

## In a nutshell: Project customization and the supplier revenue-cost dilemmas

Scientific articles contain valuable management implications but are usually not very easy to digest. We summarize the core results so that you can use the latest research findings for your company.

### Original

Customization is a key practice for implementing customer-oriented marketing strategies geared toward creating unique value for individual customers. Particularly in business-to-business (B2B) markets, customization is an important route to building and strengthening relationships with customers. However, firms face challenges in providing customized solutions that are also profitable.

Customization can increase sales revenue by better serving customer needs, but it can also lead to higher costs associated with the complex coordination processes required to define the specific needs of individual customers and make relevant adaptations to existing products. [...]

This study examines customization as a coordination problem in transactions with business customers. Marketing research has investigated challenges associated with customized offers from the customer side; however, scant research has examined the supplier's challenges and their performance implications. The authors distinguish between project revenues and costs to reveal a fundamental dilemma that suppliers face during customization. Analyses of dyadic survey data collected from a software supplier and its business customers, as well as objective revenue and cost data, reveal a tension between project revenues and costs. The outcomes of customization depend on factors that relieve the coordination problem, such as customer demand ambiguity, customer participation, product modularity, project team technological capability, and relational embeddedness. [...]

Customization is an important practice for implementing customer-oriented marketing, and the findings of this study provide new insights into when firms should use customization to serve their business customers, as well as how to manage it. Broadly, suppliers should pay close attention to project revenues and costs when developing and implementing customized solutions.

### Key statements

To escape the interchangeability trap and generate added value, many B2B providers adapt their products and services to suit their customers. While customers certainly benefit, customizing services for individual customers represents a balancing act for suppliers. Implementing custom solutions increases sales, but such adjustments also drive up costs.

In their study, the authors draw on data from 134 B2B supplier and customer pairs to examine which levers suppliers can use to optimize the relationship between revenue and costs with tailored solutions. The conclusion they reach is that a variety of different factors increase (R+/C+) and decrease (R-/C-) revenue and costs.

While providers can increase their revenue (R+) by making technical upgrades to their project teams or by developing unique solutions together with customers, costs can skyrocket if customers are too closely integrated (C+). Breaking services down into modules is an important lever for controlling costs (C-). Modularization makes it possible for suppliers to meet individual customer needs more effectively without causing costs to detonate. If the needs of the customer are unclear, this has a negative impact on revenue (R-).

Start with the following points if you want to make your business more profitable with custom solutions:

- **Focus on customer needs:** Customization per se does not create added value for the customer. It only makes sense if you, as a supplier, know precisely what the customer requirements are and properly address their needs.
- **Know the value of an opportunity:** Tailor-made solutions are not for the masses. Offer them only in case of promising and profitable customer opportunities.
- **Adapt your portfolio:** Don't forget to regularly evaluate whether your offering continues to meet customer needs. To save costs, rigorously eliminate products and services that do not add value.

Source:

Edwards, J., Miles, M. P., D'Alessandro, S. & Frost, M. (2022). Linking B2B sales performance to entrepreneurial self-efficacy, entrepreneurial selling actions. *Journal of Business Research*, 142, 585–593.

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#### **Contact**

Would you like to learn more? Do not hesitate to contact Anna Lindenau in case any questions remain unresolved.

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