

CONTENTS

| | |
|-------------------|------|
| Preface | xiii |
| Acknowledgments | xv |
| About the Authors | xix |

SECTION I: INTRODUCTION AND OVERVIEW 1

CHAPTER 1 Business Market Management: Guiding Principles 3

| | | |
|---|---|----|
| Overview | 3 | |
| Value as the Cornerstone of Business Market Management | 4 | |
| <i>What Is Value in Business Markets?</i> | 6 | |
| <i>Assessing Value in Practice</i> | 7 | |
| Managing Business Market Processes | 9 | |
| <i>Shareholder Value, Business Processes, and Marketing</i> | 10 | |
| Core business processes | 10 / Contributions of marketing | 11 |
| <i>Business Market Management and Business Marketing</i> | 12 | |
| Business market processes | 12 / Business marketing | 13 |
| Doing Business Across Borders | 15 | |
| <i>Language and Culture</i> | 17 | |
| <i>Cross-Border Negotiation and Dispute Resolution</i> | 18 | |
| Cross-border negotiations | 19 / Cross-border dispute resolution | 20 |
| <i>Currency Exchange and Payment Risk</i> | 20 | |
| Working Relationships and Business Networks | 21 | |
| <i>Work Teams</i> | 22 | |
| <i>Working Relationships</i> | 24 | |
| Collaborative relationship agreements | 25 / Collaborative relationship development | 26 |
| <i>Business Networks</i> | 27 | |
| Business network characteristics | 28 / Analyzing business networks | 30 |
| Summary | 33 | |

SECTION II: UNDERSTANDING VALUE 39

CHAPTER 2 Market Sensing: Generating and Using Knowledge About the Market 41

| | | |
|--|--|----|
| Overview | 41 | |
| Defining the Market | 45 | |
| <i>Market Segmentation</i> | 45 | |
| Conventional bases of segmentation | 46 / Progressive bases of segmentation | 47 |
| <i>Determining Market Segments of Interest</i> | 49 | |
| Market segment size and growth | 51 / Sales and profit potential | 52 |

| | |
|---|--|
| Monitoring Competition | 55 |
| <i>A Framework for Competitor Analysis</i> | 56 |
| Future goals | 56 / Assumptions 56 / Current strategy 56 / Capabilities 57 |
| <i>Improving Monitoring Performance</i> | 57 |
| Competitor intelligence systems | 57 / Seek disconfirming as well as confirming evidence 60 |
| Assessing Customer Value | 60 |
| <i>Value Assessment Methods</i> | 61 |
| Internal engineering assessment | 61 / Field value-in-use assessment 61 / Indirect survey questions 62 / Focus group value assessment 62 / Direct survey questions 63 / Conjoint analysis 63 / Benchmarks 63 / Compositional approach 64 / Importance ratings 64 |
| <i>Customer Value Management</i> | 66 |
| Translating business issues into projects | 68 / Customer value workshop 69 / Customer value research 71 / Constructing a business case for change 74 / Value realization 74 |
| Gaining Customer Feedback | 78 |
| <i>Customer Satisfaction Measurement</i> | 81 |
| American Customer Satisfaction Index (ACSI) | 81 / What customer satisfaction results mean 82 |
| <i>Customer Value Analysis</i> | 84 |
| Summary | 85 |

CHAPTER 3 Understanding Firms as Customers 90

| | |
|--|---|
| Overview | 90 |
| Understanding Purchasing Orientation | 91 |
| <i>The Buying Orientation</i> | 93 |
| Obtaining the best deal | 93 / Maximizing power over suppliers 94 / Avoiding risk 95 / Developments in buying 95 |
| <i>The Procurement Orientation</i> | 96 |
| Improving quality | 97 / Reducing total cost of ownership 98 / Cooperating with suppliers 100 |
| <i>The Supply Management Orientation</i> | 101 |
| Focus on end-users | 102 / Craft a sourcing strategy 102 / Build a supply network 104 / Sustain highly collaborative relationships with select suppliers 107 / Apply purchasing portfolio management 107 |
| <i>Putting Knowledge of Purchasing Orientation to Use</i> | 110 |
| Understanding How Purchasing Works with Other Functions and Firms | 111 |
| <i>Value Management as a Cooperative Framework</i> | 111 |
| <i>Adding Value to the Purchasing Process Through Buying Teams</i> | 114 |
| Team member roles | 114 / Buying situations 115 / Buying team tasks 116 |
| <i>Working with Suppliers and Across Functions</i> | 116 |
| Developing supply resources | 116 / Improving existing offerings 116 / Contributing to new offering realization 117 |
| Understanding the Purchase Decision Process | 119 |
| <i>Understanding Customer Requirements and Preferences</i> | 119 |
| Triangulate on customer requirements | 120 / Map customer activity and value cycles 120 |
| <i>Learning the Customer's Purchase Process</i> | 122 |

Evaluating Supplier Performance 124

Reviewing price, quality, and availability 124 / Scrutinizing total costs 126 / Tracking supplier value 126

Summary 127

CHAPTER 4 Crafting Market Strategy 131

Overview 131

Business Strategy as the Context for Market Strategy 133

A Resource-Based View of the Firm 134

Core competencies 135 / Capabilities 135 / Brands as resources 136 / Reliance on outside partners for resources 137

Fundamental Value-Based Strategies 140

Product leadership 140 / Customer intimacy 140 / Operational excellence 142

Strategy Making 143

Who makes strategy? 143 / Defining purpose 144 / Strategy as orderly advances punctuated by radical change 145

Planning Market Strategy in Business Markets 146

What Do We Know? 147

Review recent performance 147 / Gather essential market information 148 / Construct scenarios 151

What Do We Want to Accomplish? 152

Targeting 153 / Setting goals and objectives 154 / Positioning in business markets 155 / Building brands in business markets 159

How Will We Do It? 160

Develop an action plan 162 / Marketing and sales programs 163 / Take stock of implementation skills 163 / Learning and adapting 165

Summary 168

SECTION III: CREATING VALUE 173

CHAPTER 5 Managing Market Offerings 175

Overview 175

Some Conventional Thinking About Market Offerings 178

The Tunnel Vision of Commodity Markets 178

Understanding the true extent of commoditization 179 / Rebuilding differentiation 180

Services as Core Products in Market Offerings 182

Constructing Flexible Market Offerings 183

The Concept of Flexible Market Offerings 183

Articulate the Present Market Offering for Each Market Segment 185

The true breadth of the market offering 187 / The arbitrary nature of charges 187 / Lack of variation across segments 187

Assess Customer Value and Supplier Cost 187

Measuring customer value 187 / Coming to grips with service costs 188 / The payoff from value and cost assessments 189

Formulate Flexible Market Offerings by Market Segment 190

Reevaluating existing standard services 190 / Reexamining optional services 193 / Building flexibility with new services 193 / Pricing implications 195

Prepare to Implement Flexible Market Offerings 196
Option menu versus tailored-value package 196 / Branding market offerings 198 / Anticipating implementation problems with customers 199 / Breaking away from the pack 202

Value-Based Pricing 203

Traditional Pricing Approaches 204

Cost-plus pricing 204 / Competition-based pricing 204

An Approach to Value-Based Pricing 205

Managing Market Offerings Across Borders 211

Adapting Market Offerings Across Borders 211

International market development 211 / Providing transnational market offerings 212 / Global branding 213

Pricing Across Borders 214

Pricing in local markets 214 / Harmonizing pricing across borders 215

Summary 217

CHAPTER 6 New Offering Realization 222

Overview 222

Realization Strategy 223

Development Goals and Objectives 224

Overall development goals 225 / Project objectives 227

The Aggregate Project Plan 228

Mapping the kinds of development projects 228 / Making capacity decisions 233 / Gaining critical skills and capabilities 235

Concurrent Engineering in Realization Strategy 235

Point-based versus set-based approaches to concurrent engineering 236 / Set-based concurrent engineering and flexible market offerings 236

Outside Development Relationships and Networks in Realization Strategy 238

Alternative development structures 238 / Aims of development relationships and networks 240 / Decision considerations 242

Realization Process Models 243

A Variety of Realization Process Models 243

SMALLFRY Industrial Design 243 / AKZO NOBEL Coatings 245 / Kleinwort Benson Investment Management 247 / ABB Asea Brown Boveri large-system projects 249 / ABN-AMRO Bank Global Transaction Services 250

A General Realization Process Model 252

Augmenting services in realization process models 255 / "Next-generation" realization process models 255

Market-Oriented Realization 256

Market-Oriented Research 256

Creating focused research centers 257 / Connecting research with the market 258

Market-Oriented Development 259

Positioning statements as a market-focusing mechanism 259 / Researching market requirements and translating them into design specifications 260 / Guiding realization efforts with customer value assessment 262 / Tailoring market introductions of new offerings 264

Summary 266

CHAPTER 7 Business Channel Management 271

Overview 271

Designing Superior Value-Adding Marketing Channels 273

Assess the Value of Potential Augmenting Service Offering Elements to Customers 273

Envision a Value Proposition for Each Targeted Market Segment 274

Reformulate the Augmenting Service Offering for Each Targeted Market Segment 274

Configure the Channel Network 275

Think in terms of business processes and functions 275 / Consider streams of competition and plan lean enterprises 275 / Adopt a channel network strategy 277 / Build a channel network model 277

Finalize Marketing and Distribution Arrangements 281

Balance exposure and coverage in marketing channels 281 / Devise profit models 282 / Carefully select channel partners 283 / Consider e-business and wireless technologies 284 / Build international marketing channels 285 / If possible, place side bets 291

Creating Value Through Direct Channels 292

Creating a Sales Force of Value Merchants 293

Internally promote a value-based marketing philosophy 294 / Train value merchants 294 / Compensate value merchants based on profitability of accounts 295

Deploying Value Merchants 295

Establish necessary sales units 295 / Determine the number of value merchants needed 297 / Designate areas of responsibility 297 / Assign value merchants to areas of responsibility 298

Designing a Logistics System That Creates Value 298

Segment the market into logistically distinct businesses 299 / Establish differential service standards for each market segment 299 / Tailor unique logistics systems to deliver differential services 299 / Exploit economies of scale among the different logistics systems 299

Strengthening Reseller Performance 300

Build Marketplace Equity 300

Decompose marketplace equity 300 / Cultivate brand and reseller equity 302

Determine Reseller Performance Expectations 302

Assess the Reseller Value of Channel Offering Elements 303

Construct a channel positioning matrix 303

Craft a Reseller Value Proposition and Channel Offering 306

Devise and pretest the channel offering 306 / Improve reseller target-marketing efforts via tailored channel offerings 307

Communicate the Reseller Value Proposition 308

Summary 311

SECTION IV: DELIVERING VALUE 315

CHAPTER 8 Gaining Customers 317

Overview 317

Prospecting for New Business Relationships 318

Generating Leads from Business Market Databases 320

Prompting and Gathering Inquiries via Integrated Marketing Communications 323

Use integrated marketing communications to reach the target market 324 /

Encourage and process inquiries 326 / Foster strong brands 327

Qualifying Leads and Inquiries as Prospects 328

Getting the Sales Force to Follow Up with Prospects 329

Provide knowledge to create an informed sales force 329 / Motivate sales representatives to follow up 329 / Give sales representatives experience dealing with prospects 330 / Furnish abundant sales support 330

Assessing Mutual Fit 332

Scheduling the First Meeting 335

Getting started for simple sales 335 / Initiating dialogue for complex sales 336

Learning Each Other's Requirements and Preferences 336

Plan the call 337 / Open the call 337 / Investigate requirements and preferences 338

Gaining the Initial Order 341

Demonstrating and Documenting Value 342

Propose solutions 344 / Gain the order 346

Negotiating the First Sale 350

Pricing the initial offering 350 / Negotiation approaches 351 / Understanding BATNA 351

Initial Order Fulfillment 351

Coordinating Supplier Functions 352

Completing the Transaction 355

Manage revenue 355 / Follow up with prospects after the sale 356

Deciding Whether to Continue Doing Business Together 357

Summary 357

CHAPTER 9 Sustaining Reseller Partnerships 361

Overview 361

Fulfilling Commitments to Deliver Value 362

Fulfilling Supplier Commitments to Deliver Value 362

Provide responsive sales and marketing programs 363 / Back up resellers with pricing support 363 / Furnish operational and technical support 364 / Pass the critical incident test 365

Fulfilling Reseller Commitments to Deliver Value 365

Provide consistently superior service to customer firms 366 / Innovate in the local marketplace 366 / Enhance the supplier's brand equity 366 / Pass the critical incident test 368

Ensuring That Value Is Delivered 369

Conduct market research 369 / Getting an equitable return on delivered value 369

Synchronizing Joint Fulfillment Efforts 371

Strengthening Delivered Value 373

Adjusting Commitments 373

Reformulate channel partners' gives & gets 373 / Make responsive adjustments to the joint annual plan 375

Working Together More Effectively 377

Establish a reseller advisory council 377 / Train and coach partner firms 378 / Strengthen interfirm coordination 379

| | |
|---|---|
| Working Together to Fulfill Changing Marketplace Requirements | 381 |
| <i>Creating Adaptive Channels</i> | 381 |
| Provide support in extraordinary situations | 382 / Responsively broaden the market offering 383 / Share capabilities with other channel members 386 / Overcome implementation problems 388 |
| <i>Skillfully Handling Relationship Transfers</i> | 389 |
| Delineate relationship transfer criteria | 389 / Establish equitable compensation for relationship transfers 391 |
| Summary | 391 |

CHAPTER 10 Sustaining Customer Relationships 394

| | |
|---|--|
| Overview | 394 |
| Fulfilling Mutually Agreed-Upon Customer Requirements | 395 |
| <i>Thinking Strategically About Relationships</i> | 396 |
| Consider industry bandwidths | 396 / Partnering as a focused market strategy 397 |
| <i>Delivering Superior Value with Relationship-Specific Offerings</i> | 399 |
| Construct relationship-specific market offerings | 399 / Pricing relationship-specific offerings 400 / Organize to deliver relationship-specific offerings 401 / Sell relationship-specific offerings 401 / Solve common relationship-offering implementation problems 402 |
| Pursuing Continuity and Growth | 405 |
| <i>Working Together</i> | 405 |
| Promote honest and open communication | 405 / Build trust and commitment 406 / Implement coordination mechanisms 409 / Anticipate and resolve conflicts 410 / Customer retention planning 411 |
| <i>Selectively Growing the Relationship</i> | 413 |
| Estimate and target share of customer's business | 414 / Focused share building 415 / Pursue single-sourcing and multiple single-sourcing 416 / Expand the scope of working relationships 417 / Broaden working relationships 419 / Adopt new profit models 419 / Document the profitability of greater share 421 |
| Ongoing Customer Relationship Management | 423 |
| <i>Monitoring, Evaluating, and Reassigning Accounts</i> | 424 |
| Estimate customer equity | 424 / Implement activity-based costing 425 / Monitor transaction prices 426 / Evaluate relationship outcomes and reassign accounts 427 |
| <i>Emerging CRM Applications</i> | 429 |
| Allocating resources for customer acquisition, retention, and growth | 429 / Synchronizing marketing efforts 429 / Updating customer value 431 |
| <i>Sustaining Customers Through Connected Relationships</i> | 431 |
| Managing within a business network context | 432 / Adding value through business networks 434 / A final thought on sustaining relationships 435 |
| Summary | 435 |

Index 441