

B2B Marketing

Lecture 1

B2B Marketing Goals

1. Define, describe and interpret topics related to **business marketing**, such as value creation in business markets, organizational buying behaviour and managing customer relations.
2. **Apply** theoretical insights to solve **companies' problems** and critically evaluate the suitability of the theory.
3. Understand and quantify the **value** of a market offering for a customer.
4. Handle a **negotiation** situation and understand how the outcomes of the negotiation effect the performance of the **supply chain**.
5. Design a **convincing presentation** or **sales pitch** and present this to the peer group.

1. Importance and Characteristics of B2B Markets

B2B Marketing = study the characteristics of organizational buying behaviour rather than characteristics of individual customers.

Basic characteristics B2B marketing:

- Multiple buying influences;
- High degree of formalization;
- Derived demand (demand is determined from customers in downstream markets);
- Multi-organizational participation (additional organizations involved in procurement);
- Long-term nature of business relationship;
- High degree of individualization (specific needs instead of standardized products);
- High degree of interaction (personal contacts play key role in success).

B2B Marketing mix is specified according to respective business type:

- Product business (anonymous mass market): classical approach; consumer goods marketing;
- Supplier-, systems- and project business: different foci on developing marketing mix.

2. Understanding Value

2.1 Understanding Value Creation in Business Markets

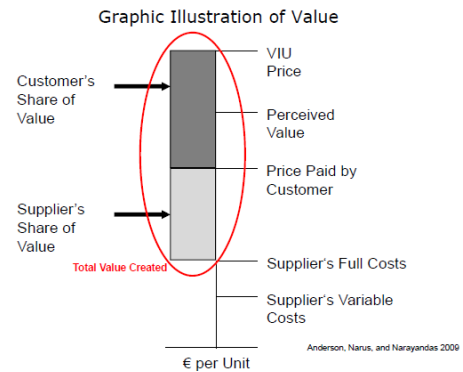
Organizational purchasing following strategic purchasing strategy:

- Focus on value creation;
- Supply chain concepts;
- For globalized economy.

Value in Business Markets

- Value = worth in monetary terms of economic, technical, service, and social benefits a customer receives in exchange for price it pays for market offering.
- Fundamental Value Equation: $(Value_f - Price_f) > (Value_a - Price_a)$
 - o Value (V) = benefits minus costs associated with acquisition, use, and disposal or recycling of supplier's market offering.
 - o Price (P) = net price customer firm pays for supplier's market offering.
 - o $V_f - P_f$ = customer's incentive to buy (CIB).
 - o $V_f - P_f > V_a - P_a$ = customer will prefer offering f.
 - o $P_f < P_a$ = CIB if suppliers and/or customers don't understand value.

- Value-in-Use (VIU) = superior benefits in excess of costs and price, the Δ , that a customer firm gets from purchasing and using your firm's market offering rather than a competitor's: $VIU_{fa} = (V_f - V_a) - (P_f - P_a) \rightarrow$ value-in-use as basis of value proposition.
- Value-in-Use Price (VIU Price): indifference price at which customer firm would have no preference between your market offering or competitor's: $VIU Price_{fa} = P_a + (V_f - V_a) \rightarrow$ VIU Price as reference point in price negotiations with customer.



Customer Value Management

- Customer Value Models: data-drive estimates of what present/prospective market offering is worth to target customers relative to next-best-alternative offering for those customers.
- Steps to customer value model:
 1. List all value and price elements of offering and compare to competitor; evaluate points of parity/contention/difference;
 2. Write word equations for each relevant value and price element;
 3. List non-quantifiable elements as placeholders (+, -, ?);
 4. Create value-model spreadsheet, specifying data and assumptions;
 - a. Value elements: cost savings and benefits \rightarrow total value;
 - b. Placeholders (+, -, ?);
 - c. Price elements: initial price difference, adjustments \rightarrow differential price;
 - d. Value-in-use = Value elements + Price elements.
 5. State value proposition.

Net Present Value (NPV)

$$NPV = Investment + \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$

- Take into account t (mostly in years);
- Investment = Old price – New price.

Lecture 2

Goals:

- Key things you need to know about each B2B customer;
- Impact of digitalization on organizational buying;
- Importance of industrial services;
- Relevance of B2B Branding
- Analyse an organizational buying situation

2.2 Understanding You Customer

2.2.1. Buying Center (BC)

- Group of individuals who participate in an organizational purchase decision; informal group; summary of all people involved in buying decision-making process.
- Buyer: has formal authority and responsibility to select supplier and negotiate terms.
- User: actually uses service/product.
- Influencer: opinion leader who affects buying decisions; helping define specifications.
- Gatekeeper: controls flow of information in buying center; influences purchasing decision.
- Decider: has formal and informal power to select/approve supplier that receives contract.

2.2.2. Buying Situation

Situation-specific determinants of organizational buying:

1. Economic relevance
 - a. Costs associated with purchase; relevance of purchase decision for firm's own business objectives; relative value of investment.
 - b. Number of suppliers increases with increasing economic importance of product.
2. Complexity
 - a. Complexity of buying situation (e.g. number of potential suppliers); product complexity; required effort within organization to make adequate decision.
 - b. number of suppliers decreases with increasing complexity of procurement situation.
3. Risk associated with buying situation
 - a. Consequences of a wrong decision; uncertainty as to whether buying problem can be adequately solved = probability of wrong decision.
4. Novelty of buying situation
 - a. How familiar is purchasing situation for company? Related to this: information needs; considerations and evaluations of new alternatives.

2.2.3. Process

Buygrid: Combining type of purchase and purchase process

- Generic conceptual model for procurement processes or organizations and distinguishes three buying situations:
 1. New task: high novelty; maximum information needed; important consider new alternatives.
 2. Modified rebuy: medium novelty; limited information needed; limited importance new alternatives.
 3. Straight rebuy: low novelty; minimum information needed; no consideration of new alternatives needed.

Wind, Yoram, Thomas, (2010), Organizational Buying Behaviour in an Interdependent World. *Journal of Global Academy of Marketing Science*, 20 (2), 110-122.

Drivers that lead to increased organizational interdependency:

- Accelerating globalization: rapid globalization increases the likelihood that organizations with innovation and/or cost advantages will partner to form new business models.
- Flattening networks of organizations: increased formation of networks among organizations that can result in lock-in or lock-out of other organizations.
- Disrupting value chains: reverse flow of consumer needs can undermine traditional value chain relationships thereby shifting organizational dependencies.
- Intensifying government involvement: increasing role governments/regulators/others leads to changing rules that impact when and how organizations can partner.
- Continuously fragmenting customer needs: customers are more specific and vocal about their needs creating market segments that disrupt operational scale and can create new partnerships.

Consequences of Digitalization for Organizational Buying

- Automated need recognition (industry 4.0, internet of things, predictive maintenance);
- Online market place;
- Availability of information via internet;
- Internal audit platforms.
- 71% of B2B buyers start their buying process with general online search and before provider is contracted, 57% of purchase process is already over (=inbound-marketing).
 - o Inbound-marketing: being found by customer;
 - o Outbound-marketing: finding the customer.

3. Creating Value

3.1. Managing Market Offerings

3.1.1. Managing Solutions

Managing Market Offers – Overview

- Brand management: trading neglect of branding.
- Innovation management: importance of customer integration in new product development (NPD) process; test of market acceptance for new product by lead users (no test markets); higher complexity of market launch due to buying center concept.
- Management of products already established in the market: importance of product differentiation, hybrid offers, and solutions; risk of commoditization.
 - o Commodity trap: offers of competing suppliers are interchangeable → customers perceive offer as substitutes → gaining competitive advantage is almost impossible → eroding prices and margins; increasing competition; increasing R&D costs; shorter life cycles; stagnating markets.
 - o Escaping commodity trap by adding value: core product +
 - Individualization benefits: individualized packaging;
 - Assortment benefits: product alliances;
 - Logistics benefits: just-in-time delivery;
 - Commercial benefits: marketing and sales support;
 - Brand benefits: quality signal and risk reduction;
 - Business strategy benefits: reliability and availability;
 - Support benefits: clear responsibilities and key contact person.

Benefits of Industrial Services

- Competitive advantage through industrial services:
 - o Prevention of price wars;
 - o Langer market;
 - o Continuity of demand: compared to product life cycle, maintenance life cycle is three times as long; e.g. turnover of maintenance can be twice the product turnover;
 - o Creation of market entry barriers;
 - o Cross-selling effects;
 - o Improving customer retention.

Macdonald, Kleinaltenkamp, & Wilson (2016). How Business Customers Judge Solutions: Solution Quality and Value in Use. *Journal of Marketing* 80(3), 96-120.

- Solutions: combining of supplier and customer processes and resources through joint resource integration process to create collective and individual value-in-use, which is monitored and optimized through value-auditing processes.
- Value-in-use: describes all customer-perceived consequences arising from solution that facilitate or hinder achievement of customer's goals.
- Idea of the model: solution's value proposition is jointly designed by supplier and customer: business customers assess solution quality depending on quality of supplier's resources and processes but also of their own resources and processes as well as of joint resource integration process → Value-in-use corresponds to collective and individual goals.
- Four moderators of quality-value relationship across employee roles and customer firms:
 - o Resource integration involvement; employees who are more embedded in core resource integration process, solution quality has greater impact on their individual job performance and well-being.
 - o Role extraversion: reduces relationship between customer resource quality and resource integration process quality; value in use (collective and individual)
 - o Solution ownership: enhances relationship between value-in-use auditing quality and collective value in use.

- Reconfiguration Capability: customer firm's ability to amend its processes in order to optimize value in use from the solution.
- Creation of additional value-in-use:
 - Solution quality:
 - Resource quality: supplier resources and customer resources.
 - Process quality: value-in-use auditing by supplier and auditing by customers
→ resource integration.
 - Depend on role extraversion and reconfiguration capability.
 - Solution ownership and resource integration involvement positively influence eventual value-in-use.
 - Value-in-use:
 - Collective VIU = operational performance + process improvement + innovativeness + competitive advantage + reduced financial risk + dependence avoidance.
 - Individual VIU = simplicity + pressure reduction + perceived control + uncertainty reduction + personal reputation + social comfort.

Advantages and Disadvantages of Solutions business:

Positives:

- Value added;
- Differentiation;
- Less replicable.

Negatives:

- Risk transfer;
- Moral hazard;
- Complexity;
- Smaller scale effects.

Solutions advantageous in industries with:

- High customer power;
- High level of commoditization;
- Low level of technology intensity.

Solutions: Effects on Firm Performance

- Solutions are associated with increased return on sales, this effect is:
 - Enhanced in firms with greater sales capabilities;
 - Stronger in industries with greater buyer power;
 - Weaker in technology-intensive industries.

Product + Services = Solutions?

- Supplier perspective: view a solution as customized, integrated bundle of goods and services.
- Customer perspective: view solution more broadly as set of customer-supplier relational processes comprising (1) customer requirements definition, (2) customization and integration of goods and/or services and (3) their deployment, and (4) post deployment customer support.

3.1.3. Brand Management

Homburg, Klarmann, & Schmitt (2010), Brand Awareness in Business Markets: When Is It Related to Firm Performance?, *International Journal of Research in Marketing*, 27(3), 201-212

- Increasing importance of B2B brand management.

Specific brand functions in B2C and B2B markets:

- B2C: information efficiency is faster and better (37%); identification by differentiation and indication of origin, based on recognition (23%), uses emotional appeals (40%).
- B2B: information efficiency is for communication and reduction of complexity (41%). Risk reduction is important; justification of choice, signal of problem-solving competencies and continuity (45%). Symbolic and emotional benefits are communication of company's values, transfer of reputation (14%).
- B2C and B2B: information efficiency for orientation. Risk reduction: reduction of quality and financial risk. Symbolic and emotional benefits: demonstration.

Success factors of B2B Branding:

- Product homogeneity: high as opposed to low product homogeneity, brand awareness affects market performance more positively.
- Technological turbulence: high as opposed to low technological turbulence, brand awareness affects market performance more positively.
- Buying center heterogeneity: high as opposed to low heterogeneity, brand awareness affects market performance less positively.
- Time pressure: high as opposed to low time pressure, brand awareness affects market more positively.

Lecture 3

Goals:

- Know how to set prices in B2B setting.
- Understand behavioural aspects B2B pricing.
- Know how to negotiate prices.
- Apply value-in-use pricing.

3.2. Pricing and Negotiation

- Pricing is viewed as most toughest problem by managers.
- A 1% price increase can lead to a higher profit increase.
- Characteristics of pricing in B2B markets:
 - o Relevance of price negotiations; competitive bidding.
 - o Long-term impact of pricing decisions.
 - o Importance of additional services.
 - o Pricing of spare parts.
 - o Delegation of price authority to the sales force.
 - o Dealing with professional buyers.
 - o Lack of transparency of competitors' prices.

Price psychology vs. classical pricing theory:

- Classical microeconomic pricing theory (S-R-perspective): stimulus (objective price) → response (purchase/non-purchase, brand-/product choice, purchase volume, time of purchase etc.) = perfect rationality.
- Price psychology (S-O-R-perspective): stimulus (objective price) → Organism (price perception → price evaluation/judgement → price storage) → response (purchase/non-purchase, purchase volume) = bounded rationality.

Reference prices and loss aversion

- Price evaluation according to classical microeconomic pricing theory: benefit + price → price evaluation.
- Usually observed mechanism of price evaluation: reference price + price → price evaluation.
- Dynamics of reference prices are especially relevant for price promotions.
- Additional problem caused by price promotion is the loss aversion of customers.

Zhang, Netzer, & Ansari (2014), Dynamic Targeted Pricing in B2B Relationships, Marketing Science, 33(3) 317-337. Skip modelling part.

Model-free Results:

- Length of relationship (number of orders) decreases probability of quote request (bid probability):
 - o Favourable for buyer: saves transaction and search costs;
 - o Favourable for supplier: stable cash flows without quote request.
- Discrepant prices between order asymmetrically influences buyers:
 - o Gains reduce likelihood of bids and increase accept probability;
 - o Losses increase likelihood of bids and decreases accept probability;
 - o Positive effects of gains are weaker than negative effects of losses.

Segment results:

- Identification of two segments: relaxed and vigilant buyers;
- Transitions matrix reveals sticky states (i.e. for average price the probability of remaining in relaxed state is 85.7% and in vigilant state even 92.3%)
- Gains (10% price decrease) increases switching probability from vigilant to relaxed with 2% point. Losses (10% price increase) increases switching from relaxed to vigilant with 9% points.
- Long-term effects: losses decrease change in bid acceptance in absolute values stronger than gains increase bid acceptance. Effect of gains almost disappears after three time units, effect of losses remain for more than ten time units. Thus, losses loom larger and longer than gains.

Determination of Offer Price:

- Customer-based pricing: monetization of benefits advantage (superiority premium): value-in-use pricing; value-in-use price = price cap.
- Submission-pricing (competitor-based pricing/competitive bidding):
 - o Determination of realistic competitive prices;
 - o Estimation of probabilities of winning the tender (and respective project costs);
 - o Determination of optimal price (with maximum contribution margin).
- Cost-plus-pricing (cost-based pricing):
 - o Mostly no complete cost estimation from scratch to obtain reliable forecasting of project costs due to need for large and hard-to-obtain data and the necessity to limit costs association with the quote;
 - o Instead, usually only estimation of project costs to determine lower price limit:
 - Procedure without differentiated quantity structure:
 - Kilo-cost-method: one determinant; development of manufacturing costs is made dependent on one central cost driver → simple regression based on expected values.
 - Influence factor calculation: several influencing factors; estimation of influence of manufacturing costs → multiple regression based on cost functions.
 - Material cost method: assumes fixed relationship between material, labour and production costs → estimation of manufacturing costs from previous projects.

- Modification price approach: adjustment of costs of similar past projects by means of specifics of the current project, e.g. climate, inflation rate → estimation of total costs of an order.
- Procedure with differentiated quantity structure: rough cost planning approach, learning approach.

Relevance of Competitive Bidding:

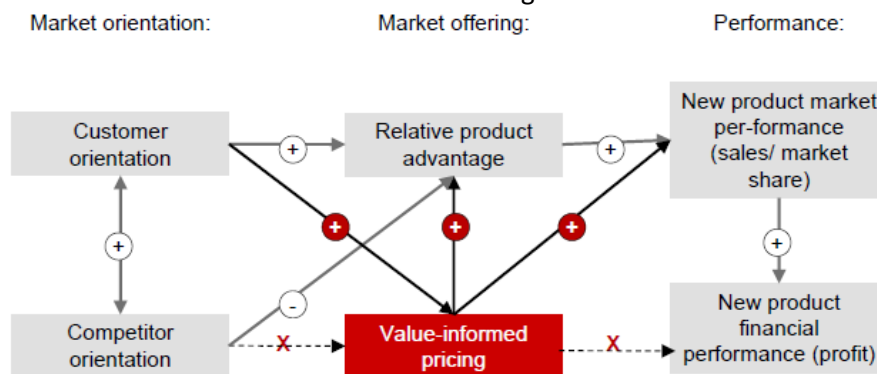
- Method of price determination;
- Suppliers are asked by customers to submit offer (bid) for well-defined performance bundle;
- Bidding process is usually secret (closed bid);
- Company with lowest price bid gets deal;
- Proceeding is often used for tenders;
- Mainly public organizations but also firms (have to) use this proceeding (EU Law);
- Goal: formalize process of highly complex procurement activities;
- Two central decision problems for supplier's point of view:
 - Selection of customer queries (=decision about participation in tender: e.g. use of check-list, evaluation of expected costs of preparing, evaluation of expected profitability against target profitability).
 - Competitive bidding (=stating of bid price in case of participation).

Competitive bidding:

- Goal of supplier: determination best price, which is just lower than lowest bid competitors;
- Two forms of tenders: open bid (=public offers), sealed bid (=other offers are unknown, usually only one bid can be placed).
- Possible problems of tenders: winner's curse, low level of trust in open bid auctions, neglect of potential advantages of long-term relationship.

Ingenbleek, Frambach, & Verhallen (2010), The Role of Value-Informed Pricing in Market-Oriented Product Innovation Management, Journal of Product Innovation Management, 27(7), 1032-1046.

Focus on Main Effects of Value-Based Pricing:



Source: Ingenbleek et al. 2010

Value-based-pricing (VIP) = pricing practice in which decision makers base price of new product on customers' perceptions of benefits that product offers and how these benefits are traded by customers against price (that has yet to be determined).

- Customer orientation is central to creating benefits for customers in product innovation and in determining value-informed pricing.
- VIP influences new product performance in two ways, (1) has direct impact on market performance by generating appropriate behaviours in price decision making to understand customer value perception of new product and thus customer purchase decision, (2) enhances performance through increased advantage of product. VIP cannot increase profits

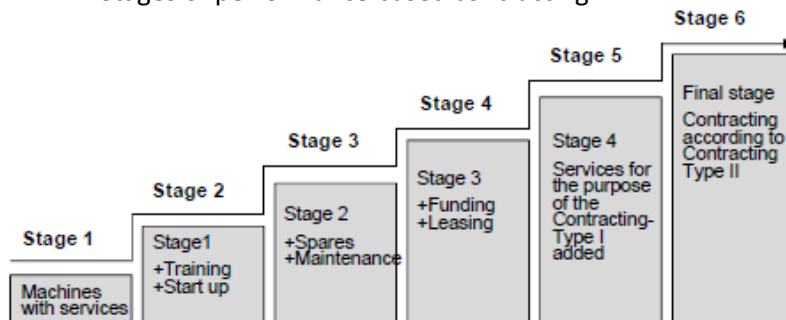
without increasing market performance indicators such as customer satisfaction, retention, and word of mouth.

- VIP has implications for firms who engage in marketing new products, (1) managers should explicitly consider pricing of innovations in terms of value offered, (2) market-oriented firms, especially customer-oriented firms, are in better position to engage in VIP and to create distinctive new product advantage, they can boost market performance relative to less market-oriented firms, (3) it is beneficial to increase level of interfunctional coordination, enabling managers to align pricing with specific benefits offered.

High-performing, market-oriented firms truly mirrors its customers in that its customer orientation is at forefront of market-oriented culture. Pricing is capability that requires resources and coordination, customer orientation is central resource for value-in-formed pricing and pricing requires coordination within new product development process.

Price differentiation: performance based contracting

- Suppliers can avoid price competition by relying on price-based differentiation strategy.
- Basic forms of performance-based contracting:
 - o Performance guarantee: supplier takes on risk for functionality of offer (type I);
 - o Guaranteed performance outcome: supplier runs operations (type II).
- Stages of performance based contracting:



Price differentiation, discounts, and bonuses: the role of negotiated prices

- Individualization of products in B2B area benefits usage of price differentiation as well as discounts and bonuses;
- Price differentiation is result of negotiable character of prices;
- Price differentiation relates strongly to delivery amount and customer segment;
- Discounts and bonuses are important for price negotiation. Price lists should provide scope for discounts and bonuses (price reductions of 60-90% are not unusual).

Performance-Based Contracting

Preparation of price negotiations

- 80:20 rule: preparation of negotiation is four times as important than actual negotiation.
- Analysis and choice of negotiation content (topics):
 - o About what is negotiated in addition to price?
 - o Strongly determines the character of the negotiations: pure price negotiations (=distributive negotiations) are strongly determined by power and dependence.
 - o Additional topics within pure price negotiations (with integrative character):
 - Splitting: e.g. by non-linear prices;
 - Side deals: e.g. link to other negotiations.
- Determination of negotiation goals (referring to negotiation process and outcome):
 - o Concrete determination of reservation price (supplier: 'walkaway price') and aspiration solution;
 - o Consideration of goals of negotiation;

- Consideration of BATNA (Best Alternative to Negotiated Agreement).
- Determination of negotiation strategy (negotiation tactics).

Selected techniques for price negotiations:

- Tactics for suppliers:
 - High (but not prohibitive) starting offer; 'tit-for-tat'-behaviour; focus on strong arguments; use benefit selling; do not explicate disagreement.
- Tactics for customer:
 - Shotgun; Noah's ark (=competitors are significantly cheaper); sell cheap, future looks bright.

Distributive negotiation

- First offer = cognitive anchor.
- Final price tends to be midway in between initial bids.
- Same outcome can be perceived as gain or loss, depending on reference point/anchor.
- Recommendations:
 - Don't make concessions already within first offer;
 - Point offer, not range;
 - Wait for counteroffer.
- Empirical evidence:
 - No first mover advantage;
 - Buyer's first offers are more aggressive than seller's, asking for at least two-third of ZOPA.

Reacting to first offer: the counteroffer

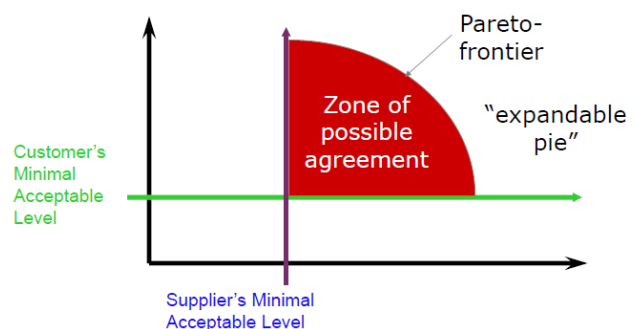
- Quick counteroffer reduces cognitive anchoring of first offer and shows party is willing to negotiate.
- Exception: if offer cannot be taken seriously → demand another first offer.
- Extreme offers uncommon and frequently rejected; fair offers more common and generally accepted.
- Danger: escalation of commitment: allegiance to initial position.

Leider and Lovejoy (2016)

- Majority of parties make concessions;
- Anti-concessionary offers only beneficial for sellers; raises prices without jeopardising closure.
- No escalation commitment.
- Deadline effect: more agreements within last 30sec, yet early and late agreement yield very similar outcomes.

Distributive vs. Integrative Negotiations

- 'Fixed pie' versus 'expandable pie'.
- Integrative = possibility to create win-win solution, meaning that solutions are possible which both sides can realize better outcome.
 - Invent options for mutual gain;
 - Focus on interest, not positions;
 - Insists on objective criteria;
 - Separate the people from the problem.



Jointly optimizing price and quantity

- High price strategy: optimal price customer will set on market is higher, quantity is lower.
- Low price strategy: optimal price is lower, quantity is higher.

Negotiator's dilemma:

"Creating and claiming value are inevitably linked";

- You can only create value if you disclose information;
- Disclosing information makes party vulnerable to other party claiming larger piece of pie.

Lecture 4

Goals

- Know important parts of multichannel sales management;
- Implications of online channels for B2B sales management;
- Management of customer relationship.

4. Delivering Value

4.1. Sales and Channel Management

4.2.1. Multichannel Sales System

Design of sales system

- Sales entities refer to company-internal and company-external individuals, departments or institutions that directly carry out or support sales activities for company's products. They include company's internal sales department as well as external sales partners (e.g. intermediaries).
 - o Direct Channels: direct sales force, own online shops, own call centres.
 - o Indirect Channels: retailers, wholesalers, external online shops.

Transaction Cost Theory

- Addresses organization of economic exchanges;
- Objective: identification of organization-relevant characteristics of transactions and selection of option that causes minimal transaction costs;
- Questions to answer: why do we use organizations as frame for transactions?
- Transferable to decisions concerning distribution channels;
- Two basic behavioural assumptions:
 - o Bounded rationality: imperfection of rational behaviour due to high complexity of incomplete contracts.
 - o (Potential) opportunism: incomplete contracts or gaps in contracts are often exploited for personal advantage ('self-seeking with guile')
- Transaction costs include all sacrifice and disadvantages carried by contracting parties in order to realize exchange of goods/services. Transaction costs can incur before contract formation (ex ante transaction costs) as well as after contract formation (ex post).'

Reasons for emergence of transaction costs:

1. Initiation: search costs, travel expenses, communication costs, consulting fees.
2. Agreement: costs of negotiation, legal consultation, coordination costs.
3. Processing: management costs for coordination and leadership, settlement.
4. Control: monitoring, enforcement of convention.
5. Adaptation: amendments, interim appraisal, redefinition of objectives.

Opportunities and risks of multichannel sales systems

- Most B2B companies (60%) employ indirect sales channels and almost 90% use multi-channel system.

Opportunities:

- Higher market coverage: increase sales potential by addressing additional customer groups.
- Customer adequate performance: fulfilment of different needs.
- Economical: decrease distribution costs through usage of economically best channel; increase efficiency of single resources in sales, e.g. relief sales force through direct mailing.
- Risk compensation: reduction of dependence on single retailers; increase flexibility when responding to changes in sales channels.

Risks:

- Confusion of customer: several offers to some customer groups through different sales channel due to inaccurate targeting, differentiation or poor control of sales channels.
- Conflicts between channels: competition between different intermediaries; in case of direct sales, direct competition with previous channels; risk of losing market access.
- Loss of control: increased complexity sales system complicates sales steering and control.
- Sub optimization: negligence of channel specific differences.
- Problem of critical mass: split of turnover over more than one distribution channel (especially at strong cannibalization).

Multi-Channel sales system

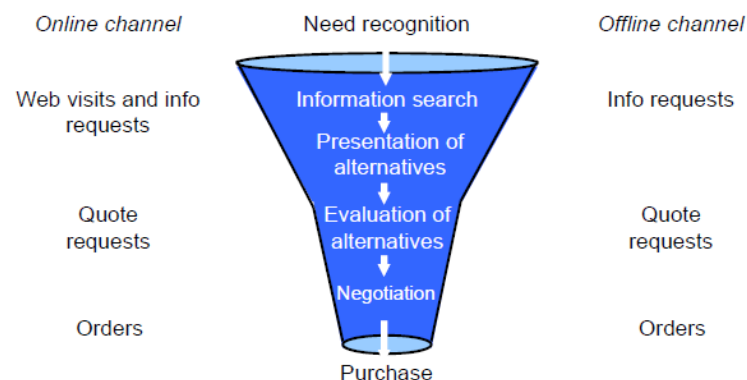
Sa Vinhas & Heide (2015), Forms of Competition and Outcomes in Dual Distribution Channels: The Distributor's Perspective, Marketing Science, 34(1), 160-175.

While competition with manufacturer-owned channel increases distributor opportunism, it also has potential to benefit distributor's end customers. Dual channels that combine a company's sales force with independent distributors are increasingly common; what problems does dual system create for distributor? Three forms of competition that can give rise to tension:

- Firm's investment in 'outside option' in a relationship may trigger partner opportunism;
- Competition for customers and manufacturers involvement in certain distribution functions impacts distributor's end customer and their satisfaction level;
- Manufacturer's channel management efforts, or attempts to create vertical separation between channels by clarifying order ownership process, reduce competition. Vertical separation has negative impact on end customer satisfaction.

Overall pattern points to many different ways in which dual channel arrangements manifest themselves across channel levels.

4.2.2. Online Channels in B2B Markets



- Over 85% of eCommerce volume is in B2B

Social Selling

- The identification, targeting, and reaching out to prospective and existing customers through social media channels in an effort to engage them in conversations that result in a potentially mutually beneficial relationship.

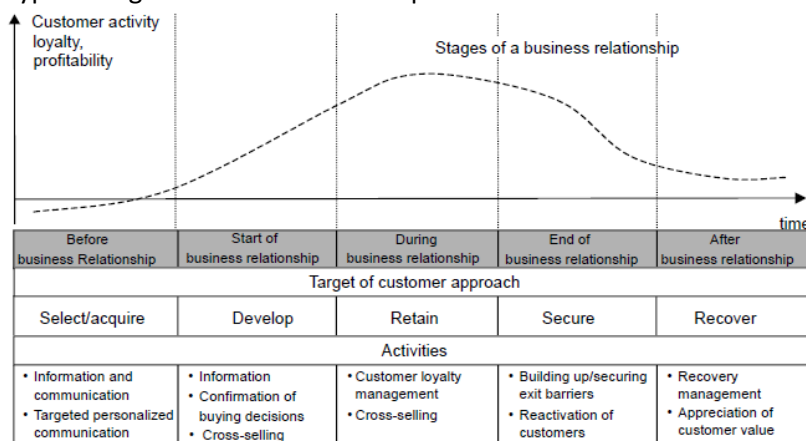
4.2. Customer Relationship Management

Strategic CRM: the Customer Interaction Models of BASF

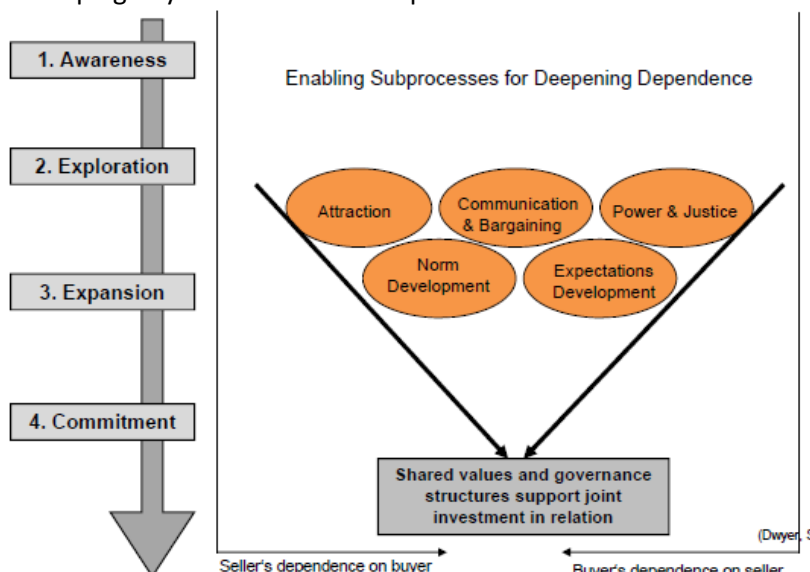
- BASF: very heterogenous product portfolio; very basic commodities, sophisticated chemicals and a lot in between.
- Result: business units face very different customers
- Recently: introduction of 'Customer Interaction Models'
 - o Improvement of customer-related processes;
 - o Certain degree of standardization.
- Each strategic business unit is assigned one specific customer interaction model.

4.2.1. Developing the Relationship

Typical stages business relationship:



Developing buyer-seller relationship:



4.2.2. Retaining the Relationship

Retaining the customer: C/D paradigm

- Performance perceptions = performance expectations → satisfaction.
- Performance perception > performance expectations → delight.
- Performance perception < performance expectations → dissatisfaction.

Customer loyalty: pyramid structure

- At the top: willingness to recommend supplier (recommending).
- Middle: willingness to buy higher share of purchases from supplier; willingness to buy from additional product categories (=cross-buying) (expanding).
- Bottom: willingness to buy again (repurchasing).

Cross-selling potential versus cross-selling exploitation:

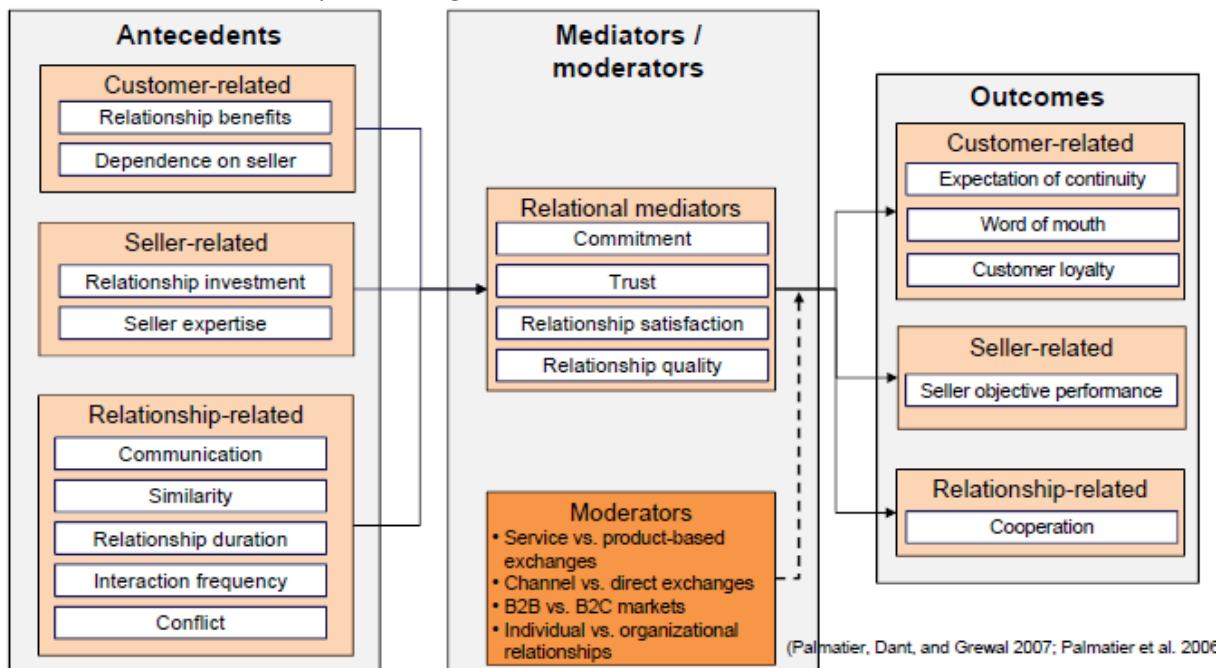
- In all industries, cross-selling potentials are perceived to be very high; their exploitation, however, is at a much lower level.
- Cross-selling and profitability are positively related.

Identifying and seizing cross-selling opportunities:

- Company needs integrated customer-oriented information system containing typical customer data as well as information about customers' needs, product use, customer value.
- Employees with customer contact must attach emotional value also to product they are not responsible for.
- Willingness to cooperate across departments must be anchored in corporate culture.
- Employees must have deep knowledge and understanding of customer-specific needs.
- Cross-selling success of individual employees is rewarded through incentive system.

Palmatier, W., Dant, Rajiv P. and Grewal (2006), Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis, Journal of Marketing, 70 (October): 136-153.

State of the art relationship marketing research:



- Relationship marketing: all marketing activities directed toward establishing, development, maintaining successful relational exchanges.
- To what extent do relational mediators affect overall customer-seller relationship?
- Primary drivers of Relationship Marketing effectiveness.
- How customer relationships affect performance:
 - o Relationships have strongest impact on customer word-of-mouth and loyalty;
 - o Relationships have strong impact on objective measures of financial performance;
 - o Objective performance is influenced most by relationship quality, least by commitment.
- Effective relationship building strategies:
 - o Strategies are most effective when focused on one aspect of relationship;
 - o Most effective: company expertise and communication;
 - o Effective: making investment in relationship, matching seller and customer on similarity, ensuring there are relationship benefits.
- Relationship marketing is most effective when:
 - o Selling services vs. goods;
 - o Dealing with B2B vs. B2C customers;
 - o Dealing with channel partners vs. directly with customers;
 - o When target of relationship is an individual (e.g. sales person) vs. firm.

TABLE 6
Summary of Key Findings and Implications

Key Findings	Research and Managerial Implications
Antecedents	
Relationship marketing strategies/antecedents have a wide range of effectiveness for generating strong relationships. Expertise and communication are most effective, then relationship investment, similarity, and relationship benefits; dependence, frequency, and duration are relatively ineffective.	Selection and training of boundary spanners is critical; expertise, communication, and similarity to customers are some of the most effective relationship-building strategies. Expertise's impact supports Vargo and Lusch's (2004) premise that "skills and knowledge" are the most important seller value-creation attributes.
The negative impact of conflict is larger in magnitude than the positive effect of any other RM strategy.	All proactive RM efforts may be wasted if customer conflict is left unresolved.
Specific RM strategies appear most effective for strengthening one aspect of a relationship. Relationship benefits, customer dependency, and similarity are more effective for increasing commitment than for building trust; the opposite is true for relationship investment and frequency.	Relationship marketing may be improved through a fine-grained approach that targets specific relational weaknesses. The relative effectiveness of RM strategies depends on the relational mediator investigated.
Outcomes	
Relationship quality (a composite measure of relationship strength) has the greatest influence on objective performance, and commitment has the least.	No single relational mediator captures the full essence or depth of a customer-seller relationship; the findings support a multidimensional perspective of relationships. Extant research focused on a single relational mediator may provide misleading guidance.
Surprisingly, relationship investment has a large, direct effect on seller objective performance, in addition to its frequently hypothesized indirect mediated effect.	The classic mediating model of RM (Morgan and Hunt 1994) should be adapted to include alternative mediated pathways (e.g., reciprocity).
Dependence has a large, direct effect on seller objective performance but a relatively small impact on relational mediators.	Dependence is not an effective relationship-building strategy but can improve performance in other ways, possibly by increasing switching costs and barriers to exit.
Of all outcomes, relationships have the greatest influence on cooperation and WOM and the least on objective performance.	Relationship marketing efforts may be effectively extended across many other nontraditional buyer-seller interactions (e.g., interdepartmental groups) for which cooperation is often critical for success. Word-of-mouth behaviors may be the best discriminator of true customer loyalty (Reichheld 2003).
Moderators	
Relationship marketing is typically more effective when relationships are more critical to customers, such as for (1) service versus product offerings, (2) channel versus direct exchanges, and (3) business versus consumer markets.	Researchers must take care when extending findings across contexts in which relationship importance may vary. Managers might target RM expenditures to customer segments with the highest desire for strong relationships to improve returns.
Customer relationships often have stronger effects on exchange outcomes when their target is an individual person than when it is a selling firm.	Researchers should differentiate the effects of customer relationships with boundary spanners from those with firms. Strategies such as team selling, salesperson disintermediation, and the use of call centers should be evaluated in light of the impact of interpersonal relationships.

4.2.3. Recovering the Relationship

Customer reacquisition in B2B markets

- Customer defection typically is no binary variable (defected vs. not defected);
- Instead, customers move all or some of spending away from supplier;
- Empirical study on reacquisition management in B2B markets reveals that half of respondents refer to complete defections and other half to partial reductions when trying to win lost customers back.

Guest Lecture

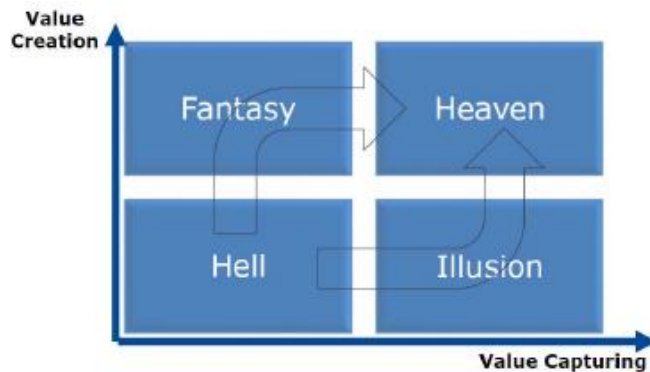
Case 1: Company

- It is a market driven market.

Case 2: Market Understanding (choosing value)

- Market understanding, global changes are shaping the business.
- Trends (macro-meso-micro) continuously impact segments.
 - o Changes in growth, mergers and new partnerships, and sales channel movements.
 - o Due to for example premiumization and permissible indulgence.
- Creating value via market requests: e.g. shelf life extension, halal/kosher food.

Case 3: Value Pricing (creating and capturing value)



Case 4: Product Portfolio (creating and capturing value)

- Question: Strong business growth leads to expanding product portfolio?
 - o Yes: innovation customer grows → needs more from you, e.g. new products.
 - o No: new products lead to more 'hassle', more effective to keep portfolio small.
- Optimum – maximizing profit in line with strategy – multidisciplinary:
 - o Do's: government structure – marketing lead with cost driver, quantitative analysis, clear end goal, involvement disciplines, process tracking, roadmap, customer communication, transition plan.

How to construct Customer Value Model:

1. List all value and price elements of the offering and competitor/next best alternative (NBA)

	Analytic2013	NBA
Selling price	€ 90.000	€ 75.000
Lifetime	5 years	5 years
Maintenance contract	€ 2.000	€ 2.500
Labour costs operator	€ 35.000	€ 40.000
#operators per machine	0,5	0,5
#samples per day	55	50
#production days	364	363
Value sample	€ 5	€ 5
#different materials	20	10
Up to 40 different materials	Upgrade € 5.000	Not known
Remote monitoring	yes	Not known
Interest rate	10%	10%

2. Write word equations for each relevant value and price element:

• Saving Labour costs =
(labour costs per year_{Analytic} - labour costs per year_{NBA}) * number
of operators per system

$$(35.000 - 40.000) * 0,5 = - 2.500$$

• Price elements =
Investment/lifetime_{Analytic} - Investment/lifetime_{NBA}

$$90.000/5 - 75.000/5 = 3000$$

Every Analytic system
saves 2.500 per year on
labour costs

Every Analytic system is
3.000 more expensive
per year

3. List non-quantifiable elements as placeholders (+,-,?)
4. Create value-model spreadsheet:
 - a. Value elements: cost savings and benefits
 - b. Price elements: price difference of products and adjustments
 - c. Value-in-use = value elements + price elements

Value Elements	\$ Amounts
Cost Savings	\$xxxx
Benefits (revenue/profit enhancements)	\$xxxx
<u>TOTAL VALUE</u>	<u>\$XXXX</u>
Placeholders (+, -, or ?)	

Price Elements

Initial Price Difference	\$xxxx
Adjustments (+ or -)	\$xxxx
<u>DIFFERENTIAL PRICE</u>	<u>\$XXXX</u>

Value-in-Use **\$XXXX**

5. State value proposition.

Net Present Value (NPV)

$$NPV = Investment + \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$

- Take into account t (mostly in years);
- Investment = Old price – New price.