2 A high-level overview: a value perspective on the practice of business-to-business marketing

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The goal of this chapter is to provide an overview of the practice of B2B marketing for practitioners and outline the research issues for academics researching the field. After setting the stage and some foundation principles behind the practice, the chapter is organized following a framework developed in the Institute for the Study of Business Markets (ISBM), headquartered in the Smeal College of Business at Penn State, and illustrated in Figure 2.1.

In the common parlance and practice of marketing, the term 'marketing' itself is often misunderstood and is subject to a wide variety of interpretations, depending on the context of the discussion (for relevant online resources and a glossary of important B2B terms used in practice, please see the online Web Appendix for this chapter at http://handbook.isbm.org). In general parlance, the term is often used as a synonym for 'advertising' or other parts of the process and is generally associated with marketing B2C products and services.

The American Marketing Association provides a broad definition of the term 'marketing': 'Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.'

In my view, in B2B markets it is important to recognize the value of marketing to the Chief Financial Officer as well. I would thus propose another definition of B2B marketing: 'The set of processes and activities that optimize the value of a firm's assets – and free cash flow – by connecting those assets to the exact right demand.'

B2B marketing can extend across the entire value chain and can be applied to transactions that occur in marketing basic raw materials, manufactured components, and services of all sorts, from first purchase consideration all the way through to the point where the product or service is used or recycled.

Transactions between businesses make up the largest share of total commerce in the United States. Of the $22.4 trillion in 'shipments sales and revenue' cited by the US Census in 2008, $11.6 trillion was cited as B2B and $10.8 trillion as B2C. B2B activity is larger than the total of consumer transactions, because before a consumer buys anything, many B2B transactions typically have to happen first.

The realm of B2B marketing traverses diverse offerings, from 'foundation goods' (big-ticket products such as machine tools), 'entering goods' ('direct material' or 'ingredients' used in another firm's manufacturing process) and end products sold from B2B to a broad array of B2B services and maintenance repair and operating (MRO) supplies.

In these diverse realms, while purchasing new products B2B buyers start their processes when they have a problem or need they cannot fulfill on their own. Their purchase is driven by the need to support the profitability of their firm. Buying can also happen cyclically following a schedule, or episodically following some change in process or direction for their firm (the notion of modified and straight rebuy). 'Impulse buys' are rare but do happen in B2B. The B2B buying process is usually one of careful consideration, by multiple people with different roles and functions, and can take quite a long period of time.

Keeping in mind the complexity of the B2B buying process, and the multiple actors involved in different departments and at various levels, it is essential to unravel and understand the different needs and motives of the multiple stakeholders involved. Over the last 15 years the study of organization buying behavior has evolved considerably. It includes levels of analysis such as organizational, situational, group and individual levels. It has become essential to consider questions like: what are the best practices for integrating the organizational buying process with product design, development and innovation? How can technology, media and automation be leveraged in the buying process? (Johnston and Chandler 2011).

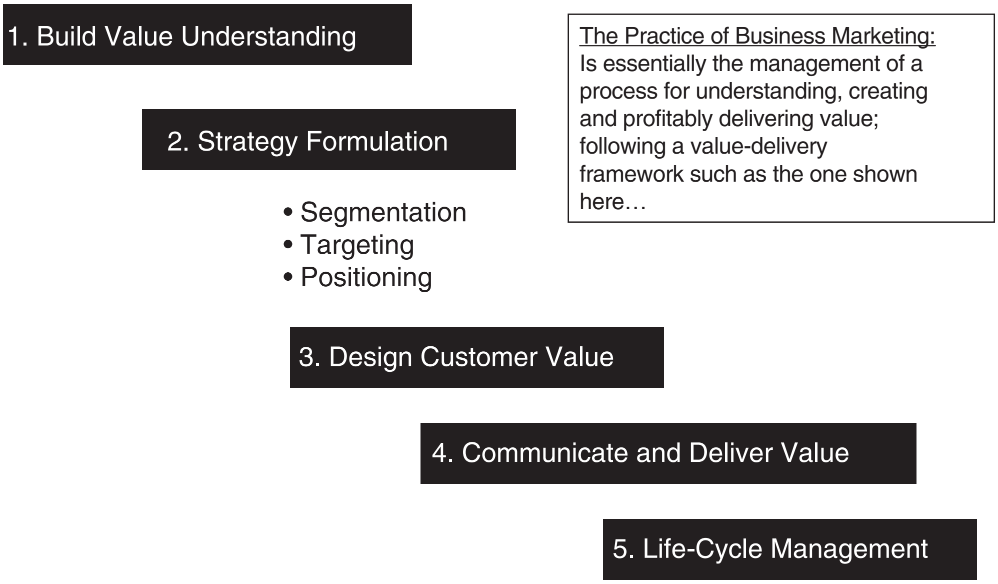
Another element of B2B is the forecasting and management of 'derived demand'. The B2B marketer needs a view down the value chain, as to how demand will be created. It's difficult for the B2B marketer to stimulate 'primary demand' through the value chain on its own. (For example, the demand for truck axles derives from the primary demand for trucks. If people aren't buying trucks, the axle manufacturer will also have no business.) This need has given rise to use of electronic data interchange (EDI) and extranets for the coordination and optimization of the supply chain (Shankar 2011).

The foundation of the B2B marketing discipline is an understanding of the concept of value – in tangible, numeric terms – and implementing a systemic process for creating, managing and harvesting a fair share of value. In fact management of that 'fair share' in pricing strategy is an important element of B2B practice (Anderson et al., 2010).

The ISBM 'Value Delivery Framework' in Figure 2.1 lists the categories of processes that define B2B marketing management. Understanding a total process such as this is crucial for B2B marketers. The ISBM Value Delivery Framework has formed the core of the central processes of B2B marketing for firms such as DuPont, General Electric (GE), Kennametal and Parker Hannifin. Through the remainder of this chapter, I will be using the Value Delivery Framework to organize my coverage of the practice. It is important to note that though the Value Delivery Framework implies that parts of the process happen in a 'linear' fashion, in practice these processes form a 'web', with many elements overlapping and happening simultaneously.

How a firm defines, develops and delivers value to its customer is a function of the firm's marketing capabilities. These capabilities determine how the firm meets market needs by combining, transforming and deploying its resources. Marketing capabilities need to be aligned with the firm's core offering, target customers' needs and address the competitive landscape, keeping in mind the dynamic market environment (Morgan and Slotegraaf 2011).

Further on in the chapter, I look at how B2B marketers can better understand value; how firms can use their marketing capabilities to design, communicate and deliver value to their customers; and finally how firms can manage the life cycle of B2B customers. Throughout the chapter there are suggested research pathways as the discussion progresses. The chapter closes by gazing into the future of B2B.



Source: ©1999, ISBM – Penn State

Figure 2.1 ISMB Value Delivery Framework

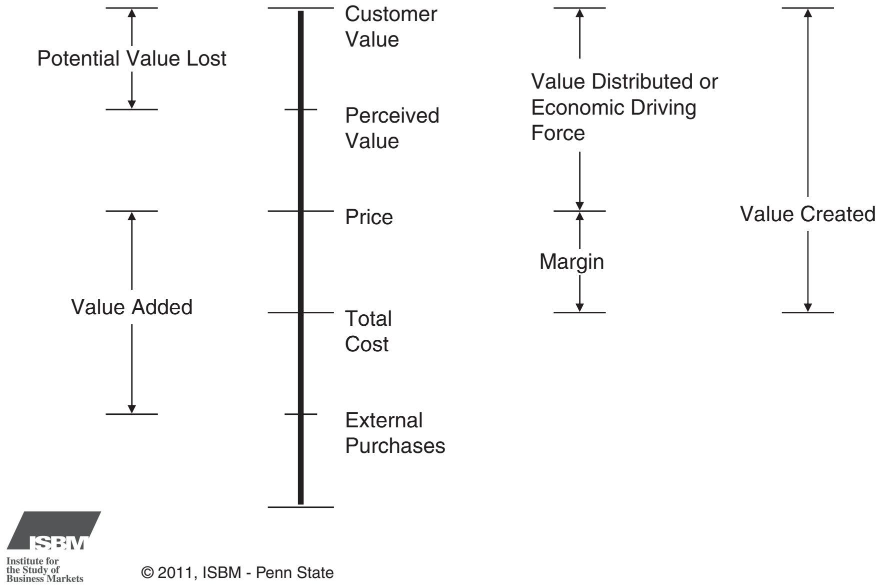
BUILDING VALUE UNDERSTANDING IN BUSINESS MARKETS

Value understanding and management is the heart of all marketing practice, especially so in B2B marketing. Across many of the member firms of the ISBM, it is observed that marketers generally have a firm understanding of the concept of price (though tools and techniques used in pricing are often surprisingly primitive). The same holds for the concept of cost (even though actual costs are often known with far less precision than most managers realize). But when businesspeople are asked, 'What is value?' the answers are often much less clear.

Mixed definitions of the term 'value' can lead to real communication problems within a firm and, more so, across firms. Is value a tangible construct, or is it 'perceived' in the eye of the customer? Is it some view of 'quality for the price charged' (whatever 'quality' means)? Or is value whatever the customer is willing to pay to acquire a given set of product and service benefits?

Because understanding value is critical, ISBM has recommended a definition based on a calculation of the impact of an offering for a customer firm as the offering is put into use:

> The value of an offering to a particular customer for a particular application is the hypothetical price for that offering which leaves the customer at overall economic break-even with respect to the next best alternative for performing that same application.



Source: Dr IW Gross

Figure 2.2 Taxonomy for conceptualizing value, costs, prices

This definition has formed the core of a value taxonomy that has been widely deployed across ISBM member firms, as depicted in Figure 2.2. When suppliers and customers work together to solve problems and build solutions better than any previous alternative, they create new value together. That 'customer value' is depicted at the top of the line chart. Often a customer's 'perceived value' is lower. The gap between the real customer value and customer's perceived value is identified as 'potential value lost' in subsequent discussions on price. Price is the 'knife' that divides the customer value into the margin for the supplier firm and the value delivered to the customer: the customer's 'economic driving force' for doing business with the supplier.

The total value of an offering to a business customer can have several components:

- Functional value-in-use, as described. Computing this value requires understanding the tangible impact of an offering on the customer's business in hard currency terms. In B2B, it is usually the largest and most crucial element of the offering. (These might be termed 'tangible, financial benefits'.) In B2B markets, the tangible value in use of an offering can usually be discerned by analysing the product's use downstream in the marketplace and comparing that offering to the next best alternative – or the 'design around' – for the downstream customer.
- Supplier reputation, relationship and brand value are part of the offering as well. These 'intangibles' can have a powerful influence in B2B markets. The supplier's know-how, understanding of a customer's business and ability to build confidence all add value to the offering. Furthermore the supplier's reputation, trust and brand relationships fill in the uncertainties of a transaction. These components

of value are also translatable to economic impact but involve more research and forensics with the customer in order to quantify them.

Value-based Pricing

Understanding customer needs, and the creation of offerings of real value to satisfy those needs, is at the core of a firm's function. Accurate quantification of the value of those offerings is critical to setting prices. As B2B marketers learn better ways to understand the total value they actually deliver to customers, they often find they have underpriced products or services, particularly if they follow the discredited but still widely used practice of pricing based on 'cost plus a target' margin. It sometimes comes as a surprise when practitioners realize that price and cost are fundamentally unrelated.

Pricing based on cost can create significant pricing mistakes and missed profit opportunities. With value-based pricing, companies learn that when their marketing and sales programs enable customers to understand the value they receive in crisp, currency-based terms, those customers are frequently willing to pay more. For more on the management of a value-based approach to B2B marketing, readers might refer to the excellent book *Value Merchants: Demonstrating and Documenting Superior Value in Business Markets* (Anderson et al., Narus 2007).

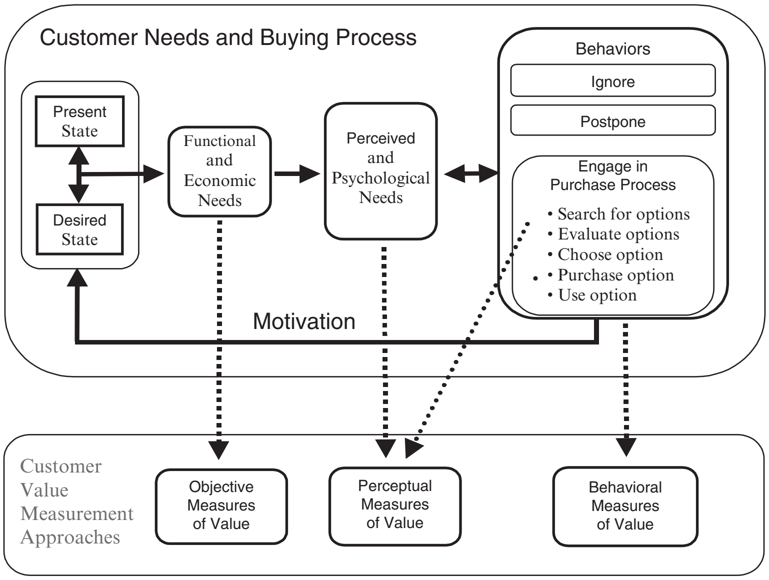
Value-based pricing is an essential tool in the B2B marketer's toolkit. Cressman (2011) expands on this point, looking at successful pricing strategies, managing this value exchange with customers, structuring the offering, communicating value and value-based negotiating.

Discerning Value-based Market Opportunities

B2B marketers are faced with the challenge of developing new approaches and methods to better understand what their customers really need, beyond what they can say or articulate. The discernment of customer needs is a key enabler of the creation of real, new value.

A process framework for systemically understanding customer needs and customer value is in Figure 2.3. As customers navigate between their present state and the desired new state, B2B marketers have to tune in to their functional and economic needs – those that can be objectively measured and calculated, using hard-edged analytical techniques. But beyond that, B2B marketers need to dig into the perceived and psychological needs of the customer and bring them into the equation as well.

B2B market transactions can be quite sizable and often carry with them great amounts of risk. For many customer firms, fear, uncertainty about how an offering will work in their process, questions about whether a supplier will stand behind them if something goes wrong and bonds of friendship between individuals in the buying and selling firm are very real parts of the buying equation. Measures of perceptual value need to be developed and employed to bring these 'softer' parts of the offering into the selling process. The role of relationship marketing can be important for the B2B marketer. Palmatier and Beck (2011) provide a framework for understanding relationship marketing, look at various drivers of inter-firm relationships and connect these drivers to performance-related outcomes.



Source: Dr Bob Thomas, Georgetown

Figure 2.3 Customer needs and customer value measurement

A variety of tools can help identify value creation opportunities.

- A family of powerful techniques available to B2B marketers is clustered around the *Voice of the Customer* analysis (Griffin and Hauser 1993, 1996). A practical guide to value discernment incorporating Voice of the Customer techniques is the field manual *Customer Visits* by Dr Ed McQuarrie (1998).
- *Quality Function Deployment* (or QFD), a technique that is often used as part of the Six-Sigma quality improvement process, takes a systemic approach to outlining customers' specific need points, their worth in numerical terms and approaches to serving those needs profitably.
- *Conjoint Analysis* enables marketers to identify which features/benefits are most important – and worth more – to specific groups of customers in a complex offering environment.
- The ISBM *Marketing Engineering Toolkit* brings powerful tools such as conjoint analysis and others to the desktop of the B2B marketer (Lilien et al., 2007; Parry 2002).
- *Revealed Choice Models* can be another important approach. Carefully documenting past customer buying behavior, and modeling what they may do in the future can help in understanding and discerning needs – and their likely buying patterns in the future.
- *Ethnography* is an observational approach that develops a detailed qualitative description of how people are actually behaving in a variety of different situations, based on direct observation in the field (McFarland 2001). The ethnographer

attempts to get a detailed understanding of needs and the context surrounding them through direct observation of relatively few subjects. Ethnographic accounts are explanatory and interpretive. The ethnographer must determine the significance of what he or she observes without gathering broad, statistical information.

- More recently, techniques normally used in consumer marketing, such as the *Zaltman Metaphor Elicitation Technique* (ZMET) are being used to better determine how intangible elements of an offering factor into the B2B value equation. In this technique carefully selected respondents are asked to find and bring pictures describing their feelings and relationship to a problem, proposition, brand or other feature to a specially structured interview session. Through the interview process, deep feelings and metaphors can be revealed, which enable marketers to get to the feelings underneath the purchase (Zaltman 1998).

While B2B marketers focus all their energy on understanding and meeting the needs of the customer, they also need to keep one eye on what the competition has to offer. Understanding competition is an essential part of how value proposition is structured and communicated to customers.

Competition: The 'Next Best Alternative'

The value of new offerings as viewed by the customer almost always involves a comparison to the current alternative the customer is using for performing a set of functions or filling a need. Value is defined with respect to the 'next best alternative'.

An excellent reference on competitor analysis and market intelligence is *Competitors: Outwitting Outmaneuvering Outperforming* (Fahey 1997). Additional insight on plotting competitive scenarios can be found in *Learning from the Future* (Fahey and Randall 1998). Fahey (2011) looks at this interesting and essential topic of competitive intelligence and how competitor intelligence and B2B marketing strategy can be better connected.

Another challenge that B2B marketers face in the current environment is the pace of change. Increased globalization, quick product obsolescence, ever-changing customer demands and the fast pace of technological innovation have forced B2B marketers to look beyond traditional strategies and to look at cooperative strategies with downstream and upstream partners. The competitive ground has changed from firms competing against each other to one ecosystem against another ecosystem of partners. The cooperative environment has opened a whole new way of looking at how firms conceptualize and deliver value as members of the ecosystem (Ho and Ganesan 2011).

Suggested Research Pathways: Value Understanding in Business Markets

Understanding, discovering, discerning and quantifying value is at the very core of B2B marketing practice. B2B marketers would be well served by new knowledge and research outcomes that shed additional light on how to better uncover stated and unstated customer needs and how to better overcome barriers to building dialogue through the value chain to foster the development of new value, as well as new models for building effective value propositions in B2B markets.

STRATEGY FORMULATION IN BUSINESS MARKETS

Building on a true understanding of what value is in the marketplace, the needs that customers have and the current competitive alternatives they are using set the stage for B2B marketing strategy. At the core of modern B2B marketing strategy are three concepts: segmentation, targeting and positioning (STP).

Segmentation

Segmentation is an analytic discovery process for dividing a large group of customers or prospects into smaller groups (or aggregating individual customers into groups) that will react similarly to some marketing action. Discerning how similar customers can be grouped together and approached with tailored offerings is crucial to effective deployments of resources. Segmentation techniques are used for a variety of reasons: to target communications, focus the sales force, create new and tailored offerings, allocate resources and optimize marketing investment (Wind and Cardozo 1974).

In consumer markets, segmentation typically entails statistically grouping large numbers of customers with similar needs who can be reached with similar marketing and advertising appeals. Because consumer marketers can often amass huge amounts of data on consumer behavior, demographics, psychographics, buying patterns and so on, advanced statistical and data mining techniques are often used to group customers into clusters who might respond similarly to the marketing of an offering.

In B2B markets the process of segmentation can be very different. Consumer marketers may have literally millions of customers but only know a few of them by name. They focus on clusters of customers in segments of interest. Business marketers often know all of their customers and the universe of prospects – by name. B2B market segmentation usually must deal with much smaller customer populations resistant to large group statistical analysis such as data mining. A segment might be as small as an individual customer or firm.

Targeting

Once appropriate segments have been identified, the selection of the best segment to focus on, targeting, is the next step. This step involves systemic decision-making to allocate finite marketing resources to produce optimal business results. Segmentation and targeting working together look 'from the market back' and tie a firm's resources to customers with needs that the supplier firm is especially prepared to serve. Segmentation and targeting also look from the 'inside out' to optimize the value of the firm's capital assets and consider the question: do we have the right customers for our capacity to enable us to deliver optimal value to customers, at an optimal profit to our firm? B2B marketers help set priorities for assigning sales resources and developing distribution channels.

It's important when selecting target segments to ensure that the mix of customers, and the size of the segments that a firm addresses, represent a good and well-founded business opportunity. Segments that are too small to address can absorb resources without enough return. Relying on one or two big customers can be very dangerous.

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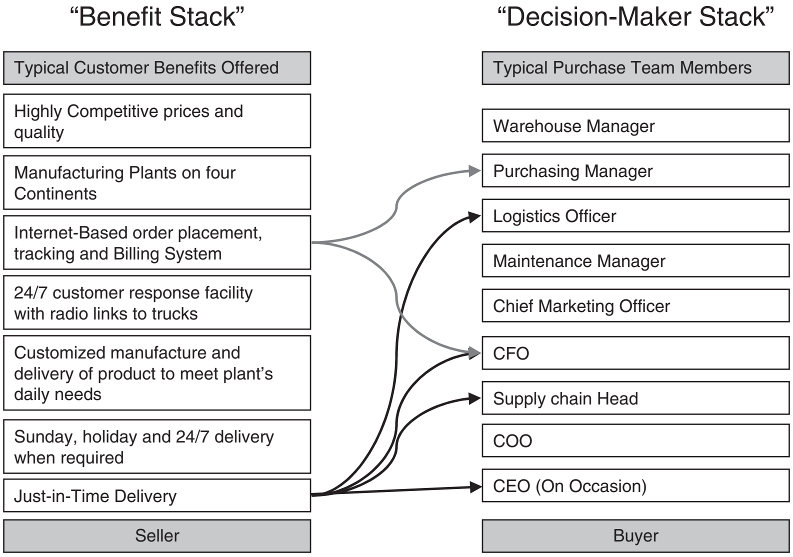

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Figure 2.4 Value–message alignment in business markets

B2B markets can be very dynamic, and targeting segments with only one or two customers might enable a focused short-term profit but in the long term can lead to volatility in demand that can significantly hurt a firm that needs to keep its factory running at high utilization to maintain profitability.

Positioning

Once a B2B firm has developed a segmentation approach and selected the segments that are most profitable, the firm addresses the positioning of its offerings (and brand) in that segment.

As defined by Al Ries and Jack Trout in *Positioning: The Battle for your Mind* (2001), positioning involves creating a real difference in the mind of the buyer for the supplier's offering (and brand) from those alternatives also being considered at the time of purchase. In B2B however, this differentiating must often be accomplished across many minds – the minds of the people who make up the buying center inside the customer firm. As illustrated in Figure 2.4, each element of the customer buying center may have its own picture of the competitive landscape, making this process more complex than the challenges faced by consumer marketers.

Positioning involves demonstrating superior, differentiated value before the sale, based on unique points of difference with real economic impact for the customer, and clearly creating a separation for those offerings from those of the competitive set. A simple scheme might be to position offerings as:

- Unique: ‘The only product/service offering with XYZ’.
- Different: ‘More than twice the (feature) vs. (competitor)’.
- Similar: ‘Same functionality as (competitor), lower price’.

Positioning often relates to the brand of the offering being delivered, but ties closely to the ‘unique value proposition’ for specific offerings for specific customers. In any B2B offering there are ‘points of parity’ (POP), which are usually required to even be a viable alternative in the category. Key to positioning are compelling, relevant and unique ‘points of difference’ (POD), which will be the key influence in the buy decision.

The implementation of effective and successful segmentation in B2B market situations has been difficult. It can involve sales force realignment and changes in compensation, breaking some customer relationships, nurturing others or selling to a different part of the buying center inside a customer firm. All of these things can be quite difficult to implement in practice. Some of the possible reasons for the variation in outcomes of segmentation in B2B are organization differences, market situational differences, segmentation methodology differences, targeting difference, positioning and marketing strategy formulation and implementation differences. Thomas (2011) explores the interaction between B2B market segmentation processes and practices. He outlines the challenges facing B2B segmentation scholars and practitioners and looks at ways to overcome such challenges. The ISBM research director Dr Gary Lilien recommends carefully understanding the implementation implications of any segmentation study before beginning. Segmentation, targeting and positioning are powerful elements of the B2B marketing arsenal – but only if they are done with an eye to the realities of implementation.

Suggested Research Pathways: Strategy Formulation

Marketers would benefit from a better understanding of how the concept of ‘segment’ is changing with the advent of social media and other mechanisms by which customers and markets are constantly connecting to one another. Is the whole concept of a ‘segment’ changing in some way? How? What actions can marketers take to better focus their resources? What segmentation approaches and tools work best in different cultural and organizational situations? Are there new analytic methodologies, geared for B2B, that would enable us to better discern segments from the data sets B2B marketers encounter and to better enable us to target them? Finally, any research on overcoming barriers to implementation of STP would be quite valuable. Across ISBM member firms, for example, many B2B segmentations simply do not work.

DESIGNING CUSTOMER VALUE

Technically sophisticated customers, working with their best suppliers, can create exciting new solutions with greatly increased value from the current next best alternative. In the face of market downturns and stress, however, low price often becomes the highest priority. When that happens, value chains tend to focus their innovative capability on efficiency, lowering costs and streamlining, rather than on innovation and the creation of fundamental new value. Firms need to constantly innovate or face the danger of perishing. Innovation is the critical driver that can help firms meet customer needs in a better way, improve firm performance and contribute to firms' growth and success. Tellis et al. (2011) identify 10 major topics in innovation, summarize the major contributions in the topic of innovation and outline key research questions for the future.

It is important to note that innovation goes beyond the core product to include all elements of the total 'offering' for the customer in a particular situation. B2B services are big business, and for many B2B markets, the service wrapped around the core 'product' offers the opportunity for greater value added and real differentiation. Deep understanding of the target segment and customer needs is crucial to designing new offerings in the business marketing arena. Marketers pay particular attention, and deploy specialized tools and approaches, at different points in the new offering realization process:

- *The 'Front End': Market Understanding and Ideation.* This part of the new offering realization process is often euphemistically referred to as the 'fuzzy front end'. This is the place where innovation, creativity and discipline all come together in the ideation of product and service offerings of significant new value. The process begins with good answers to the questions: do we really understand what our markets, especially downstream markets, need from us? Have we put enough front-end and market intelligence work into our research and development and innovation processes? Do we have an ongoing and repeatable process for generating fresh new insights and ideas that feed the new offering process? Do we understand likely new offerings by the competition?

  Firms employ a wide variety of approaches to generate new offering ideas: from traditional 'brainstorming' techniques, to basic ideas emerging from R&D, to nurturing the firm's 'serial innovators' (Griffin et al., 2007; Sim et al., 2007), to buying new ideas (from early concept to full product specification) from online sources (Nambisan and Sawhney 2008).
- *From Idea to Offering: Stages/Gates.* Once a product concept is selected for development, the ongoing investment and importance of key decisions along the way warrant a disciplined and systematic approach (Cooper 1993). Cooper (2011) details the stage and gate approach. He highlights how firms can adopt Stage-Gate® to improve their innovation process and implement a robust idea to launch system.
- *New Offering Portfolio Management.* As the new offering realization process continues, a portfolio approach to managing initiatives to achieve the right mix of risk and reward is key. Is the firm pushing the envelope sufficiently with investments in true innovations, which can be risky? Are those initiatives balanced with relatively low-risk offerings, such as product extensions? Is the firm effectively 'killing' new offering initiatives that will not work early in the process, freeing resources for redeployment on more profitable investments?
- *Launch*. Finally, there is the suite of processes around new product launch. Product debuts require special attention in B2B markets. Are all elements of the selling force, channel partners and the customer buying center addressed with elements of an integrated market communications program? Are results being tracked in ways that allow for mid-course adjustments to support product success? Schultz (2011) highlights how the forces of competition, pace of technology, rise of brands

and today's global and networked organizations are changing how B2B marketing is planned, developed and executed. The age-old linear, primarily outbound persuasive personal sales and selling system is being challenged. This change calls for re-evaluating current practices of B2B marketing and communication and giving them new direction.

B2B Services

The new offering process for many B2B firms involves a harder-edge product offering, with services 'wrapped around it'. As B2B markets continue to emerge, however, a wide variety of 'pure B2B service' innovations offerings are coming into play, with businesses finding ways to move entire processes of their operations to outside firms and agencies that might be better able to accomplish the entire function (Bitner et al., 2008).

An often-cited example is General Electric (GE) in the servicing of jet engines. As airlines worked to keep their jet engines in good working order, many of which are manufactured by GE, they often bought service packages or training for their mechanics to do a better job. GE recognized that what airlines really needed was not so much better tools and techniques for maintaining engines, or even services to maintain engines better, but reliable 'power by the hour'. This GE service offering allows it to re-engineer the value chain to the benefit of all of the players involved – a move toward the service-dominant logic (Vargo and Lusch 2004). Lusch and Vargo (2011) look at the advantages of the service-centric view, including how firms are now part of a service ecosystem and strive for better resource integration to attain higher order competences.

Suggested Research Pathways: Designing Customer Value

Research that would enable firms to better understand and systematize the innovation process, and importantly mobilize the powerful new global resources afforded by the web and social media, would be very important, looking forward. Which innovation processes work best in which circumstances? Can we recognize and build a model of the new offering innovation space in today's connected environment? Which development processes are right for which sorts of offering? The Stage-Gate® process has been around for a while; can research build on the best of that process to enable 'tailoring' for specific sorts of new offering development opportunities?

COMMUNICATE AND DELIVER VALUE

As the value delivery framework and process unfolds, effectively communicating the value of offerings to the marketplace is the next important step. It is especially important at product launch, when B2B marketers are often bringing significant new alternatives to their customers that in turn enable them to create new, differentiated products for their customers downstream.

Schultz and colleagues (e.g. Schultz and Schultz 2004; Schultz et al., 1993) provide processes, tools and techniques for focused and carefully time-phased communications in B2B markets. For example, marketers can adopt a Behavioral Timeline® approach for mapping communications timed to the actions that customers take in the buying process (Lauterborn 1998 [2001]). In B2B marketing the whole 'demand decision chain' has to be taken into consideration as communications plans are developed and as value is communicated. The Behavioral Timeline® is a tool expressly designed to assist marketers in detailed mapping of actions for all elements of the chain.

The challenge and opportunity of B2B market communications is illustrated in the 'benefit stack' and the 'decision-maker stack' in Figure 2.4 (Narayandas 2005). Different organizational elements in the decision-maker stack have different views as to the most important benefits of a supplier's offering in a given situation, depending on these individuals' position and point of view. Johnston and Chandler (2011) review the fundamental constructs discussed in organizational buying literature; evaluate the emergent role of partnerships, alliances and outsourcing; and propose a framework that links the three emergent topics of Innovation and solutions, Knowledge management and technology, and Brands and relationship processes.

B2B Market Communications

Because of the complexity of the buying process and the nature of the decision-maker stack, B2B market communications need to be effectively delivered to elements of the buying center at 'just the right place' and 'just the right time'. B2B market communications involve some of the more conventional suite of communications tools such as marketing media relations, print advertising, direct mail, email, and special websites, but it is leading the way in aggressively exploring social media and the impact of networking across customers, influentials and market geographies.

A good B2B website can be an especially important component of market communications between businesses. Because the buying process and the offerings involved can be complex, custom websites that allow various elements of the customer decision-maker stack to tune into the information they need, just when they need it, can be especially valuable. For this reason many B2B websites look like an 'an ocean of links' on their main landing page. In practice, however, customers often access the websites of their suppliers through custom interfaces that have been especially designed for them.

In B2B market communications it is often said that 'content is king'. Various elements of the decision-maker stack inside customer firms are very busy, and market communications is often very much a 'value-based contract' with the receiver, involving the delivery of important information at the right place at the right time. Careful targeting and a valuable message are essential.

Trade shows are often a very important part of the B2B market communications mix. Although under fire in recent years for their high expense and lack of trackable results, trade shows continue as a place where customers, suppliers and other influentials gather, and they afford an opportunity for a great deal of communication and connection to happen at one time. Gopalkrishna and Lilien (2011) look from the perspective of three stakeholders – exhibitors, attendees and show organizers – and provide guidelines for practitioners and possible research agendas for researchers.

The emergence of 'social media' is adding a spectrum of new channels and interesting new dimensions of direct dialogue across and between many players in the buying process. Emerging channels such as blogs, Twitter, Facebook, LinkedIn, YouTube and others are making new sorts of dialogue, discussion and co-creation possible between corporations. With this comes a whole array of issues with regard to 'official policies' on how and when to deploy these resources, protection of proprietary information, the investment involved in resourcing these new channels and others. As of this writing, experiments are underway across B2B practice, and B2B marketers are just beginning to develop principles by which to mobilize these new tools.

Value Propositions in Business Markets

Building strong value propositions in B2B markets requires investments of time and effort to understand customers' business, their value chains and their unique requirements and preferences. Supplier claims on value delivered, cost savings and so on need to be backed up in accessible, persuasive language with a focus on the differences between a supplier's offerings and rivals' offerings, which matter most to customers.

Anderson et al. (2006) outline an approach for creating what they term 'resonating focus' value propositions. They suggest that focusing on the one or two most important points of difference in the supplier firm's offering (and perhaps a Point of Parity that a customer may not recognize you have) can be key to much better results. A resonating focus value proposition answers the customer question: 'What is *most* worthwhile for my firm to keep in mind about your offering?'

Building strong value propositions requires deep knowledge of how a supplier's firm offering differs and delivers superior value to customers, compared with the next best alternative that the customer is considering in the specific buying situation. Savvy B2B marketers 'demonstrate' value before the sale, in hard-hitting economic terms, and then continue to 'document' value after the sale, with value forensics they conduct together with customers. Documentation of value furthers the learning of how a supplier can better serve a customer and brings the customer on board in documenting and verifying that the value promised was actually delivered.

Brands in B2B Markets

An important additional component of value in B2B markets is the brand and reputation of the supplier. The whole business of brands and brand equity is often not that well understood by B2B marketers and often does not receive the importance or investment it deserves. In our work at ISBM, we define a brand as 'A relationship with a market or market segment that has an economic impact in the marketing of an offering'. That economic impact can include higher prices, lower cost of sales, faster uptake, more willingness to try new offerings, ability to forestall competitive encroachment – a variety of factors. These factors in the aggregate, the economic impact of a brand, are termed 'brand equity'. Brand equity comes into play when customers encounter things such as trademarks, logos or people they recognize as coming from a firm they know and trust.

Brands themselves reside in the minds of customers. Firms can own trademarks, and the economic effects of brands (brand equity), but they are dealing with a powerful and valuable asset that they actually do not own themselves. Brands are built over time through an accumulation of experiences a customer has with a supplier firm. From the performance of offerings (products and services) to the relationships developed between employees, to the market communications messages sent and received; all of these act to add up to the 'brand' in the mind of the customer. (In consumer markets, many of the 'core offerings' in a category are close to identical. Real functional differentiation may be very difficult to see or discern. The real differentiating feature is in the brand and brand experience.)

B2B transactions are often quite complex, involve very high stakes and incorporate a great deal of risk or fear, uncertainty and doubt. The risks involved when a consumer purchases a tube of toothpaste on a trial basis are relatively minor. If a toothpaste manufacturing firm is considering the purchase of several hundred thousand pounds of a chemical for use in its product, the risks and complications can be quite a bit higher. Despite all of the 'left brain' quantitative analysis that goes on in a B2B buy, customers like working with suppliers they trust. Strong B2B brands 'fill in the gaps' of uncertainty that reside in every B2B buying situation. A strong brand that assures customers that the supplier will stand behind the product it sells and work to ensure that any problems will be handled can be a very important part of any value proposition in B2B markets (Kotler and Pfoertsch 2006).

Many B2B firms fail to understand and utilize the importance of branding. Keller and Kotler (2011) provide some answers on branding for B2B firms. They look at issues such as why B2B firms fail to use B2B branding, what differentiates major B2B firms that make good use of B2B branding, what B2B firms need to know about branding as a starting point and what steps a B2B firm should take to build a strong brand.

In some situations, the supplier's 'ingredient' in a customer's product creates *the* differentiating feature sold to the next step (or to a player farther down) in the value chain. A supplier often provides an essential, and sometimes invisible, element of value or a key, compelling, differentiating benefit that the customer then uses in its selling situations. Pioneered by DuPont (with Stainmaster, Teflon, Nomex and others), an ingredient branding strategy spans a wide variety of business models. These business models vary greatly across cases such as NutraSweet, Dolby, Intel inside, DLP and others. Ingredient brands enable a supplier firm to reach 'down the value chain' and create downstream market 'pull' for their products, as well as enabling different sorts of negotiation in the direct sale to the next step in the value chain (Kotler and Pfoertsch 2010; Oliva et al., 2006).

Channel Strategies

Channel strategies and channel management come into play at this phase of the process, as offerings move downstream toward the eventual user. In B2B markets, the right channel partners are often the keys to value-added marketing. The nature of the channel partner relationship spans a broad range of business designs. Some channel partners are 'pure resellers': they find buyers and 'make the market', break bulk and handle basic transactions. Other channel partners – 'value added resellers' (VARs) – start with the supplier's offering and add significant additional value. VARs frequently provide application know-how, access to customers, inventory management, product integration and other contributions to the basic product or service offering coming from a supplier, on its way downstream to the next customer in the value chain.

Identifying, selecting and working with the dealers, distributors, resellers, retailers and other intermediaries operating between a company and users of its products and services is a special mix of art and science (Friedman and Furey 1999). Critical issues include how a given channel adds value, what portions of that value it captures through pricing and how the suppliers' offering enables the channel partner to make money. B2B marketers are learning that channel strategy becomes fluid and challenging as disruptive technologies such as the Internet create opportunities for new channel experiments. Customers develop new performance expectations, and new channels disrupt old and familiar relationships. In most B2B situations, multiple channels to market, including electronic channels, often exist side by side, enabling better coverage and more custom service to different customer segments, but they also present challenges to channel managers (Rangan 2006).

B2B 'eBusiness'

Although the Internet has occupied mass consciousness for nearly two decades, we're still in the early days of seeing its potential for marketers. The tools and techniques of electronic communication and networked marketing are enabling firms to understand, create, deliver and profitably harvest value with even greater efficiency and effectiveness. New channels for communication, supply chain integration, demand forecasting and transaction management are being constantly tested. Innovative market experiments are underway as suppliers use digital/networked tools to customize offerings, focus communications, create new sorts of dialog and manage prices.

Although consumer-oriented online commerce often captures more headlines, 2008 census data reports that B2B e-commerce, at $3.4 trillion, dwarfs consumer e-business at $288 billion. The size and frequency of individual transactions and the large dollar value of supplier–buyer relationships make B2B fertile ground for digital/networked experiments. Digital technologies enable B2B companies to tap storehouses of technical knowledge and move them into complex offerings. Custom 'extranets' (websites created by one firm for private access by another firm) enable virtual integration of a firm's competencies up and down its value chain and provide new dimensions in sales support. Using extranets and EDI, firms across a value chain can link with one another and share real-time information. This information exchange is critical for better demand prediction and supply chain optimization (Shankar 2011).

The Sales Force

The most critical element of the marketing value-delivery framework often boils down to where the rubber meets the road: the sales force and the capabilities of individual salespeople.

The sales force is the face of the firm for the customer. The firm's performance and profitability is directly related to the performance and effectiveness of the sales force. The success of the sales force directly leads to the success of the firm in terms of better results and profit. Zoltners et al. (2011) look at what defines sales force success and identify five key drivers for sales force effectiveness.

The salesperson is also a crucial link in the brand relationship with the customer. Salespeople are the organization's front line and are crucial in establishing and maintaining effective connectivity, communication and relationships with business customers.

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Singh et al., Marinova and Brown (2011) review boundary role theory in marketing and present myths associated with boundary roles.

The salesperson also plays multiple roles in the firm's marketing program as (1) informer; (2) persuader; (3) problem solver; and (4) value creator (Wotruba 1991). The salesperson's effectiveness in these roles is essential for the salesperson's success. Bradford and Weitz (2011) focus on behaviors of salespeople, their knowledge, skills and abilities (KSAs) and management practices that can be used to develop these KSAs and support the transition of a salesperson from a traditional influencer role to a value creation role.

In B2B marketing, I often find that the terms 'sales' and 'marketing' are merged and frequently confused. Sometimes the terms are used interchangeably, even though they are distinct, albeit tightly symbiotic and complementary, functions. B2B marketing manages the understanding, creation and delivery of value. The selling force interprets that value for individual customers, ensures that customers receive the value they purchase and translates customer needs in ways that allow the firm to improve the value of its offerings.

In theory, marketing provides direct support for the selling process, such as competitive intelligence, pricing information, sales aids, channel programs, training and technical support. Marketing sets the stage so that salespeople can build profitable relationships, overcome obstacles and close transactions.

In practice, I often find a separation or conflict between B2B marketers and salespeople. When these functions are poorly aligned, the marketing function is usually marginalized, and focused more on market communications that the sales force does not recognize as valuable. The bigger issue for the salespeople in such situations, however, is that they may be focused on the wrong segments, greatly reducing their productivity.

Where the connection works, and both functions are integrated into a well-defined demand-generation process, the combined effects are quite powerful. Salespeople are focused on the right segments, with superior offerings, a keen understanding of competition and the tools needed to be 'value merchants'. Cespedes (2011) investigates the reasons for differences and conflicts between marketing and sales. Further practices and methodologies are presented to improve marketing–sales coordination.

In ongoing discussions on this topic at several ISBM members' meetings, we have seen that building three key 'linkages' across these functions is key (Oliva 2006):

- Linkages in language: the common language of value.
- Linkages in process: following the value-delivery framework outlined in Figure 2.1.
- Linkages in organization: enabling sales and marketing to work together, aligned toward common goals.

Although ideally only a last resort, profitably harvesting value often boils down to tough negotiation. Marketers must work with the sales force to help build the skills and strategies that enable successful negotiation. Creating distinctive, unique value in offerings (and building strong brands) assists salespeople in negotiating profitable prices (Anderson et al., 2007).

Suggested Research Pathways: Communicating and Delivering Value

As of this writing, a broad variety of experiments are underway, exploring social media in new sorts of market communications between firms. Research-based insights into these new tools would be very valuable through the coming decade. An important research pathway revolves around the question: 'What is the model of the communications "receiver" in today's markets?' Members of the decision-maker stack are now connected across countries, cultures, firms, suppliers and competition. Messages are no longer delivered in isolation, and marketers would greatly benefit from insights into how to more effectively, and efficiently, create communications between customers and suppliers (Schultz 2011).

The emergence of new channels, often mediated by the Internet, affords another whole pathway for research. When do multiple channels make sense? How can 'e-channels' and more conventional channels accent and help each other?

Finally, the whole business of how to motivate, compensate and equip the sales force to navigate the turbulent and changing markets of the coming decade is fertile ground for research (Zoltners et al., 2009). The subject of sales force compensation has always been a challenge to both academicians and practitioners. While in theory compensation can be used as a strategic tool to align salesperson goals and activities with the firm's own profit-maximizing goals, in reality there is often divergence between the objectives of the firm and the salesperson. Coughlan and Joseph (2011) review literature on sales force compensation and suggest an amalgamated framework to arrive at an optimal compensation structure.

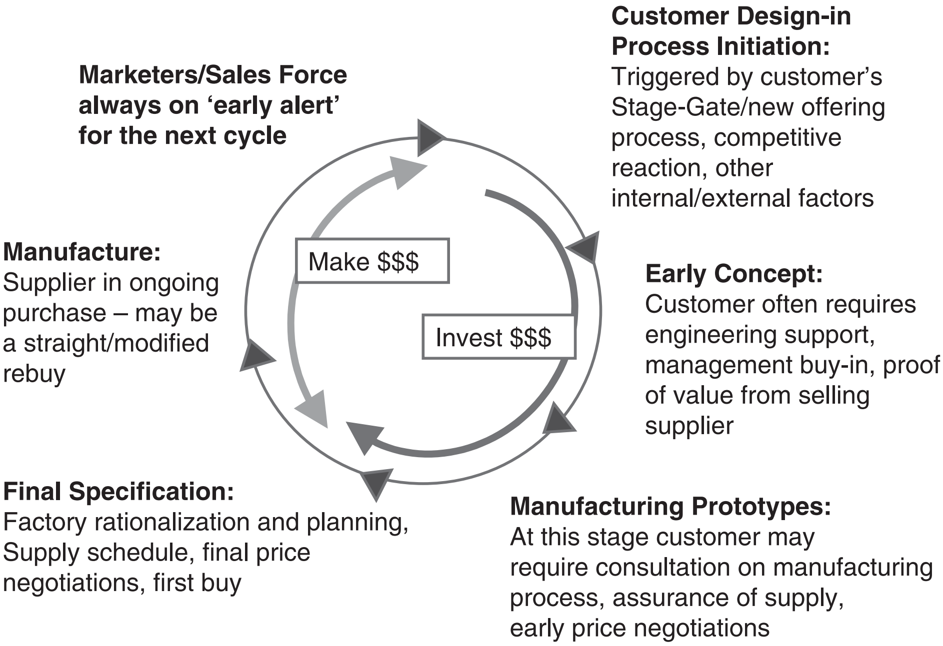
MANAGING THE LIFE CYCLE OF THE B2B CUSTOMER

The B2B customer is an ever-changing and complex entity whose behavior follows cycles driven by business designs and the various value-creating processes inside the customer firm (Narayandas 2003). There are times when a B2B customer needs many value-added services from its suppliers and relies heavily on supplier help in the co-creation of new value for its downstream customers. At other times the same customer may be only focused on taking cost out of its process and move toward the behavior of a commodity buyer, even to the extent of deploying reverse auction techniques to squeeze every ounce of cost out of the buy.

B2B marketers must have understanding of where their customers are in the life cycle of their connection – for each offering over time. This is another distinctive characteristic of B2B compared with B2C marketing practice. Although there are a wide variety of B2B customer 'life cycle phenomena', I focus on the buying process cycles I find most common in B2B marketing practice: the design-in, straight rebuy, modified rebuy and MRO buying patterns.

The Design-in

In a design-in situation, the customer is usually designing a new offering for downstream customers and is looking to build in as much innovation and new value as possible so



Source: © 2010, R. Oliva

Figure 2.5 The 'design-in' cycle in B2B marketing and sales

that it can be competitive in its market. Consider the designer of a complex new consumer electronic product, a new chemical formulation, a new sort of paper or an entirely new service; something where the B2B customer is innovating to create new value and looking to suppliers to help with 'value-added ingredients'.

In this situation the supplier firm is often selling important and new offerings of its own – 'direct material' – that will become part of the customer's offering. B2B marketers managing a design-in phase are involved in a risky, difficult and complex cycle, as shown conceptually in Figure 2.5. For customers for which design-in is a key factor, it is important for the B2B marketer to understand the cycle and to intercept it at just the right times. (If a B2B marketer 'misses' the design cycle in a customer firm, it may not have another chance to participate in another buy until the next cycle comes along.)

At this stage of the process, B2B marketers work with the customer to provide the best alternative possible as they develop the early concept of their new offering. Marketers are often investing heavily in engineering support, making connections with the management of the customer firm, building understanding of the value that the customer is trying to create downstream and providing prototypes or simulation software to prove the value of their offering in the final product.

In the next phase of this process the customer might be working on building manufacturing prototypes to understand how the design works, assessing its manufacturability and beginning to put the supply chain together to build the product. Often a B2B customer will be leery of buying from a single source for any critical element of its manufacturing process. The B2B marketer needs to understand which other sources will be available and needs to be there at the right place, at the right time, with the right offering and the right final price to win the first buy.

This first buy is all-important, because it will constitute the lot of products the customer uses to assemble its first build. The customer will gain experience with the supplier's offering in the manufacturing process. At this point, switching to another supplier gets difficult – a 'switching cost' is developed – as the customer learns more and more about how to use the supplier's ingredients.

The Straight Rebuy

Over time, this same customer will be likely to need more of the supplier's product as its manufacturing processes continue. As successful downstream sales continue, the B2B marketer moves into a different role with the customer – and the customer takes on a different role to the supplier. Savvy B2B marketers understand that this changing relationship is a natural part of the B2B marketing cycle. Once a supplier's product has been designed in as 'direct material' into a customer's product, and the customer needs to buy more, it often happens through what is called a 'straight rebuy' process. Here the B2B marketer often negotiates long-term contracts, building a supply chain to enable the customer to rely on a stable, high quality, low variability supply of the ingredients it is purchasing. At this point in the cycle the supplier has the opportunity to reap significant profits and pay back some of the investment that it made early on to win the design-in phase.

Modified Rebuy

Over time the customer will typically drive to reduce the cost of its offerings and begin asking the supplier for changes in its offerings, regarding how they are delivered or their price. This is a natural part of the B2B marketing lifecycle, and at this point competitive alternatives may emerge; market conditions downstream for the customer may dictate that cost reduction is essential.

The savvy B2B marketer works to understand the customer's changing needs and the fact that all of the value it added in the design-in phase is now being harvested by the customer as it passes its products downstream. As this phase continues, the customer will tend to move more and more to commodity-like buying behavior. It has developed knowledge on the use of the supplier's ingredient in its product situation and is focused more and more on taking cost and complexity out of the manufacturing process to improve its profitability. In this phase of the process B2B marketers work to drive their costs down and provide pricing that enables their customers to harvest profit as they in turn face what usually are their own more challenging market conditions downstream in the value chain.

Beyond that, B2B marketers are always working to create 'the next innovation', the next round of technology, the next best alternative ingredient so that they can win the next design-in. Strategic B2B marketing involves linking the supplier firm's business design to the business design of customer firms in ways that enable the ongoing discernment, creation, delivery, computation and profitable harvest of value.

Maintenance, Repair, Operating Supplies (MRO)

Some B2B marketing operations involve the sale of MRO supplies. These are the things businesses need to get on with business and keep things going day-to-day. They are often items such as shop supplies, office supplies, wipers, goggles, gloves, non-specialty fasteners and so on.

In this situation, the basic offerings themselves can be viewed as commodities, and without careful marketing, price might be the only differentiating factor. As has been proven by W.W. Grainger, however, (Anderson, Kumar and Narus 2007), innovation in offering design can be the key to profitable success even in this sort of market. Taking cost out of providing the total solution, streamlining the link between the supplier and the customer at the lowest possible overhead, anticipating need and keeping inventories low can spell better profits and more satisfied customers even in this highly competitive B2B marketplace.

Customer Relationship Management in Business Markets

Keeping track of complex buying cycles, and how one cycle will fold into another, as well as the complex nature of the transactions between businesses, is the realm of customer relationship management. Doing this well requires an active, dynamic and accessible database enabling B2B marketers and salespeople to understand the changing nature of the customer relationship, as well as to anticipate customer needs over the life cycle of their relationship.

From simply tracking transactions with customers, to keeping tabs on key personnel in the decision-maker stack and how they migrate through a customer firm over time, to understanding seasonalities and product development cycles inside a customer firm, a comprehensive database can be a valuable tool. A great customer database comprehends the dimensionality of the relationship between the supplier and the customer and tracks changes in these dimensions over time to enable more focused, effective and profitable marketing decisions (Venkatesan et al., 2011).

Ongoing Support after the Sale: Customer Satisfaction in Business Markets

B2B marketing is often a very personal business. Working with a customer through various elements of the buying cycle until the sale is made and a supplier's product is installed in the customer's process can take a long time. A B2B buy may take many months, and ongoing purchase of the product after that can go on for years. Once a sale is made, an ongoing focus on 'service after the sale' is critical to ensure satisfaction, foster the customer relationship and build very important market-based assets for the supplying firm: customer advocates.

A variety of techniques are in use to measure 'customer satisfaction and loyalty' in B2B markets. As of this writing, the various tools and techniques that are being used are often quite controversial and the subject of significant debate.

A popular metric for measuring customer satisfaction and loyalty is the 'net promoter score' popularized by Fred Reichheld and described in his book *The Ultimate Question* (Reichheld 2006).

A firm's net promoter score in a segment boils down to asking customers how strongly they agree to this focal statement: 'I would recommend this firm (product/brand/solution) in confidence to a peer or friend'. Respondents are asked to score their response on a 1–10 scale, with 10 being 'strongly agree' and 1 being 'totally disagree'. The 9s and 10s are added together, and the 1–6s are subtracted to get to a firm's net promoter score. The net promoter score is cited as having more correlation with true customer loyalty and advocacy behavior than a broad variety of other survey techniques and metrics.

To come up with metrics that more strongly correlate with customer behavior usually involves a more in-depth approach, such as Gallup's Customer Engagement 11 (or CE[11]), which explores and quantifies both 'rational advocacy' (tied to the basic performance of a product or service) and 'emotional advocacy' (reflective of the total relationship between the customer and the supplier) (Fleming 2007).

'Customer loyalty', whether in B2B or B2C markets, is a matter of some controversy. It is clear that retaining the right customers and managing the total relationship with them is more affordable than the ongoing acquisition of new customers – especially the wrong customers. Segmentation, targeting and positioning done well leads to coupling the right customers with firms' total capacity, which optimizes the value of their capital and other assets, improves profits, reduces waste and drives increased free cash flow.

Firms have always paid particular attention to their most important customers. Key account management (KAM) is a focused and intensive form of customer relationship management. If KAM is applied ineffectively it may not yield any benefits to the firm, and the customer may become unprofitable. Homburg and Bornemann (2011) address the conceptualization and theoretical underpinning of KAM, along with determinants, design elements and prototypical approaches of KAM and their respective performance outcomes.

Suggested Research Pathways: Managing the Life Cycle of the B2B Customer

The ongoing application of advanced information technology to a broad array of business processes is changing the behavior of industrial firms and their various business cycles. Processes that once worked in isolation are now connected together through enterprise resource planning (ERP) systems such as those provided by SAP. Research on how marketers can better identify cycles and processes inside customers, and better attach to them, navigate them and work through them profitably, would be extremely helpful.

Insights on what sort of investments in customer relationship management, and which approaches are antecedents to better business results, would be especially helpful as the nature of the relationship between customers and suppliers, and between customers and other customers, undergoes rapid change driven by social media.

A WORD ON THE FUTURE OF B2B . . .

Through the years that ISBM has been tracking B2B markets and the practice of B2B marketing, we've seen the evolution of the practice moving through distinct cycles.

For B2B firms that do not fully understand the impact of marketing, investments in marketing – and hiring of marketing professionals – accelerated during an upturn, and it was considered 'an expense we can afford'.

In those same firms with little understanding of marketing practice, where marketing is primarily viewed as downstream marketing, sales support and market communications, things get brutal for marketers during a downturn. Marketing is considered pure 'SG and A', and severe cuts marginalize the practice, sending even talented B2B marketers off looking for work. Through many years of these cycles, we've seen the practice of marketing marginalized for many B2B firms (Webster et al., 2005).

There is evidence, however, driven by several leading firms, that the practice is coming into maturity. These firms are recognizing that – upturn or downturn – without better connectivity to their customers and markets, careful STP, ongoing innovation, better pricing and a better understanding of 'upstream' and 'downstream' marketing, they will not be able to compete in the challenging marketplaces of the coming decade.

These firms, including several well-known and notable firms such as GE, DuPont and Cisco, as well as smaller firms such as New Pig, Kennametal and Sabert, are working to turn B2B marketing into a formidable competitive advantage (Comstock et al., 2010).

They usually begin by creating a common language of value-based marketing, defining stronger marketing processes, assembling leading-edge tools and making them available and fostering a community of learning and practice among their marketing team. This effort is often accompanied by significant investments in training, professional development and rotational assignments, which enable marketers to develop the connections across the firm required for them to be effective.

For these firms, the maturity level of the B2B marketing practice itself is being tracked. Marketing, and B2B marketers, are seen as essential ingredients in driving organic growth, optimizing the value of capital and other assets and ensuring healthy, free cash flows. As these leading firms gain traction, they set the stage for the practice of B2B marketing itself to emerge as an essential component of the enterprise, with a seat at the table with the C-level officers, guiding the future of the firm.

At ISBM, we see firms working to identify the sort of talent and human resources that are required to lead the charge, and then creating exciting careers with great impact for those with the right mix of left-brain analytic skills to mobilize data for insight, and right-brain creative skills to innovate new solutions, business designs and pathways to profitability through challenging markets.

Over the next few years, certain key elements of B2B marketing practice will surface as of 'perennial importance':

- B2B marketers must develop tools, techniques and competencies for understanding, quantifying and communicating value.
- B2B marketers must bring to their firms new tools and techniques for discerning the opportunity to add new value – getting down to the real 'voice of the customer'.
- And . . . B2B marketers will need to step up to be the drivers of organic growth for their firms. Organic growth will come from the opportunities presented by new emerging markets, such as the BRIC countries, as well as going deeper with current customers and helping them transform their own businesses as we move through the decade.

In coming years, B2B marketers will be called upon for ever more important contributions and will become an even more critical element in driving business success throughout their companies. The decade of the 2010s may very well be seen as 'the decade of business marketing'.

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