schedule of questions to be asked word-for-word in a preset order. Instead, it generally uses an interview schedule or a list of topics that are to be covered in the course of an interview (Cassel & Symon 2004, 14). The interview schedule ensures that similar types of data are collected from all informants (Daymon & Holloway 2002, 171). The participants answer all questions by freely describing their views of the current subject (Eskola & Suoranta 200, 86). By proceeding this way the researcher ensures that the perspective of the interviewee emerges. It is, however, essential to avoid leading questions. Leading questions impose the researcher’s own perceptions on the interviewee who may agree purely to be polite or out of a wish to please the researcher (Cassel & Symon 2004, 18). Therefore, leading questions may falsify the generated data and lead to false notions.

For this study, I have composed an interview schedule (Appendix 1) based on the previous studies regarding the subject. It has been recognized that customer value in business markets is a multidimensional construct and that it consists of multiple benefits and sacrifices (e.g. Ulaga & Chacour 2001, 503). Therefore, in order to find out what the value drivers in the Finnish welding equipment market are, I divided the interview
schedule according to the benefits that have been recognized in marketing literature as having impact on the customer value. These are economic, product-related, service-related and relational benefits. The preset themes are only used as a guide through the interviews to make sure all participants discuss about same themes. The participants have the freedom to describe critical factors and primary reasons for selecting a certain supplier before going into the preset themes in detail.

3.3 Analyzing data

The data to be analyzed was gathered in phone interviews. The interviews were recorded and transcribed in the Finnish language. All quotations from the interviews in the analysis part are translated into English word-for-word where possible in order to maintain the equivalence in what is being said.

Qualitative data analysis is concerned with summarizing data into simplified patterns and configurations as well as interpreting data in order to bring meaning and insight to the words and acts of participants (Daymon & Holloway 2002, 232). In this study, the data is analyzed in two ways; by highlighting and discussing central topics that arise from the data and by discussing the relevance of these findings to competitive advantage. In the first part, I concentrate on identifying the value drivers that arise from the data and discuss them divided according to the same themes as in the interview schedule. In the latter part, I discuss the relevance of these value drivers to competitive advantage by classifying the findings into categories according to the factors that the participants consider critical, i.e. that contribute most to customer value. The examination of critical factors contributing to customer value provides information that is essential when striving for competitive advantage.

Dividing and representing data by themes is reasonable especially in situations where the study aims to provide information to facilitate practical problem solving (Eskola & Suoranta 2003, 178). Since this study aims to provide information about value drivers in the Finnish welding equipment market in order for a supplier to create competitive advantage, discussing data by themes seems rational. Presenting and discussing the data by themes is also logical because the interviews are conducted by using an interview
schedule comprising the same themes. Proceeding this way ensures that relevant subjects are being discussed during the analysis. This way of proceeding also creates a continuum; the interview schedule has been divided according to the subjects that arose from the literature, and the data generated from the interviews are analyzed by exploring the same themes. This continuum facilitates the comparison of data with existing theory. It is, however, possible that other themes emerge that have not been included in the interview schedule. If these emerge, they will naturally be discussed, too.

The latter part of the analysis provides information about those value drivers that contribute most to customer value. The identification of critical value drivers helps to identify the best possible sources of competitive advantage. The classification is about searching for similarities among respondents and encapsulating the data into entities. These entities are easy to present and discuss since they contain a wide range of information comprised into logical units (Eskola & Suoranta 2003, 181). The classification of data and discovering interlinkages will help to explain the data and to draw on literature in order to relate data to theoretical ideas (Daymon & Holloway 2002, 233).

3.4 Ensuring quality of the study

Qualitative research can not be evaluated by its reliability and validity which are standard checking criteria in quantitative studies. When a study doesn’t contain any measures and cannot be fully duplicated, other criteria have to be applied to determine the authenticity, correctness, and credibility of description and interpretation (Sayre 2001, 45). As Eskola and Suoranta (2003, 210) note, the evaluation of qualitative analysis is mainly based on its trustworthiness that consists of credibility, transferability, dependability and confirmability.

Credibility is about accurately representing multiple realities of the people under investigation. It presumes an honesty of discourse and involves mutual trust between the researcher and the subject under study (Sayre 2001, 45). Credibility means that the researcher confirms whether his interpretations really represent the viewpoints of those under study (Eskola & Suoranta 2003, 211). In this study, credibility is being confirmed
by truthfully describing the participants’ viewpoints. As Cassel and Symon (2004, 11) note, the goal of a qualitative study is to see the research topic from the informants’ perspective, and therefore it is essential that the data is described according to what has really been said.

Transferability is the ability of the researcher to transfer the specific knowledge gained from a phenomenon to other settings. A solid basis for the transferability of the findings occurs by ensuring that the research topic can be related to a wider context and to the academic literature (Daymon & Holloway 2002, 93). Therefore, this study is conducted by first discussing the previous research of the subject and by constructing the research settings accordingly.

Previous findings and existing theory are used as a foundation for this study. The research methods, interview questions and data analysis are selected in a way that can easily be used in other contexts as well. This study concentrates on one specific industry, but the research settings could be used to study other markets, too. The findings of this study closely relate to previous research of the topic, and therefore enable the use of similar settings also in other studies.

Dependability relates to the subjectivity of the study. In contrast to the reliability in quantitative studies that measures the degree to which a measurement remains the same, dependability in qualitative studies is difficult to measure. All humans are different, and therefore no two interpretations of a phenomenon are expected to be identical (Sayre 2001, 46). Dependability can, however, be enhanced by leaving an audit trail. An audit trail not only means that the study could be replicated but also that the interpretation based on the same data could be confirmed or contradicted (Newman & Benz 1998, 53). The dependability in this study has been ensured by widely describing the research methods and data. Also a list of all interviewees is enclosed. The interview transcriptions, however, are not being enclosed in order to protect the interviewees’ privacy.
Confirmability means that the information is supportable from the data, as gathered by the researcher and that the information represents a logical set of conclusions. The researcher is presumed to be neutral and personally immersed in interpreting the meaning (Sayre 2001, 46). Ensuring confirmability requires neutrality; the researcher needs to document judgments with evidence (Newman & Benz 1998, 50). In this study, confirmability is being ensured by comprehensively describing and analyzing the data. In the first step of the analysis I purely describe the value elements that arise from the data. In this part, excerpts of the interviews are being presented in order to clarify individual opinions of the interviewees. The latter part is then about analyzing, creating interpretations and recapitulating the individual opinions of the interviewees.
4 CUSTOMER VALUE IN THE FINNISH WELDING EQUIPMENT MARKET

4.1 Overview of the industry

As defined by the American Welding Society (2008, 1; 6–7), the welding industry in general consists of the users of welding techniques as well as companies, universities, and other organizations that provide equipment, materials, processes and support services for welding. This means, the welding industry incorporates the workforce that uses welding technologies to perform welding operations, the welding supply industry that provides the equipment, consumables, and services, as well as the end-users who rely on welding processes to manufacture their products.

In this study, when I refer to welding supply industry, I refer only to the end-users of welding machines and the welding equipment suppliers, leaving out the consumables suppliers. The definition of end-users encompasses virtually all manufacturing companies that use welding processes at some stage of their manufacturing. Below, I will take a quick look at the products, the suppliers, and the end-users in the Finnish welding equipment market in order to provide an overview of the industry.

4.1.1 Products

The welding machines in general can be divided in three categories based on the welding method they are meant for. These categories are manual, semi-automatic, and automatic welding machines. In manual metal arc welding (MMA), the welder moves the welding head manually and monitors and controls the welding process. In semi-automatic welding, the welding machine carries out one or more of the work stages automatically. Such a welding method can be, for example, metal inert gas and metal active gas (MIG and MAG) welding where the wire feeder feeds the filler wire through the welding gun. Also tungsten inert gas (TIG) and submerged arc (SAW) welding are...
semi-automatic welding processes. In automatic welding instead, the welding system independently carries out the whole welding process according to a preset program (www.kemppi.com, 19.3.2009). However, in the Finnish welding equipment market, the machines in use are mainly manual or semi-automatic, and the degree of automation is less than 20% (VTT 2008, 1).

As illustrated in Figure 4, according to the interviews conducted with the end-users in the industry, the types of welding machines in use are all either manual or semi-automatic. None of the interviewed companies use fully automatic machines. All companies have MIG/MAG machines in use, which is not surprising since MIG/MAG welding process has been recognized as the most frequently used welding process in Finland (VTT 2008, 14). Four fifths of the companies use TIG machines and three-fourths have manual welding machines (MMA) in use. In addition, submerged arc and plasma welding machines are being used in some of the companies, mainly due to the products they manufacture and materials they use. Customer companies select the appropriate welding method and equipment based on the material thickness, the required production efficiency and the desired visual quality of the weld (www.kemppi.com, 31.3.2009).

![Figure 4: Types of Welding Machines in Use](image-url)
4.1.2 Suppliers

There are several welding equipment suppliers in the Finnish market, such as Kemppi, ESAB, Wallius, Fronius, and Hitachi. These suppliers were identified during the interviews. There are also some other suppliers, but none of the interviewed companies use their products. Unfortunately the exact market share figures are not available, but the strongest player in the welding supply industry seems to be Kemppi with a market share of more than 50%. The other strong supplier is ESAB with an estimated market share of 30–40% (www.kilpailuvirasto.fi, 23.3.2009). As shown in the Figure 5, this information is in line with the interview results; only one of the 12 interviewed companies uses some other supplier than Kemppi or ESAB as a primary supplier. Also four of the companies found it impossible to identify just one main supplier since they use different suppliers for different types of machines.

![Primary Supplier](image)

**Figure 5 Primary Welding Equipment Suppliers**

The tendency in the Finnish welding equipment market is that companies purchase their equipment primarily from the two dominant suppliers, and the smaller suppliers such as Fronius, Wallius and Hitachi are used to deliver only some additional welding machines. In addition, there is an increasing tendency to centralize the purchases only on one supplier, and the smaller suppliers have been set aside. This situation seems highly interesting from the point of view of smaller suppliers, and therefore the examination of the chances to gain competitive advantage is welcome.
4.1.3 Customers

The end-users of welding equipment in the Finnish markets are engineering companies from different fields of industry. Also some educational institutes providing training for welders use welding machines in their daily activities. The manufacturing companies of equipment and construction serve for example the mining and metallurgical industry, shipbuilding industry, steel and construction industry, paper and pulp industry, and heat and energy industry. The size of the customer companies varies from small manufacturing companies with only few employees to big industrial enterprises with thousands of employees. The variety of customer companies can be regarded both as a challenge and as an opportunity for welding equipment suppliers.

4.2 Customer value drivers

In order to better understand customer needs, decisions, and behavior in welding supply industry, identifying value drivers becomes essential. Value drivers portray customer preferences; they are the attributes related to a product offering that are considered the primary reason for selecting that product (Walters 1999, 248). When striving for competitive advantage, supplier companies need to understand which drivers create value for their customers.

4.2.1 Economic value drivers

Economic value drivers embody benefits related to cost savings, i.e. benefits that occur as a reduction in short-term or long-term costs. Economic benefits have traditionally been considered central to customer purchase decisions in business-to-business markets (Eggert & Ulaga 2002, 109). However, as realized during this study, when customers are asked to discuss about economic benefits that they expect in a product offering, they often begin to talk about price. Economic benefits are often considered equal to price; the lower the price, the greater the economic benefits are for some customers. These customers buy only on the basis of price and are not keen to deeply evaluate the product quality.
As Woodruff (1997, 142) describes in his customer value hierarchy model, some benefits appear as a consequence of product attributes. Customers that assess the economic value in relation to product quality might purchase a more expensive product if they feel that the increase in quality is greater than that of the price (Rintamäki et al. 2007, 627). This reasoning can be identified also in the Finnish welding equipment market. Economic benefits often occur as a consequence of operational reliability, durability, and dependability of a product, which are rather technical, product-related benefits. Also a well-functioning maintenance service and good availability of spare parts seems to lead to economic benefits. These kind of consequential economic benefits are cost savings such as longer life time of a product and minimized interruptions in production. This idea was well captured in one of the interviews:

“Above all, economic benefits arise from operational reliability. Also a well-functioning maintenance and repair service with good availability of spare parts leads to economic benefits if the interruptions in production can therefore be minimized.”

Customer 2

Apart from the lowest purchase price, the most important economic benefit for the customer companies seems to be the life time of a welding machine. It is important for the customers that the product life cycle is long and that the welding machines can be updated. This means, customers recognize the essence of long lasting, durable products that remain up to date. Some companies also consider the life cycle of welding machines as a primary reason for purchasing from current supplier.

However, a major part of the customer companies does not evaluate economic benefits at all when making purchase decisions. The only economic factor that is considered before making the decision is the purchase price of a product. This is due to the nature of the products; advanced technology and a firm and solid structure of the machines lead to a long life time of the machines. Customers have learned to rely on the durability of the machines. Also the differences between suppliers are not that distinct, and therefore the economic benefits are not considered necessary to be evaluated when
making a purchase decision. As described below, the choices are made based on other than economic factors:

“Let’s just say that economic factors have some sort of significance but it is not the strongest criterion when making the decision. The decision stems from a product that can be worked with.”

Customer 7

4.2.2 Product-related value drivers

It is assumed that businesses only buy things to facilitate their production of goods and services, and therefore the demand is derived. This means that the demand in business markets only exists as long as there is demand for the goods or services that it helps to produce (Brennan et al. 2008, 8). In business markets, customers rely on the products and services from their suppliers to improve their own market offering and to increase the overall profitability of their company (Ulaga 2001, 315). Therefore, product attributes and product-related benefits are highly essential in business markets.

As Anderson and Narus (2004, 5) describe, functionality and performance play a predominant role in business markets, and can be regarded as the core of customers’ value creation process. Also according to Woodruff (1997, 142), product attributes are considered a foundation for value, and this is evident also in the Finnish welding equipment market.

“Durability and operational reliability of a machine is another reason for purchasing from current supplier, it’s not the price alone. – – Of course we have to find a solution with our finance department, but we need to be able to depend on the machine. After having welded with the machines for a while, we will soon discover which machines start to break down and which not.”

Customer 8
Durability is one of the most important benefits that customer companies seek in welding machines. Durability is a requirement since customers expect a long life cycle of welding machines; they expect to be able to use a machine for years. By durability customers mean for example the strength, firmness, and the functionality of the machines. Therefore, customers need to be sure that machines do not break easily and that they are not prone to malfunctions or interruptions. It is also important that the machines do not cause any damages on the welded product.

“Quality means that the machines are durable. That they do not require any repair.”

Customer 5

In addition to durability, operational reliability of the machines appears as a key value driver for customers. Operational reliability of a welding machine is essential since manufacturers require accurate predictions of the performance of the welds. Most welded products are manufactured to meet high standard of quality (American Welding Society 2008, 15). To reach this quality, a welding machine has to be reliable. Operational reliability relates not only to the functionality of the products, but also to the ease of use and dependability; the machines need to be usable under any condition.

“Operational reliability is number one. This means the lack of interruptions; that machines are not prone to malfunctions and can be used under any circumstance.”

Customer 4

Operational reliability arises also from the experience and preferences of the welders. Welders are used to weld with certain types of machines of certain characteristics, and that leads to the favor of those machines that have been in use before. The product characteristics that lead to dependability and operational reliability are for example high capacity of the machine, good adjustment options and follow-up possibilities.

In addition, technology in general seems to be of great importance for customers. Several customers have chosen their primary supplier partly because of the advanced technology they provide. This notion has turned out to be detrimental for smaller
suppliers that haven’t been able to keep up with the technological advancements. Customers are not willing to use machines that are getting nowhere in terms of technology. Advanced technology relates also to the life cycle of the product; it is important that machines can be updated and modified according to the changing demands.

“The most critical factor is that the machine fits well with our production… let’s say that it’s the newest technology we use, which means that it fits well with our products and the consumables we use”

Customer 7

Also the versatility of the machines is a desired product benefit. A sort of hybrid character of the machine is sought-after; a machine that can be used for multiple purposes and welding methods is requested. This relates to the flexibility of production: one machine can be used in different manufacturing processes.

“Required product characteristics are for example good adjustment options, high capacity and a sort of hybrid quality – that is TIG, manual, and MAG welding options in the same machine.”

Customer 6

Although product-related benefits are at the core of customers’ value creation, customers face problems in differentiating between the suppliers’ products based on physical product attributes. As mentioned earlier, bigger suppliers are ahead of small suppliers in technology, but otherwise the differences between suppliers’ products are not that major. In the end, the products are all made of similar components.

“After all, the machines are just copies of one another. If one supplier invents something new, another supplier makes a copy of it and adds in something more. This is just how it goes. Once the wheel has been invented, it has since been copied several times in several places.”

Customer 10
However, a customer’s machine base can not be too diverse, and therefore it is not wise for a customer to use machines from several different suppliers. In order to limit the amount of spare parts needed and to guarantee the access to a well-functioning maintenance service, customers need to concentrate only on purchasing from one or two suppliers. Therefore, because the desired product benefits can be found basically in every supplier’s products, other components of value become essential.

### 4.2.3 Service-related value drivers

In business markets in general, service appears to be one of the major elements that impact customer value. Also in the Finnish welding equipment market, it is evident that service-related benefits contribute much to customer value. The most important service-related value driver is the functionality of maintenance and repair services. Since durability is one of the major product-related benefits, a well-functioning maintenance service and availability of spare parts have become essential; customers tend to rely on suppliers that are able to provide maintenance for their products. Customers want to minimize interruptions in their production, and therefore the importance of maintenance services close to the customer is emphasized. When using welding machines only from one supplier, the maintenance becomes easier and the likelihood for finding suitable spare parts increases.

In addition to maintenance and repair services, technical support and advice giving are vital service-related value drivers. Customers tend to be satisfied with the service if the technical support and advice are available when needed. And vice versa, if support and advice giving do not function at all, customers tend to switch to another supplier. It is important that the supplier takes care of the customer.

“Kemppi has no service at all. We haven’t seen any salesmen in fifteen years, they only have some advertisements. Therefore we don’t use their products. But with ESAB, everything concerning the service functions well. They are willing to give us answers to every question we ask, even if they have to search for the information.”

*Customer 3*
In some cases, the intensity of support and advice giving seems to be related to the size of the customer company. The bigger companies with higher purchasing power experience better and more flexible service than small manufacturing companies. Suppliers are naturally willing to sell to customers with high purchasing power, and therefore they are willing to provide good service as well. Bigger companies often have individual needs concerning welding machines, and these needs can be serviced by tailoring products accordingly.

“For example Kemppi is very flexible with its service, they take our preferences into account and modify their products accordingly.”

Customer 7

Not only the after sales activities such as technical support and maintenance services are important, also training and advice for using the machines are service attributes that contribute to customer value. If customers buy new kinds of machines, they need help with implementation. However, this help is not always available, and it inevitably weakens the perceived quality of the service.

4.2.4 Relational value drivers

In addition to economic, product-related and service-related benefits, relational aspects also contribute to customer value in the Finnish welding equipment market. As Barry and Terry (2008, 228) note, the examination of value from a relational perspective is relevant especially in industrial services because of the personal contacts between parties. Customer companies have engaged in personal relationships with suppliers, and this has led to some additional benefits contributing to the overall customer value.

For example the service that customers get is sometimes closely related to the personal relationship with the supplier. As some customers of welding equipment suppliers have noticed, the service they get is primarily due to the personal connections to the representatives of the supplier company. Therefore it is impossible to generalize that
one supplier has better service than other. Like other dimensions of customer value, also perceived service and benefits related to it are highly subjective.

“Well, we have got to know the key persons of supplier companies during these years, and we have a long history of co-operation with them. Therefore the service is good and we get advice also in other than product-related matters. But these are mainly personal acquaintances, and I don’t know how good the service would be if the people changed.”

Customer 8

The most important relational value driver in the Finnish welding equipment market is trust. Customers buy from suppliers they can rely on. Trust relates as well to product as to service features. What comes to the product quality, customers buy products that they have experience of and that are according to their own preferences. They know what they get if they buy from a supplier they are experienced with. Trust also relates to service; it is the confidence that products are delivered as agreed and that help, advice, and training is available when needed.

Another significant relational value driver relates to the supplier’s image. Since two big suppliers dominate the market, image has come to have a significant impact on the purchase decisions of customers. Customer companies hold a strong impression of these two suppliers. As Berry (2000, 128) note, strong brands enable customers to better understand the products. They reduce customers’ perceived monetary, social, and safety risks which are otherwise difficult to evaluate prior to purchase. Because of a strong image, customers are aware that these companies offer welding machines with good product and service attributes, and they are being credited also e.g. for their country of origin. Customers are continuously exposed to references regarding these suppliers, and therefore they believe to know what they get if they use machines from these suppliers.

“ESAB is a big, international supplier with all certificates and everything. We can get it all from the same supplier: consumables and machines. The service is invincible and located near us.”

Customer 3
“We mainly use Kemppi and ESAB since they are the dominant suppliers. We are an educational institute and therefore it is good that we use the dominant brands.”

Customer 9

However, some customers admit that they use these dominant suppliers only because it is a habit or a tradition. They have always purchased from the same suppliers, and keep on purchasing even if the service they get or the product attributes are not the best they can get. The reason for this behavior is apparently avoidance of sacrifices. These customers are not willing to face the costs that would occur when switching to another supplier. The relationship with the current supplier is satisfying enough, and they are not keen to maximize their benefits by looking for another supplier with more optimal product and service attributes.

4.3 Sources of value-based competitive advantage

According to Eggert and Ulaga (2002, 110), the strategic orientation of customer value is on assessing how value can be created for customers. It also aims to evaluate by which means a supplier’s market offering can best meet customers’ requirements. In order to uncover and fulfill customer requirements and turn them into an advantage, it seems essential for a supplier to closely examine the drivers that lie behind customers’ value creation. As mentioned by Grönroos (2007a, 187), the supplier needs to carefully design and manage as many elements of the customer interface as possible. However, it should be noticed that some elements are more critical to the customer than others.

The most difficult question in assessing customer value is on which of the customer value drivers to concentrate in order to achieve advantage over competitors (Woodruff 1997, 140). Therefore, identifying and understanding the most critical customer value drivers becomes essential. The identification of critical factors sheds light on the motives behind customers’ purchase decisions. Understanding customer buying motives helps to determine on which factors to concentrate in order to differentiate from competitors and to create competitive advantage.
Although several different value drivers contributing to overall customer value were identified during the interviews, some of them appear more critical than the others. In order to fully understand the sources of competitive advantage in the Finnish welding equipment market, it is necessary to discuss the critical factors customers base their purchase decisions on. Customer companies can be classified into four different types according to the priority attributes they require in a suppliers’ market offering; different customer types consider different factors critical when choosing a welding equipment supplier. These factors are the purchase price, economic benefits (other than the purchase price), service, and relational benefits.

An important remark is that all customers primarily look for certain technical, product-related benefits when acquiring a new welding machine. Technical attributes are a prerequisite for the purchase. However, the technical attributes are principally insufficient to make an adequate difference between suppliers’ product offerings. The reasons that contribute to customers’ purchase decisions are based on other critical factors. As illustrated in Figure 6, the majority of customer companies consider service and relational benefits most critical when choosing among suppliers. Only few companies build their purchase decisions on the purchase price or other economic benefits. The customer priorities are discussed in detail below.

Figure 6 Customer Preferences
4.3.1 Economic value drivers

Economic value drivers embody the lowest purchase price as well as the economic outcomes of physical product attributes. In welding supply industry, economic benefits arise as an outcome of durability and operational reliability of the welding machines and lead to cost savings due to a longer life time of the product and minimized interruptions in production. However, economic benefits are rarely considered as a primary reason or even critical when selecting a supplier.

Customers that select their primary supplier based on the purchase price are companies that only need conventional welding machines in their manufacturing processes. They only require machines with fundamental technical attributes and they don’t necessitate for example any alterations or modifications according to their individual needs – actually they don’t have any individual needs at all concerning welding machines. As Rintamäki et al. (2007, 627) have noticed, some customers only buy on the basis of the purchase price and are not willing or able to make monetary sacrifices in order to receive products of higher quality.

Because these customers only use conventional welding machines, they don’t require for example any advice in selecting the right machines or information about new product features. They make price comparisons between several suppliers, and build their purchase decisions on the lowest price – and then purchase a whole range of products from the same supplier. If new machines are to be purchased, these customers begin with price comparisons all over again and switch to another supplier if it is able to provide machines with lower price.

Concentrating on customers that make decisions based on the purchase price doesn’t create much of a potential for a supplier to achieve competitive advantage. Because all suppliers can provide welding machines with same core benefits, differentiating oneself from competitors is almost impossible. A supplier willing to compete with the lowest price strategy is likely to fail since the market is highly commoditized. In a market where all suppliers are able to provide customers with same core benefits, the
differences in price are marginal. Reducing price for customers would be the only way of differentiating from competitors in the eyes of this customer segment, but the lowest purchase price can not be offered without lowering production costs. This might not be even possible in order to sustain adequate product quality and retain required product attributes. In addition, this type of customers that value the lowest purchase price constitutes only a minority of all welding equipment buyers, and therefore they wouldn’t build up a solid foundation for competitive advantage.

The other marginal group of customers is companies that consider economic benefits most critical. These companies value advanced technology and first-class product attributes. They seek durability and a long life time of the machines, and base their purchase decisions for example on the high capacity, good adjustment options, a hybrid character, and an overall durability of the machines. They seek products that remain up-to-date for a long period of time or provide distinct monetary savings, and they are not willing to regularly renew their machine base. In contrast to the first customer type, for these customers the purchase price of the machines is not that critical; what matters most is that products either last for a long time or provide instant monetary savings.

However, a competitive edge is unlikely to be achieved if concentrated mainly on this type of customers; these companies are not willing to continuously purchase new machines, and are not committed to one supplier. These customers tend to change the supplier if someone else is able to provide machines that provide better economic benefits. On that account, concentrating on striving for competitive advantage based on economic value drivers would be highly risky, and this kind of differentiation might eventually turn out to be detrimental for a supplier. Unless the supplier is able to provide highly economical solutions that competitors can not easily imitate, a competitive advantage is not reasonable to be built on delivering economic benefits.
4.3.2 Product-related value drivers

The hierarchical structure of customer value becomes evident in this context; technical, product-related benefits build up the foundation for customer value and are a prerequisite for the purchase. However, in spite of their great importance, they can not be considered as a source of differentiation. In order to take a supplier in the consideration set, the product offering has to provide customers with certain core benefits. These benefits – such as durability, high capacity, operational reliability, advanced technology, and a hybrid character – are taken more or less for granted and all the suppliers in the consideration set are expected to be able to provide them.

As Grönroos (2007b, 75) has noticed, creating competitive advantage based on technical attributes is not easy because similar solutions can be introduced quickly. Also, as noticed by the American Welding Society (2008, 8), the pressure to regularly introduce new product lines and enhancements has been recognised in welding supply industry. Each new product cycle brings increased performance requirements and enhancements in product quality, and all the suppliers are exposed to the same pressure. This means that although technical benefits related to a physical product are highly essential, they are not enough to be considered as the foundation for competitive advantage.

The competition in industrial markets in general has become intense and fierce. Different companies are offering products with similar core benefits, and the concentration on core benefits has caused the commoditization of products. Eventually this has lead to the decrease in the level of differentiation (Matthyssens & Vandenbempt 2008, 317). Therefore, a supplier willing to enter the market needs not only to be able to provide customers with the desired product benefits, but will also have to find other ways to differentiate and build a competitive advantage.
4.3.3 Service-related value drivers

Service-related factors instead appear critical in welding supply industry. This notion is common in industrial markets in general. In order to adequately differentiate from competitors in commoditized markets, suppliers need to increasingly concentrate on moving towards a service-centered approach. Instead of being engrossed in just the physical benefits of a product, a company needs to concentrate more on developing other elements of its market offering. Much of the value of an offering may be highly intangible even though the results of the delivery of the offering are tangible (Brennan et al. 2007, 265).

According to the American Welding Society (2008, 6), the primary focus of welding equipment suppliers is still on merchandising, and only few suppliers have for example technical staff trained to help customers select the best processes for their needs or to solve their technical problems quickly. Especially small- and medium-sized manufacturing companies have little or no direct access to experts, and many of their welding applications are sub-optimal with penalties to the cost and quality of their products. However, some suppliers have recently realized that lack of technical expertise makes them look like commodity suppliers to their customers, and they are moving to improve their service. As Matthyssens and Vandenbempt (2008, 316–317) note, service support and personal interaction seem to have become core differentiators of value creation in business relations.

Service has become crucial also in the Finnish welding equipment market; if the desired service is not accessible, customers are likely to change to another supplier even if the desired technical or economic benefits would be distributed. And vice versa, if a supplier is able to provide overwhelming service compared to other suppliers, customers are more likely to remain with that supplier. The primary reason for switching to another supplier is the lack of service; that the machines can not be easily repaired, training and help with implementation is not provided, and advice is not available even upon request.
“A critical factor is most of all the technical support, meaning the technical knowhow of a supplier, and also that maintenance and repair services are available in the same town. If the critical factors function well, we don’t need any other services.”

Customer 4

Hence, the most critical factor concerning service is a well-functioning maintenance and repair service as well as the availability of spare parts. Since the products in welding supply industry are expected to be durable and have a long lifetime, a well-functioning maintenance and repair service is a matter of course. It is important that maintenance and repair services are located near the customer since interruptions in production are to be minimized. A supplier unable to fulfill the requirement of a well-functioning maintenance and repair service will unlikely survive in the Finnish welding equipment market.

The largest segment of customers belongs to this type that considers service-related factors as most critical. These customers consider a well-functioning maintenance and repair service as a necessity, and without a good service they wouldn’t engage in transactions with that particular supplier. In addition to this requirement, customers of this type request training, help with implementation, advice giving, and technical support. These customers value a supplier’s willingness to invest time and effort on serving them, and they are willing to pay more in order to receive good service. Customers tend to keep on purchasing from the supplier as long as the service requirements are fulfilled; if they don’t receive desired service, they might easily switch to another supplier.

The greatest potential for creating competitive advantage in the Finnish welding equipment market is in providing superior service attributes. Not only for existing suppliers, concentrating on service attributes provides chances also for a new supplier to succeed in competition. Although the majority of customers request superior service, they don’t always have access to it. Customers admit that they often purchase from a supplier that can not fully satisfy their needs regarding the service. This may be a result of the customer’s unwillingness to search for alternative suppliers, but sometimes
customers settle for unsatisfactory service because they don’t have any other options, i.e. if switching to another supplier is out of question.

The inability of changing the supplier may be due to the location or the size of the customer company, or changing a supplier wouldn’t be possible without renouncing other important benefits. It was recognized during this study that bigger companies sometimes have access to better service than smaller companies, and for example the maintenance and repair services might not be located near the customer. The lack of service has led to a situation where some customers have to settle for more inferior service than requested. By locating these service gaps, a new supplier could enter the market and provide desired service where needed, and in so doing start to build long-lasting relationships with this group of customers.

4.3.4 Relational value drivers

Providing customers with the desired relational benefits as well appear highly important in the Finnish welding equipment market. Especially trust seems to be a way to attract customers and make them committed; customers purchase from suppliers they can rely on. However, particularly for a new supplier, building trust is not easy; trust occurs due to an image of a reliable supplier. A reliable supplier is known to provide customers with products and services of desired quality as well as on-time deliveries, and a new supplier is unlikely to have built this kind of an image prior to entering the market. Trust occurs mainly in relationships with existing suppliers – with suppliers, customers have experience of dealing with.

These customers, who build their purchase decisions on relational benefits, are highly committed to their primary supplier. They are convinced that the supplier’s market offering fulfill their requirements – at least in major parts. Customers that emphasize relational benefits tend to be forgiving to their suppliers; even if some preferences remain unmet, customers are likely to stay with the supplier. These companies have stayed with the current supplier for a long time, and they know what to expect when engaged in transactions with these suppliers. This customer type prioritizes the easiness of purchasing, and they often get a whole package from the same supplier – welding
machines, consumables, maintenance and repair services, training, as well as technical support and advice.

Although relational benefits occur mainly due to a long relationship with a supplier, there are chances also for a new supplier to create competitive advantage by providing relational benefits. However, it requires that the supplier succeeds in creating and communicating an image of a reliable supplier. The customers that prioritize relational benefits only do business with suppliers they can count on, and therefore it requires time and effort to convince the customers of the supplier’s product and service quality. However, after having succeeded in convincing customers, a supplier can make customers committed for a long period of time.

The chances on creating long-term relationships with customers occur mainly with those customers that currently lack service or some other desired benefits. By providing these customers with something they need or desire, for example better availability of spare parts, technical advice, or help with implementation, a supplier might easily make that customer committed. The key to make relationship-oriented customers committed is to make the service personal; to show, that you care about them and are willing to fulfill their desires and requirements the best way you can. By providing improved, personal service together with desired product attributes, the chances to succeed in competition are high.
5 CONCLUDING DISCUSSION

5.1 Customer value as a source of competitive advantage

The increased competition in industrial markets together with the growing demands of customers has led to a continuous search for new ways to achieve and retain competitive advantage (Woodruff 1997, 139). As Matthyssens and Vandenbempt (1998, 340) note, suppliers in industrial markets are confronted with the need to respond to ever faster commoditization and price pressure. The need to find new sources of competitive advantage is also identified in the Finnish welding supply industry where physical products have become undifferentiated in the minds of customers. Emphasizing physical product attributes or striving for the lowest purchase price seems to be leading nowhere in terms of competition. The Finnish welding equipment market is dominated by two strong suppliers, and a competitive advantage over these suppliers has become difficult to achieve.

This study was conducted to evaluate the chances for a new supplier to use the customer value concept as a foundation for differentiation in the Finnish welding equipment market. As described in the previous literature, the concept of customer value is considered central when striving for competitive advantage especially because of the direct impact of it on behavioral outcomes of customers (Eggert & Ulaga 2002, 111). The customer value approach assumes that purchase decisions are made with value as a key driver, and it aims to identify how customers evaluate competing offerings (Evans 2002, 15). However, as Lapierre (2000, 122) notes, remarkably few companies have the knowledge or the capability to actually assess customer value. Therefore, by devoting itself to the customer value concept, a supplier company can turn the knowledge into a source of competitive advantage.
In this study, customer value has been discussed as a subjectively perceived, multidimensional construct. Customers individually evaluate a suppliers’ product offering and compare it with other suppliers’ offerings. Customer companies have preferences and requirements that lie behind their purchase decisions. These preferences and requirements serve as value drivers for customers. As Walters (1999, 248) describe, value drivers are those attributes of a market offering that a customer considers as a primary reason for selecting that product. In this sense, these value drivers include all those attributes that appear critical when selecting a supplier’s product instead of that of another supplier.

This study was conducted by using a qualitative approach. The objective of this study was to explore and to analyze customer value drivers in the Finnish welding equipment market and to discuss their relevance to competitive advantage of welding equipment suppliers. Altogether 13 interviews were conducted with customer companies in different fields of engineering in order to generate the data. By carefully analyzing this data, several customer value drivers and motivations to purchase were identified.

As discussed in section two, customer value in industrial markets consists of economic, product-related, service-related, and relational benefits as well as monetary and non-monetary sacrifices. This study, however, only concentrated on identifying and discussing the benefits perceived by customers, purposefully leaving the sacrifices out of the study. Since this study aimed at exploring the customer value drivers, it was essential to concentrate on identifying those benefits that are critical for customers when selecting a supplier.

As illustrated in Figure 7, customer value in the Finnish welding equipment market is derived from multiple value drivers. Divided into the four above-mentioned categories, altogether 16 different value drivers were identified during the study. Economic value drivers encompass benefits such as the lowest purchase price and monetary savings that occur due to a long life time of welding machines. Product-related value drivers are related to the performance and functionality of the machines. These drivers are durability, operational reliability, advanced technology, and versatility, i.e. a hybrid character of a machine. Service-related value drivers cover well-functioning maintenance and repair services, technical support, advice giving, training, help with
implementation, and product tailoring. The fourth group of value drivers includes relational benefits such as trust, supplier’s image, personal interactions, and a history with the supplier.

Figure 7 Customer Value Drivers in the Finnish Welding Equipment Market
Although several value drivers affecting customers’ purchase decisions in the Finnish welding equipment market were identified, it is important to notice that these value drivers are not equally important for all the customers. As Anderson et al. (2007, 27) note, customers must decide which suppliers’ market offerings fulfill a set of their requirements and preferences. When more than one supplier’s market offering successfully fulfills these requirements, customers need to decide which supplier’s offering delivers the greatest value to their company. Since customer value is a subjectively perceived construct, different customer companies prioritize different benefits. Therefore, the sources of competitive advantage are not straightforward. The most difficult task for a supplier is to evaluate which of these value drivers are most essential to concentrate on (Woodruff 1997, 140).

In general, it can be concluded that product-related benefits are highly essential and a prerequisite for the purchase, but a market offering in commoditized markets can not be adequately differentiated only based on the physical attributes of a product. The technical product attributes are often insufficient to be used as a foundation for differentiation. As Matthyssens and Vandenbempt (2007, 317) note, the level of differentiation in commoditized markets is drastically decreased, and all suppliers are expected to be able to provide products with more or less the same technical attributes.

Also enhancing economic benefits alone tends to be an insufficient way to differentiate from competitors in the Finnish welding supply industry. Customer companies that seek economic benefits often content themselves with the conventional welding machines; these companies request machines that remain up-to-date and are durable and reliable, but they are not willing to renew their machine base or request improved or additional service and product attributes very often. A long-lasting, beneficial relationship with these customers is unlikely to be achieved. A competition with the lowest purchase price combined with the unwillingnessness of these customers to commit themselves to one single supplier will not provide a sustainable foundation for a supplier to create competitive advantage. Instead, the differentiation should rather be based on providing other benefits.
The largest potential for creating competitive advantage can be found in service-related value drivers. As Brennan et al. (2007, 265) have noticed, in order to achieve competitive advantage in commoditized markets, a supplier needs to concentrate on moving towards a service-centered approach. Customers are aware that different suppliers are able to offer welding machines with similar core benefits, and they differentiate between suppliers much based on the service that they provide. What comes to the service attributes, customer companies in the Finnish welding equipment market have become more demanding; if the desired service is not available, customers are willing to switch to another supplier.

This situation is, however, somewhat inconsistent with the fact that a desired level of service is not always accessible for all the customers. The potential for achieving competitive advantage by concentrating on service elements can be justified with this notion. A supplier that is able to identify these service gaps and to provide improved service elements where needed can get customers more committed to itself.

The provision of superior service for those customers that currently lack it may lead to long-term relationships with the customers. By convincing customers not only of the physical product attributes but also of the ability to provide desired service, a supplier may succeed in creating an image of a reliable and competent supplier. As Ulaga and Eggert (2006, 119) note, relational benefits display a strong potential for differentiation in business markets. Also in the Finnish welding supply industry, the supplier’s image is an important differentiator, and the customers are more willing to commit themselves to a supplier they can count on.

To conclude, the key to create value-based competitive advantage in the Finnish welding supply industry is on providing customers with the desired service and relational benefits. The chances for a supplier to succeed in competition can be increased by providing service elements for those customers that currently lack it and making the interactions personal. Obviously, a welding equipment supplier needs to supply customers with the desired physical product quality, but the differentiation in the minds of customers occurs mainly through service and relational elements.
5.2 Managerial implications

This study contributes to the understanding of customer value in the Finnish welding equipment market. It provides valuable practical implications for welding equipment suppliers about chances to utilize the customer value concept in creating competitive advantage. As Aaker et al. (1998, 4) note, effective marketing strategies are built on an in-depth understanding of the specific characteristics of the market. However, it has been noticed that different suppliers vary tremendously in their knowledge of how their market offering deliver value to customers relative to the next-best alternative (Anderson et al. 2007, 42).

Therefore, understanding which drivers create customer value in the Finnish welding supply industry improves a supplier’s chances of creating a competitively strong position in the market. It, however, requires that a supplier knows how to turn this knowledge into a benefit. Understanding the fact that customer value is a subjectively perceived construct and that customers may be divided into segments according to their preferences and critical value drivers can help a supplier to identify the best market niches to concentrate on.

Although creating highly targeted products that appeal to the tastes of small market segments has traditionally been considered a certain route to growth, following this route has become challenging in mature and saturated markets (Aaker et al. 1998, 7). As is the situation in the Finnish welding equipment market, a minority of the customer companies prefer technical and economic benefits over others. An adequate differentiation and therefore a competitive advantage in a commoditized market are, however, unlikely to be achieved by concentrating on providing superior technical or economic benefits, and the greatest potential for a supplier to achieve competitive advantage is rather on providing service and relational benefits.

It is important for a supplier to remember that the actual value is not created by the supplier but by the customer through the relationship and in interactions between the supplier and the customer (Vargo & Lusch 2004, 11). Therefore, adopting a service-centered approach is the key to success in Finnish welding supply industry. As Vargo
and Lusch (2004, 6) note, collaborating with and learning from the customers and being adaptive to their individual needs is the essence of being customer-oriented.

It is, however, not enough that a supplier only identifies what customers value the most. A supplier also needs to be able to convince customers about its potential of delivering the desired value. Although, as Walters (1999, 249) note, customers individually formulate evaluative criteria when choosing among competitive market offerings, they might not have a clear perception about better options. They often understand their own requirements but they might lack capabilities to adequately evaluate what fulfilling these requirements are worth to them (Aaker 2008, 140).

This is where the notion of value delivery becomes essential. As Anderson et al (2006, 94) note, it is essential for a supplier to identify what customers really value. By carefully documenting and demonstrating that a supplier’s market offering includes the preferred value elements, a supplier can convince customers about its proficiency of fulfilling customer requirements. As evident in the Finnish welding supply industry, customers sometimes settle for inferior product, service or relationship quality than actually requested. This may be due to an insufficient value identification and delivery of the current suppliers, but customers might also be unaware of other options.

Therefore, in order to actually turn this knowledge of customer value drivers into a competitive advantage, a supplier needs to be able to deliver the desired value to customers. As Anderson et al. (2007, 5) describe, in order to get an equitable return, a supplier needs to persuasively document and demonstrate the added value or cost savings that their market offering deliver to customers. This, however, requires that a supplier has first identified which customer segments to serve and which value drivers to concentrate on. As discussed earlier in this study, a supplier needs to evaluate where the greatest potential for fulfilling customer requirements and achieving competitive advantage lies, and concentrate on making its market offering superior on those elements that matter the most.
The decision of value elements to be concentrated on should be carefully taken. A supplier needs to understand that a careful analysis of customer value drivers helps to create a competitively strong position. However, as Aaker et al. (1998, 8) note, an understanding of competitive advantage in a market also requires detailed knowledge of the capabilities, strategies, and intentions of present and prospective competitors. Identifying the competitive set and collecting detailed information about each competitor are part of a strategy development process and need to be analyzed prior to making final decisions concerning market penetration.
REFERENCES


Internet sources


APPENDICES

APPENDIX 1: Interview Outline

1. General information
   a. The type of welding machines in use
   b. Primary welding equipment supplier
   c. Primary reasons for purchasing from current supplier
   d. Critical factors concerning the purchase

2. Product-related factors
   a. What elements of welding machines do you consider most important? Why?
   b. Do the machines currently in use match your requirements? Why/why not?
   c. What additional attributes should the machines have? How could the (physical elements of) machines be improved?

3. Service-related factors
   a. In general, are you satisfied with the service you get from your supplier? Why/why not?
   b. What kind of services you currently get from your supplier?
   c. What kind of services would you prefer? How could the service be improved? (e.g. help with implementation, maintenance, training, technical support, information about new products and improvements, help with estimating your needs/finding the best solution for you)

4. Relational factors
   a. What are the primary reasons for using current supplier?
   b. Do you use any additional supplier? Why/why not?
   c. Have you previously changed to another supplier?
      i. If yes, why?
      ii. If no, have you ever considered of switching? Why/why not?

5. Economic factors
   a. What economic benefits you expect to get when using a welding machine?
   b. What role does the price play in your purchase decisions?
**APPENDIX 2: A List of Interviewed Companies**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>No. of Employees</th>
<th>Turnover 2007</th>
<th>Interview Date</th>
</tr>
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<tbody>
<tr>
<td>YIT Power Oy (YIT Huber)</td>
<td>Ylivieska</td>
<td>3700</td>
<td>330 000 000 €</td>
<td>23.2.2009</td>
</tr>
<tr>
<td>Hollming Works</td>
<td>Pori</td>
<td>581</td>
<td>65 033 000 €</td>
<td>23.2.2009</td>
</tr>
<tr>
<td>Vaahto Group</td>
<td>Lahti (Hollola)</td>
<td>414</td>
<td>88 161 000 €</td>
<td>24.2.2009</td>
</tr>
<tr>
<td>Savonlinna Works</td>
<td>Savonlinna</td>
<td>238</td>
<td>86 865 000 €</td>
<td>3.3.2009</td>
</tr>
<tr>
<td>Högfors Sahala</td>
<td>Varkaus</td>
<td>215</td>
<td>35 000 000 €</td>
<td>16.2.2009</td>
</tr>
<tr>
<td>Raumaster Oy</td>
<td>Rauma</td>
<td>194</td>
<td>71 407 000 €</td>
<td>23.2.2009</td>
</tr>
<tr>
<td>Kumera Machinery Oy</td>
<td>Kylmäkoski</td>
<td>97</td>
<td>13 558 000 €</td>
<td>13.2.2009</td>
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<tr>
<td>Rämö Oy</td>
<td>Imatra</td>
<td>89</td>
<td>15 479 000 €</td>
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<td>60</td>
<td>12 796 000 €</td>
<td>20.2.2009</td>
</tr>
<tr>
<td>Uudenmaan Projektiasennus Oy</td>
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<td>59</td>
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</tr>
<tr>
<td>Iin Konepaja</td>
<td>Ii</td>
<td>23</td>
<td>5 742 000 €</td>
<td>19.2.2009</td>
</tr>
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<td>TAKK vocational education institution</td>
<td>Tampere</td>
<td>-</td>
<td>-</td>
<td>27.2.2009</td>
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