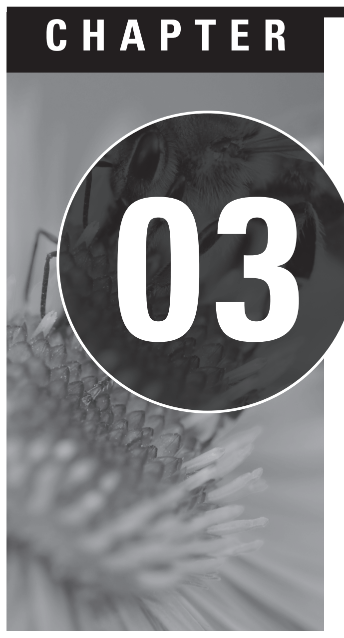
CHAPTER



Making sense of B2B markets

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Introduction

To craft effective marketing strategies, B2B vendors must have an intimate understanding of their customers and the markets they are a part of. While the focus is on understanding the wants and needs of customers, these must be placed in a broader context that includes all relevant market players and market forces. The ability to sense developments in the market and translate them into effective marketing strategies is the key capability that helps firms to create a competitive advantage. Successful firms use a market orientation to collect market information, disseminate this information within the firm and use the information to initiate marketing actions.

This chapter first explains the process of market sensing and describes how firms collect market information to construct market pictures that are used to make marketing decisions. The most critical market information concerns the wants and

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needs of customers. B2B vendors employ a variety of sources to collect customer information, ranging from published sources and market research to interaction with customers. In addition, vendors gather information about other market parties, such as suppliers, competitors, government agencies, channel partners and vendors of complementary products. This chapter describes how managers combine all this information to make sense of their markets and construct market pictures that represent their perception of the market. This process of sense-making is strongly influenced by the mental models that exist in the organisation. Mental models influence the kind of information managers look for, and how collected information is interpreted and used to make marketing decisions. A well-known example of a mental model is the firm's market segmentation scheme, which simplifies the complexity of business markets into a limited number of easily understood market segments.

3.1 Market sensing

To offer superior value for customers, firms must be intimately aware of their customers' wants and needs and use this knowledge to guide their actions in the marketplace. In other words, firms must be market oriented, both in how they think and how they act.

Being market oriented

Market orientation is generally defined in terms of a firm's behaviour and consists of three components (Kohli and Jaworski 1990): collecting market information, disseminating market information within the organisation, and using market information as the basis for coordinated action in the marketplace. The concept of market orientation emphasises that market information is the cornerstone of effective B2B marketing. Market information is defined as all information about current and future wants and needs of current and potential customers, as well as all factors influencing these wants and needs (ibid.). The factors that influence customer wants and needs include competitor offerings and actions, technological developments, regulations, channel partners, vendors of complementary products and changes taking place in the firm's downstream markets. New EU directives regulating wastewater treatment, for example, impose treatment standards and influence organisations' buying decisions about wastewater treatment equipment, systems and services. Thus, firms must collect information about all key market players:

- *Customers*, which in business markets refers to both immediate and downstream customers (for instance, through a continuous dialogue with key customers).
- *Competitors*, because customers will always compare a firm's offering with alternative offerings (for instance, a firm may employ *reverse engineering* to get detailed information about a competitor's products).

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- *Suppliers*, whose materials and components influence the quality of the firm's offering.
- *Other market parties*, such as channel partners (who advise customers, install products and provide after-sales service), government (which issues regulations) and research institutes (which develop new technologies that may be applied in new products).

To collect all this information firms use a wide range of strategies, such as buying industry reports that describe market trends, looking at competitors' websites, analysing customer complaints, analysing sales data and recording customer visit reports from salespeople. But a maintenance engineer who hears from a customer about problems with a competitor's product also contributes to the firm's market knowledge when that information is communicated to the firm's marketing or R&D manager. Effective dissemination of market information ensures that information actually reaches the people who need it. As part of this internal dissemination process, market information is being sorted, combined with other information, analysed to identify relationships between variables and interpreted to attach meaning for specific contexts. Thus, new market information is used by individuals to continuously update their market pictures. In practice, many B2B firms are plagued by inadequate communication between departments and business units. Consider the following typical examples:

- The list of reference projects in a tender does not even mention a project that was done three years ago for the same client.
- Two business units from the same firm send out completely different tenders competing for the same project.
- Employees do not share market information because they feel more powerful when they know more than their colleagues.

The process of collecting market information and making sense of all this information is called **market sensing** (Day 1994). Effective market sensing requires open-minded inquiry, widespread information distribution and mutually informed mental models that guide interpretation (see also Section 3.5). But many B2B firms are too focused on their internal processes or they feel that they already know all about their markets and the best way to serve them. As a result of this complacent attitude they often miss significant changes in customer requirements or a competitor's strategy. A 2002 survey of 140 corporate strategists found that fully two-thirds admitted that their organisations had been surprised by as many as three high-impact competitive events in the past five years. Moreover, a staggering 97 per cent of the respondents stated that their companies have no early warning system in place (Fuld 2003).

INSIGHT: Using peripheral vision to identify hidden opportunities and threats

An increasingly important capability concerns the firm's use of peripheral vision. While much market activity occurs within easily defined borders and frameworks, many weak signals are less easily visible. Good peripheral vision involves knowing where to look for these signals, knowing how to interpret them, knowing when to turn one's head in a new direction, and knowing how to act on these weak signals when they are still ambiguous. The opportunity of white LED lighting, for example, was recognised by LED companies, but completely missed by lightbulb manufacturers. The five components of a capability for peripheral vision are: (1) vigilant leadership that encourages a broad focus on the periphery, (2) an inquisitve approach to strategy development, (3) a flexible and inquisitive culture that rewards exploring the edge, (4) knowledge systems for detecting and sharing weak signals, and (5) organisational configuration and processes that encourage exploration of the periphery.

Source: Day and Schoemaker (2006)

The collected and disseminated market information contributes to managers' perception of customers and markets. The resulting market pictures are subsequently used to design and implement marketing strategies and activities; for instance, underperforming products are compared with similar products, historic sales numbers and information about recent market developments to initiate appropriate actions in the marketplace (such as increasing the support offered to channel partners, modifying the product's characteristics or changing its pricing structure). This three-stage process of collecting market information, internally disseminating market information, and using market information to develop and implement marketing strategies and activities is depicted in Figure 3.1.

The importance of market information and how organisations handle information have changed drastically during the last two decades. Many industries are characterised by increasing clockspeeds: new technologies and new product generations are introduced faster than ever, putting pressure on firms to keep up with the changes. Increased clockspeeds go hand in hand with increased uncertainty and a need for more market information. While the internet helps by making unheard-of amounts of information available, for example through portals with business information, it also contributes to information overload and many managers are looking for new tools to make sense of all the available information (such as intranets, knowledge exchange communities and literature alert services).

The effects of being market oriented

The concept of market orientation is not free of criticism. Detractors claim that it results in incremental, trivial product development, reduced industry competitiveness and a loss of industry leadership. Obviously, a market orientation is no guarantee of success; it needs to be balanced with creativity and a good grasp of

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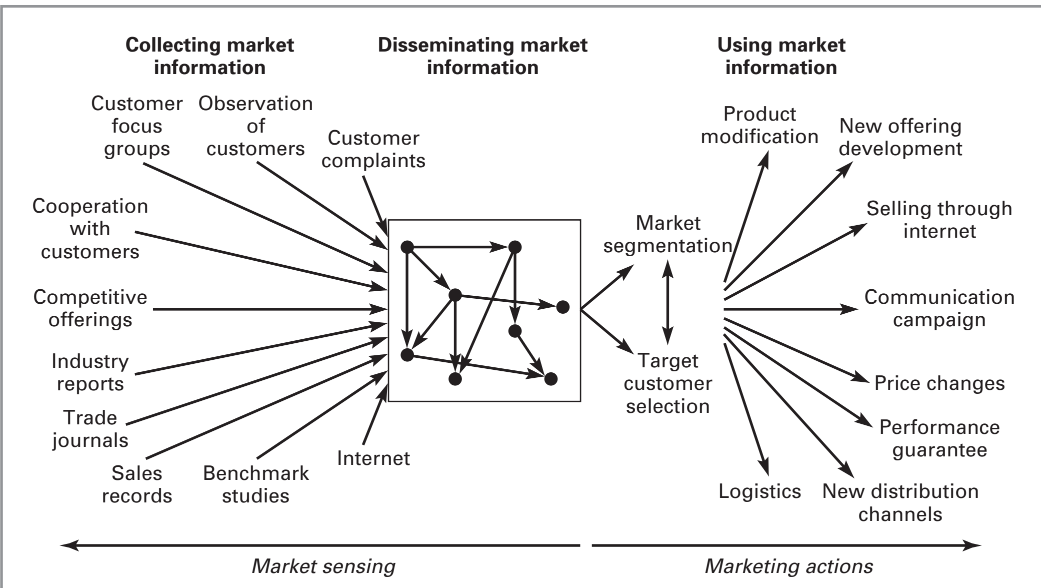

FIGURE 3.1 The elements of a firm's market orientation

the firm's unique capabilities. But it is clear that in order to be successful, firms need intimate knowledge of the markets they want to serve. Numerous studies have shown that market orientation has a positive effect on business performance in terms of profit, customer satisfaction, revenue growth and the success of new products (Kirca et al. 2005; Langerak 2003). Market-oriented firms are also able to charge higher prices and create entry barriers to deter potential competitors. Moreover, a higher market orientation also results in more satisfied and committed employees, which reduces employee turnover and further increases customer satisfaction and profitability.

Unfortunately, it is not easy to transform a product-oriented company into an agile market-oriented player. Instilling a market orientation may require significant changes in an organisation's structure, information systems, compensation systems and procedures (see also Chapter 10). In addition, new employees may be needed who possess the required market-oriented skills. Some firms are convinced that they do not need to invest in improving their market orientation; for instance, because they enjoy a monopoly or because they have only limited capacity and an increased market orientation would only result in increased demand that they cannot fulfil. But this line of reasoning is short-sighted for several reasons:

- Monopolies do not always persist and order books are not always filled to capacity; it is better to change the organisation when business is still doing well.
- Increasing a firm's market orientation is a long-term process that may take several years to deliver results.

- A market-oriented culture reduces employee turnover, which reduces costs and increases profits.
- With a market-oriented approach, the same fixed capacity can be used to target a more profitable mix of customers, which increases the return on investment.

Despite all potential benefits of being market oriented, most B2B firms are characterised by a product or sales orientation and only manage to survive because their competitors fare no better! In such a situation, customers will focus on price and select the cheapest vendor. The way out of this commodity trap starts with collecting detailed market information and building realistic market pictures.

3.2 Collecting information about customers

The most critical market information that firms need is information about customers – both immediate customers and downstream customers. Firms may gather **customer information** at several levels, varying from the individual buying centre member to the total market. This is captured in Figure 3.2, which also shows how one level is embedded in the next and the difference between information about specific customers (the shaded levels) and information at the level of the market or market segments.

Many B2B firms have insufficient knowledge about their customers and what drives their business. A firm's customer knowledge can easily be checked by asking

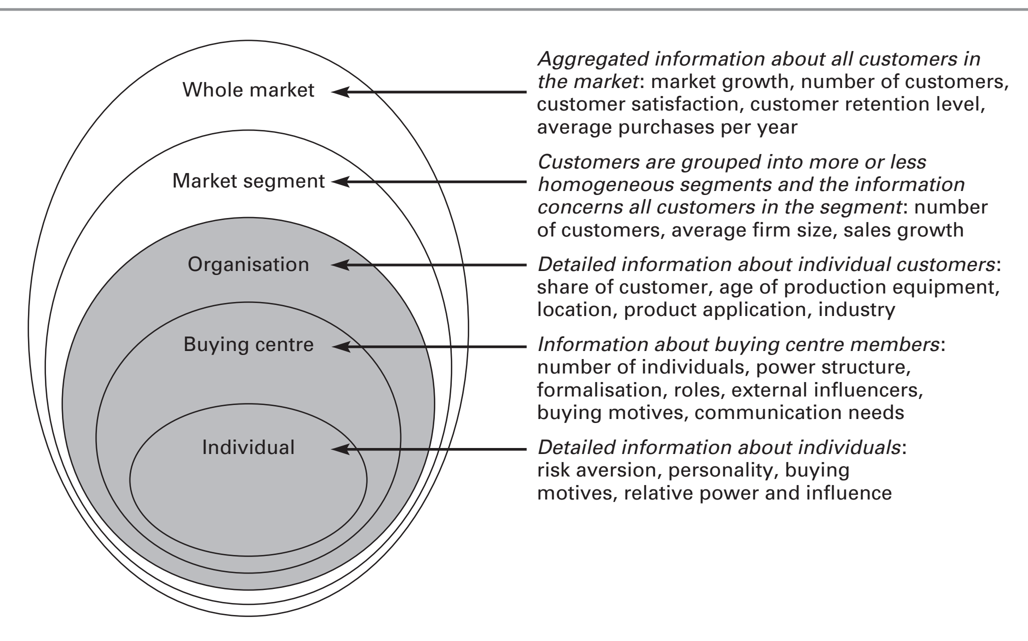

FIGURE 3.2 Different levels of customer information

a few people from top management, middle management and several line functions the following three questions: (1) Who are our customers? (2) Why do they buy from us? (3) How do we contribute to their success? All too often, one will get quite different answers to these very basic questions. At a large global paint manufacturer, managers did not even agree about the answer to the first question: who are our customers? Some managers responded with: 'That's easy: our customer is the wholesaler, because they pay for our paint.' But other managers answered, just as convincingly: 'That's a no-brainer: our customer is the painter, because they use our paint.' In many other firms, marketing and sales only communicate with the customer's purchasing personnel and lack information about the wants and needs of the people actually using their products. Obviously, when such critical information is lacking or people hold varying perceptions of customers, it becomes very difficult to design and implement effective marketing strategies and programmes.

Firms may collect information from current customers, lost customers and potential customers. Managers must decide which specific customers to use as sources of information, taking into account the existing customer relationship and the customer's willingness to cooperate. An obvious start is to look for average customers who are representative of their market segment. But firms should also collect information from trend-setting customers; these so-called **lead users** (von Hippel 1986) are defined as customers who:

- face needs that will be general in the marketplace, but face them months or years before the bulk of the marketplace encounters them
- are positioned to benefit significantly by obtaining a solution to those needs.

For Silicon Graphics, manufacturer of high-performance computers, lead users from the film industry are an important source of new product ideas. Silicon Graphics sends its best R&D people to Hollywood to learn first-hand what the most creative users of its products might want in the future. In addition, it nurtures close relationships with lead users in other industries that require massive computation and high-end graphics. For example, it worked with Genentech to model molecular structures for drug design, and it helped NASA develop systems that support the design of next-generation space vehicles and an internet display of images from a Mars landing. The lead user concept is not limited to high-tech products. Hilti AG, the Liechtenstein manufacturer of components, equipment and materials for the construction industry, conducted a lead user study to develop a new pipe hanger system that is used to fasten pipes to walls or ceilings of buildings.

Firms may use a broad range of sources of customer information, such as customer websites, customer complaints, sales presentations, telemarketing, trade shows, customer days and focus groups. Combining several sources compensates for the weaknesses of individual sources and results in more reliable customer pictures. A common problem is that firms have several databases and systems with customer information, for instance when sales and marketing use their own customer information system. Formulating common definitions and integrating the available customer information across the firm contribute to rich, shared customer pictures that can be accessed by all individuals that need customer information. Such a

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systematic approach reduces the costs of collecting and reporting customer information by up to 50 per cent. In addition, it increases the quality of customer information, especially when transaction data are combined with detailed information about the customers and individuals behind the transactions. But firms must beware of information overload; customer information sources must be carefully selected and managed to contribute optimally to the construction of useful customer pictures. The five key sources of customer information are public sources, sales records, market research, **customer interaction** and customer feedback.

INSIGHT: Creative collection of customer information

Firms must be creative in collecting customer information, but sometimes a little bit of luck helps as well. An air-conditioning manufacturer offered its installers the opportunity to deposit all empty packaging materials for free at the next delivery. The installers' purchasers really liked this initiative, because it enabled them to optimally comply with environmental regulations, avoiding costs. What they did not realise is that they liked it so much that they gave *all* packaging materials to the vendor, including the packaging of all competing products. The vendor meticulously studied all collected packaging materials for a detailed customer analysis. At a yearly cost of only €50,000, the company gained insight into the buying behaviour and portfolio of all its customers.

Source: Moenaert et al. (2008)

Public sources

Much information about B2B customers can be gleaned from public sources, such as:

- *(Inter)national government organisations*, that publish statistics and background information about industries and countries (Office for National Statistics (UK), Statistisches Bundesambt Deutschland (Germany), European Commission, Organisation for Economic Co-operation and Development).
- *Market research agencies*, that collect and publish information about specific industries (Forrester Research and Gartner provide information about the impact of technology on business through published reports, subscriptions, seminars and consulting).
- *Industry associations*, that publish information about specific industries (European Federation of Biotechnology, European Mortar Industry Organisation, numerous national trade associations).
- *Trade journals and business periodicals* (*Agra Europe*, *Fabricating & Metalworking*, *Logistics Management*, *Rubber World*, *Waste News*, *Forbes*, *Business Week*).
- *National and international newspapers* (*Wall Street Journal*, *Financial Times*, *International Herald Tribune*).

- *Online directories* (Google and Yahoo publish global business directories, www.europages.co.uk lists 900,000 European suppliers, manufacturers and distributors).

Much information from public sources is available online. Newspapers and trade journals have online versions, government agencies publish statistics and industry reports online, and market research agencies and consultants offer online subscriptions; for instance, www.internationalbusinessstrategies.com offers market research reports on more than 130 topics from more than 90 countries. B2B vendors may also access public sources of information about consumers and consumer markets to forecast changes in demand.

Most public information is aggregated at the market segment, industry or country level. The European Union introduced the Statistical Classification of Economic Activities (NACE) that groups firms according to their economic activity (such as manufacturing, construction, agriculture or electricity, gas and water supply) to facilitate the compilation of comparable data. NACE has been the official industrial classification in all EU member states as from 2003. A focus on economic activities groups firms with similar needs together, which makes the classification system very suitable for marketing purposes.

Although a wealth of information is available from public sources, this information is not always up to date or in the desired format. But it provides a good starting point for firms looking for general information at the aggregate level. More detailed information about individual firms can be found on corporate websites that frequently offer information about corporate values, strategies, product applications, target markets, technologies, purchasing procedures and expansion plans.

Sales records

A firm's internal records, such as its sales administration and financial records, offer detailed information about customers' transaction histories. Sales records provide information about both current and lost customers. Financial records offer information about various costs and expenditures. Together, these data can be used to calculate several key metrics and identify trends, both at the aggregate market segment level and the level of individual customers. Examples of relevant metrics are sales per market segment, geographic region or customer, average price per customer size or customer, effective margins per market segment or customer, profitability per market segment or customer, number of customers per market segment, customer retention rate per market segment, and average length of customer relationship.

When sales administration registers not only realised sales, but also progress on outstanding tenders and sales presentations, several sales funnel metrics can be calculated, such as funnel value (the potential value of all deals in the funnel), arrival rate (the number of deals being qualified into the funnel), conversion rate (the ratio of deals that are closed to the number of deals that enter the funnel) and flow rate (both the average time that deals spend in the funnel and its spread). When these quantitative metrics are combined with qualitative information from customer visit reports, even more detailed customer pictures emerge.

Market research

Customer information that is not available from public sources or internal records can be collected through market research. B2B **market research** has several characteristics that distinguish it from consumer market research:

- *Most B2B market research is exploratory and uses secondary data and subjective estimates*. Because of the diversity of B2B customers and product applications, most B2B market research is exploratory, aiming to estimate market size and potential. The required information is typically gathered through customer interviews or based on previous experience with similar situations.
- *B2B market research uses relatively small samples*. Many B2B markets have relatively few customers; only a small sample is thus required to obtain the desired information. In-depth interviews provide rich customer information, which is typically difficult to generalise to other customers. In extreme situations, B2B market researchers may research all potential customers in a market segment.
- *B2B market research uses interviews and surveys, rather than observation and experiments*. Experiments are not very suitable for business markets. Observation may be used to discover latent customer needs, but most B2B market research relies on interviews and surveys.
- *B2B market research is plagued by a number of practical problems*. While potential customers are typically easy to identify, identifying and getting access to key decision-makers is much harder; for instance, because they are only accessible during office hours (purchasing officers, in particular, are typically too busy to cooperate). In addition, good interviewers who also understand the vendor's products are hard to find and in many B2B markets customers are unevenly distributed, with just a few large customers and many small ones.
- *Most B2B market research is global*. Due to relatively small national markets, most B2B market research in Europe is global, with problems caused by different languages and cultural differences.

To understand the demand for their products, B2B firms may also need to research consumer markets. When Cargill, a global producer of starch, wanted to expand in southern France it identified potential customers by simply going to supermarkets and looking up the ingredients listed on the packagings of food products.

With the growing role of the internet, B2B market research may also be conducted online. Customer focus group sessions can be conducted online and researchers can analyse clicking patterns to obtain insight into how customers navigate through corporate websites. Digital databases and automated query tools contribute to more professional market research. In addition, sophisticated techniques, such as conjoint measurement and simulation, are increasingly applied by B2B firms and virtual reality software can be used to quickly develop 3D models of new products at low cost and test them with potential customers.

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Customer interaction

Much information about individual customers is collected through the regular contacts of marketing and sales staff with customers. Salespeople, maintenance engineers, technical services employees and application managers regularly visit customers, where they can observe and ask questions. It is not just the *amount* of interaction with customers that counts, but also its *content*. In one study, researchers found that the CEOs of the best-performing companies spent more time with customers (18 per cent) than the CEOs of the worst-performing firms (15 per cent), but the difference was not very large. New interviews uncovered the real difference: while the CEOs of the worst-performing firms interacted with customers by taking them to sporting events and the theatre, the CEOs of the best-performing firms interacted with customers by discussing firm performance and how it could be improved (Barwise and Meehan 2004).

Salespeople visit customers on a regular basis and thus appear to be ideal candidates for collecting customer information. Salespeople are often required to fill out customer visit reports or to conduct customer interviews. But there is a big difference between the roles of salesperson and interviewer (Grace and Pointon 1980). Salespeople are trained to persuade customers and deal with subjective arguments, opinions and emotions, which is diametrically opposed to objectively collecting customer information. In addition, their close relationships with customers limit their usefulness for collecting customer information; they tend to be less objective and provide distorted information (for instance, by overestimating customers' focus on price). However, this does not mean that salespeople are useless for collecting customer information, only that firms that want their salespeople to collect customer information must take a number of considerations into account (Grace and Pointon 1980; Liu and Comer 2007). First, the salespeople must be trained in interviewing and observation techniques. Second, customer visits to collect customer information must be separated from regular sales calls. Third, sales managers must communicate clearly what they expect from salespeople, give detailed feedback and use appropriate financial incentives. Fourth, salespeople should only be used to gather objective factual information about customers (organisational characteristics, buying centre structure, names and functions of key decision-makers, product applications, manufacturing facilities, age of plant equipment, expansion plans and product use conditions).

More subjective customer information should be collected through structured customer visits that do not rely on the firm's salespeople. Direct interaction with customers is the best way to gather customer information and should not be left to the firm's salespeople. Top and middle management also need to stay in touch with customers and should not rely on second-hand information. In addition, salespeople typically only interact with immediate customers. Interaction with key players at various levels of the value chain (immediate customers, downstream customers, distributors, end-users) is critical for the construction of complete market pictures that are the cornerstone of effective marketing. Structured customer visits have the following characteristics (McQuarrie 1991):

- Managers visit customers personally to establish direct interaction.
- Customer visits are conducted by teams of representatives from marketing and other relevant departments (R&D, manufacturing). Thus, a vendor's technical designers interact directly with the customer's users about technical issues.
- Customer visits are a continuous activity with carefully formulated objectives, supported by business managers and supervised by a coordinator. The information obtained through customer visits must be translated into actions and both customers and employees must be informed about results and planned actions. Correct feedback to customers is essential for obtaining their cooperation next time!

What makes these customer visits so valuable is that they allow customers to tell their own story in their own words. Customers find this very rewarding and the vendor gets detailed first-hand information. The impact of customer visits can be increased by videotaping them and making the tapes available to other personnel that do not have direct contact with customers. A Dutch marketing manager always shoots some photos during customer visits and shows them to employees at home. This is much appreciated by manufacturing personnel who otherwise never get to see a customer!

INSIGHT: Customer house calls

A customer visit is more than just having a conversation at a customer site. The customer visit can be used to ask all kinds of questions, but managers should also carefully observe the customer during the visit. Which products are used? Which competitive products are used? How are products used? Which problems can be observed? Such on-site observation provides critical input for product development by offering information about:

- situations in which the product is used
- how the product fits in the customer's business process
- the extent to which the customer has modified the product
- the importance of intangible product characteristics
- new (latent) customer needs.

To broaden its interaction with customers, management at US-based Kennametal (world leader in the metalworking industry) decided to drive buses with Kennametal employees to customers. They were shown around at the customer plant and saw with their own eyes how their product was being used by the customer and the problems the customer experienced in using it. Information from these customer visits was used to modify the firm's manufacturing and sales processes. In addition, the customer visits signalled that to Kennametal the customer comes first!

Sources: Leonard and Rayport (1997) and Wiersema (1996)

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Even more intensive interaction with customers occurs through joint strategic cooperation projects. Faced with increasing competition, growing customer demands and the need for shorter time to market, many firms cooperate with suppliers, customers and even competitors (see also Chapter 5). Strategic cooperation with customers usually concerns the development and launch of new products. Customers contribute to the vendor's product development by suggesting new product ideas, testing new product concepts, assisting in the development of prototypes, testing prototypes in real-life user situations, and assisting with product launch.

Customer feedback

In addition to the aforementioned tools employed by firms, customer information may also be initiated by the customers themselves. The most familiar example of **customer feedback** is customer complaints. Many firms do not like to receive customer complaints; management perceives them as annoying and fails to realise that they should really worry when they do not receive any complaints at all! The absence of customer complaints is a sure sign of bad or deteriorating customer relationships. Complaining customers are a source of valuable information and present a vendor with the opportunity to repair the damaged relationship. In business markets, in particular, dissatisfied customers complain to encourage the vendor to solve the problem. Typical reasons why business customers switch to another vendor are inadequate communication with the vendor, the vendor's insufficient knowledge of the customer's organisation or industry, the vendor's aggressive sales approach and products that are delivered too late.

There are three reasons why firms should pay careful attention to customer complaints:

- *Complaints can be used to identify problems*. Systematic complaint analysis uncovers root causes of problems and results in improved communication about product use, product modifications, product elimination, new product development, changed delivery procedures, improved customer service and a changed sales approach.
- *Complaints allow the vendor to repair the relationship*. Complaining customers only want one thing: a fast response that solves the problem.
- *Complaints offer an opportunity to increase the level of customer satisfaction*. Studies show that a complaining customer, whose complaint is dealt with satisfactorily, tends to be more satisfied than a customer who never had a problem at all!

Despite these reasons to pay careful attention to customer complaints and actively stimulate them, many customers have found their vendors to be surprisingly unreceptive to complaints. Vendors who want to improve their complaint handling should start with making it easy for customers to complain; for instance, by posting telephone numbers and email addresses on the corporate website, handing out

postage-paid complaint cards and publishing the procedure that explains what happens with a complaint. Next, they should structure the complaint-handling process. The procedure must be clear to both customers and the employees that will handle the complaints. The complaint-handling procedure should include specific and measurable objectives, such as 'call back 90 per cent of complaining customers within one hour' or 'immediately solve 60 per cent of all complaints'. When actually handling customer complaints, the cardinal rule is to take all customer complaints seriously (only the customer knows how important the complaint is!) and to provide a fast and effective response. In specific cases, top management may be involved in complaint handling; for example, to repair a deteriorated relationship with an important customer or to receive direct customer feedback. Finally, all customer complaints must be analysed. Analysis of complaints per market segment, geographic region, sales region, product or industry helps to uncover root causes of problems and to improve the vendor's offering.

Of course, many complaints can be prevented by maintaining a continuous dialogue with customers, which also contributes to customer loyalty. Research has shown that worrying about dissatisfied customers may not be enough. In markets with intense competition, satisfied customers are also potential defectors; in these markets only the really satisfied customer is truly loyal (Jones and Sasser 1995).

All these sources provide pieces of customer information that managers use as building blocks to construct their customer pictures. But it must be emphasised that this involves more than just asking questions of customers and carefully listening to their answers. Many customers are unwilling to provide detailed information or are not even aware of what they really need. This means that customer interviews and surveys must be supplemented by careful observation by all vendor personnel visiting customers to identify latent customer needs. After all, a good company listens to what a customer says it wants, but a great company anticipates what a customer needs!

3.3 Collecting information about other market parties

Customer information is the key ingredient that managers use to construct market pictures. But in itself it is not enough. To construct complete and useful market pictures, managers need information about all relevant market parties. In addition to customers, this includes suppliers, competitors, government agencies, vendors of complementary products and channel partners. The two key market players that every B2B vendor needs information about are suppliers and competitors.

Collecting information about suppliers

Suppliers contribute to the creation of superior value for customers by providing materials and components, developing new technologies and products, lowering costs of materials and assisting with the vendor's product development efforts. Vendors need in-depth information about available suppliers and their capabilities.

Supplier market research is actually very similar to customer market research. There is much secondary information available. Each vendor has internal records about business transactions with suppliers, which provide information about products bought, prices paid, delivery performance and product returns. Interviews and surveys are the most frequently used techniques to collect missing information about suppliers. Purchasing officers (and sometimes product users as well) regularly interact with suppliers, which allows them to ask questions and observe supplier activities. Vendors cooperate with suppliers through joint product development and supplier development programmes. Suppliers provide feedback through supplier evaluations and *supplier councils* (round-table conversations with a few selected suppliers).

MINI CASE: WER LIEFERT WAS

Wer Liefert Was (WLW) started in 1934/1935 as a German listing for a trade show in Leipzig, but has grown into Europe's premier site about business suppliers. For years, WLW was available as familiar blue books, but with the advent of digital technologies it switched to CD-ROM and the internet. In 1995, WLW went online and the search engine currently provides information about more than 380,000 suppliers and their products and services, classified into more than 42,000 categories. The categories are connected by keywords, facilitating a quick search of the total database. The website only includes business suppliers and provides names and contact information. In 2007, the WLW website was used by more than 1.5 million purchasing decision-makers and registered more than 22 million hits.

Source: www.wlw.de

Firms should systematically conduct supplier market research at three levels: (1) the level of the economic environment (capacity, pricing, employment); (2) the level of the industry (profitability, inventories, number of suppliers, intensity of competition); and (3) the level of the individual supplier (financial situation, product quality, delivery reliability, certified manufacturing processes, pricing structure). Supplier market research may be conducted by purchasing officers or a specialised department, or a firm could create an ad hoc research team consisting of purchasing officers and outside market researchers.

Collecting information about competitors

The primary objective of firms is to create superior value for customers. In this context, 'superior' means 'relative to the value of competitive offerings'. Customers will always compare a vendor's offering with that of its closest competitors to identify the most attractive offering. Therefore, firms need to keep a close watch

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on their key competitors. A firm's key competitors are those competitors who are considered to be the next-best alternative by customers. These are not always the largest firms active in the market. A small, seemingly insignificant competitor may offer a revolutionary new technology that is seriously considered by customers. In addition, firms must realise that the competitive landscape is continuously changing. Several small competitors may enter a strategic alliance and thus obtain significant economies of scope and scale; or firms from a totally different industry may suddenly decide to enter the market. Even customers and suppliers may become competitors when they expand their capabilities and activities. For all relevant competitors, a firm needs information about objectives, assumptions, strategies, resources and capabilities (Porter 1980). This information is used to predict competitive behaviour.

A competitor's *objectives* directly influence their behaviour; for instance, a competitor that wants to improve its position in a specific market segment will fiercely defend against attacks. Competitor objectives may refer to financial results ('increased profits'), market position ('belong to the top five firms in the market segment') or technological position ('quickly follow new technological developments'). Competitor objectives can often be deduced from a firm's annual report or marketplace signals. A competitor's *assumptions* also influence a competitor's actions. Competitors who think they have a loyal customer base will act accordingly. A competitor's assumptions also refer to the industry and other firms operating in the industry. With every planned action, a competitor will take expected competitive reactions into account. Naturally, these assumptions do not necessarily reflect reality. A competitor's *strategy* concerns the selection of target customers, the firm's selected value proposition and how it uses marketing instruments to implement the value proposition. A competitor's strategy is revealed by what it says (in its annual report, press releases or the business press) and what it does (hiring activity, R&D projects, strategic partnerships). A competitor's *resources and capabilities* are different from the previous three factors. While objectives, assumptions and strategy help to understand how a competitor wants to act or respond, its resources and capabilities determine its ability to act and respond effectively. Resources and capabilities may be analysed in terms of strengths and weaknesses and include a firm's product range, marketing capability, manufacturing scope, patents, R&D capacity, financial position, management skills and speed of response. Firms can use these four factors to construct competitor response profiles, which can be used to predict how competitors will respond to their marketing activities. Information about these four factors can also be used to benchmark the firm's performance with that of their major competitors. Some companies look for inspiration at firms from totally different industries that are considered *best in class* for specific business processes; for instance, Disney is considered the gold standard for customer service, Toyota for lean manufacturing and FedEx for logistics.

INSIGHT: Benchmarking from the customer's perspective

Identifying the right competitors to benchmark seems like a simple, straightforward task. But many firms fail to address this issue from the customer's perspective. Managers at a four-star hotel will typically benchmark themselves against other four- and five-star hotels, and perhaps even some three-star hotels. But they are using an inside-out product orientation: they define competitors as vendors of more or less the same service. But customers are not limited to such a restricted perspective.

Imagine a European business executive flying from London (UK) to Phoenix (USA). When he has arrived after a long trip he picks up a rental car and then drives to his hotel. At the rental agency everything goes very smoothly: his car is ready and all he needs to do is put his suitcase in the boot and drive off. When he arrives at his hotel, there is a problem with the automated reservation system and all arriving guests are checked in manually, which causes significant delays. After waiting for more than 20 minutes, the business executive wonders: 'How is it possible that I can get my car in just three minutes and need almost half an hour to check in to my hotel?' From his perspective, one service provider delivers a wonderful experience while the other clearly falls short. To him, a rental agency and a hotel are just two service providers and the wonderful experience with the first (the rental agency) has raised his expectations for the second (the hotel).

In addition to analysing the activities of individual competitors, firms also must analyse the relationships between the major players at the industry level. According to Porter (2008), competition in an industry is influenced by five forces:

- *Degree of rivalry* between vendors, which is measured in terms of industry concentration (for example, the percentage of market share held by the four largest firms in the industry) and influenced by the number of firms, industry growth, exit barriers, the amount of fixed costs, product differences and the customers' switching costs.
- *Threat of substitutes*, which refers to products in other industries that customers may use as substitutes and is determined by variables such as the price–performance trade-off of substitutes, the costs of switching to substitutes and the substitutes' functional similarity to the product that is currently used in the industry.
- *Bargaining power of customers*, which is determined by the number of customers, industry product differentiation, the customers' threat of backward integration, the importance of the product to the customers, the customers' sensitivity to price and their switching costs.
- *Bargaining power of suppliers*, which depends on supplier concentration relative to customer concentration, the suppliers' dependence on the industry for revenues, the customers' switching costs, the extent of supplier product differentiation, the availability of substitutes, and the threat of forward integration.

- *Entry barriers*, which determine the ease of entry of new competitors and include supply-side economies of scale, network effects (when the product's attractiveness increases with the number of buyers), capital requirements, advantages of the incumbent firms (such as proprietary technology or access to distribution channels) and government regulation.

INSIGHT: Predicting how your competitors will react

A key ingredient in a firm's strategic decisions is its predictions about how competitors will react. Nevertheless, a 2005 study uncovered that fewer than one in ten managers actually incorporate expected competitor reactions into their strategic planning. This is because most managers find the task of analysing multiple options for multiple competitors using multiple metrics simply overwhelming. But a recent study shows that it does not have to be so complex. Predicting your competitors' response boils down to answering three basic questions:

1. *Will the competitor react?*

   Most companies fail to realise that competitors may simply choose not to respond to a strategic move; for example, because they do not feel threatened, are too busy with their own agenda or fail to notice the strategic action in the first place. If a new product affects several of your competitors' business units, it may not be recognised as significant to any one unit and thus be overlooked. Whereas all competitors will notice a large move, the study's findings suggest that companies overestimate by 20 per cent to 30 per cent the likelihood that a medium to small action will be noticed.

2. *What options will the competitor actively consider?*

   The study indicates that, although competitors may discuss many response options, they seriously investigate only two or three. And usually it is not too difficult to work out which options your competitors will consider. A new product introduction, for example, is typically reacted to by introducing a me-too product and price changes are frequently matched.

3. *Which option will the competitor most likely choose?*

   The final task is to select the option that your competitor will most likely choose. To discover a competitor's metrics, management must take a look at the competitor's recent actions in the marketplace and ask themselves what measure would have led the competitor to its recent decisions.

Armed with all this information, management is able to mimic the competitor's decision-making process and identify the competitor's most likely reaction.

Source: Coyne and Horn (2009)

To chart and analyse the relationships between the industry's major players, firms must determine the industry they are in (which products; what geographic scope?), identify the major participants (buyers, suppliers, competitors, substitutes, new entrants), assess the underlying drivers of each force, determine overall industry

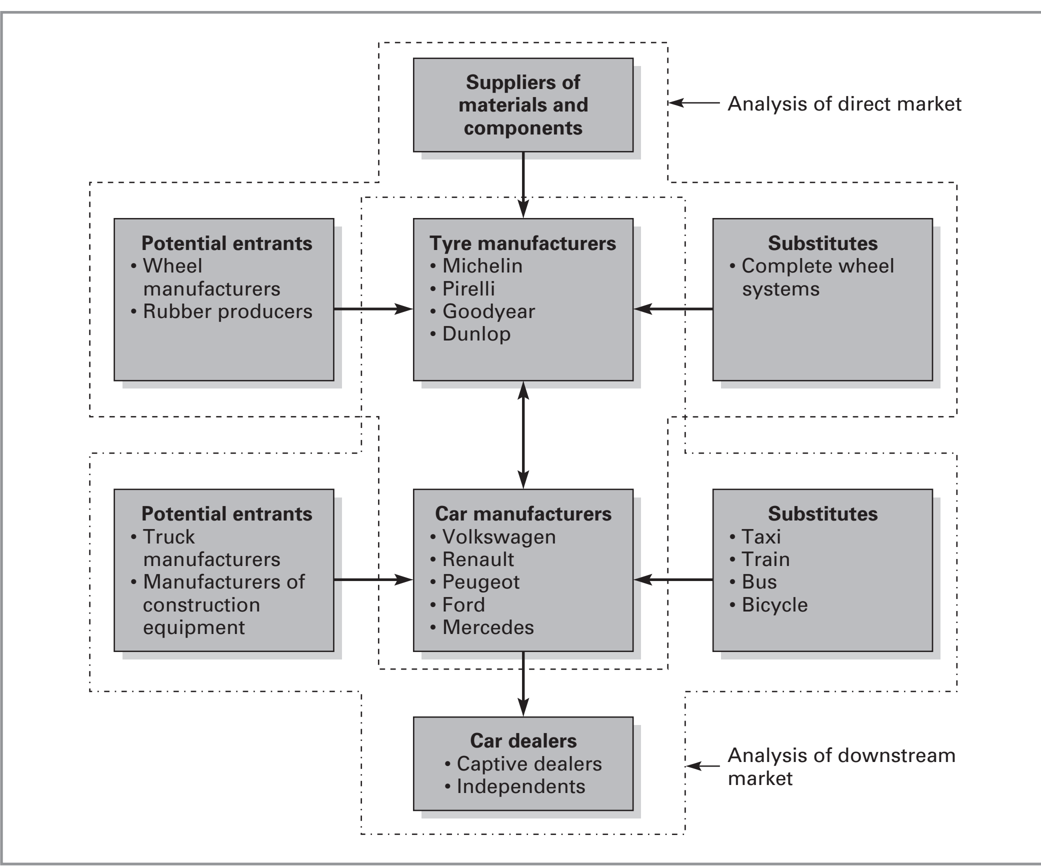

FIGURE 3.3 Competitive analysis for tyre manufacturer Michelin

structure (what determines profitability?), analyse changes and identify the elements of industry structure that might be changed (by others or by the firm itself). Because the demand for B2B products depends on the demand of downstream customers, this five-forces framework should be expanded to include downstream customers. Figure 3.3 shows the major players for a **competitive analysis** for Michelin.

While the five-forces framework is useful to quickly chart the major players and how they relate to each other, it only provides a quick snapshot. A major drawback is that the framework treats each firm as an individual player, while in practice many firms collaborate in value-creating networks (see Chapter 4). In addition, management needs to predict and analyse structural changes that are shaping the industry. Expired patents may lead to new entrants, new substitutes may appear and the relative power of buyers or suppliers may change significantly. This implies that a competitive analysis is not something to be done once every couple of years in the context of a strategic re-orientation. Instead, it must be a part of the manager's toolbox that is used continuously. The information for a competitive analysis can be drawn from many different sources, including the firm's own observations

(desk research, market research, salespeople, analysis of competitive products), competitors themselves (annual reports, press releases, advertisements, trade shows, company presentations, websites) and various others (customers, industry associations, financial analysts, business press, distributors, suppliers, discussion groups on the internet, universities, patent offices). Some firms even collect competitor information by having their employees apply for a job at a competitor. After all, you are expected to ask insightful questions during a job interview. This practice, however, could be interpreted as industrial espionage and is not considered to be very ethical.

Firms should use a similar approach to collect information about complementors: their economics, strategies and goals, existing capabilities, incentives for cooperation, and any potential areas of conflict. Many firms that rigorously analyse their suppliers and competitors, however, fail to invest heavily in understanding their complementors (Yoffie and Kwak 2006).

3.4 Constructing market pictures

All collected market information contributes to the firm's understanding of its customers and markets. The newly collected information is sorted, integrated, combined with the firm's existing store of knowledge and interpreted, resulting in **market pictures**. Based on this process of market sensing, appropriate marketing strategies and actions are initiated (Figure 3.4).

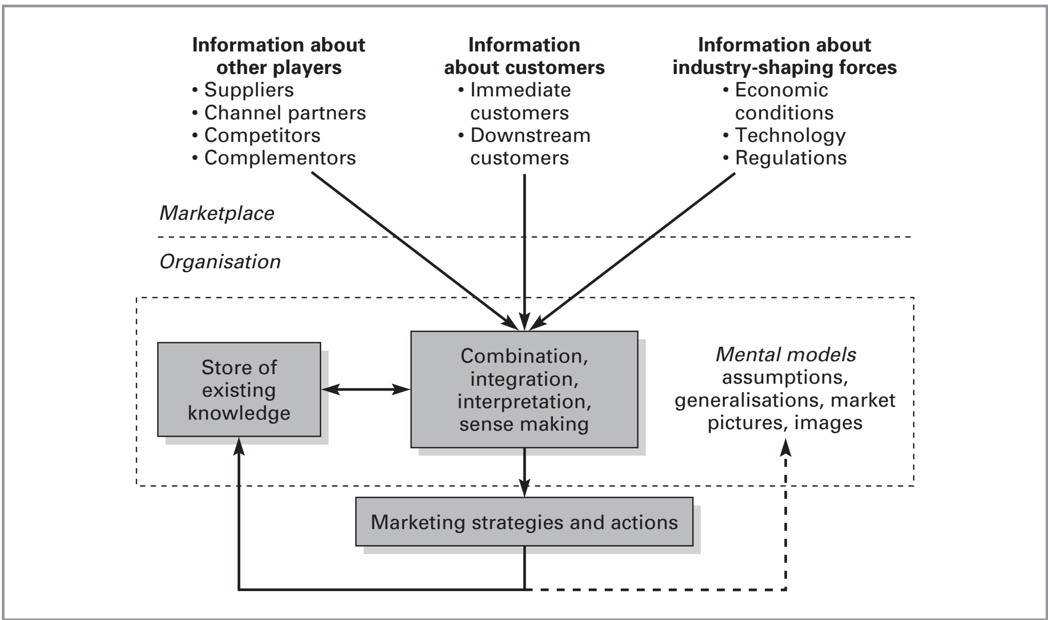

FIGURE 3.4 Making sense out of market information

A firm's competitive advantage increasingly lies in its ability to make sense of market information, rather than in its access to market information. Successful firms are not swamped by data, but make effective use of available market information to create a competitive advantage (Davenport et al. 2001; Mendelson and Ziegler 1999). Every part of their organisation continuously collects market information. They get ideas for new products from customers, but also look at non-customers, compare themselves with their competitors and collect information about best practices in other industries. They use every opportunity to collect useful market information; for instance, when developing a new generation of Word, Microsoft's product developers are forced to use the new prototypes to write their project documentation. Successful firms are also very adept at combining different pieces of market information. They integrate readily available transaction data with rich human-centric insights from customer interviews. They quickly disseminate market information within their organisation, both vertically and horizontally, and learn from their experiences through systematic evaluations. They prevent information overload through a sharp focus; successful firms have fewer product lines, fewer products per product line and focus on their most valuable customers.

The process of sense-making may be facilitated by information technologies. For example, firms use *customer relationship management* (CRM) software to integrate information from personal selling, internet and customer contact centres. And several B2B firms use *datamining* to search for hidden patterns in large amounts of data. Caterpillar used datamining to identify the 10,000 customers who are most likely to purchase a new product in the near future and derive the most value from Caterpillar products.

The benefits from effective information management may be further enhanced by applying it to the firm's entire network of partners. Chrysler used *resident suppliers* who stay on-site at Chrysler while they are engaged in engineering or quality assurance, thus ensuring a natural daily flow of information between the partners. Sun Microsystems initiated a *voice of the supplier* programme by asking suppliers for suggestions to improve the efficiency of the supply chain. Suppliers often provide better demand forecasts because they have a global perspective and deliver products not only to Sun but also to its competitors.

Mindsets and mental models

The process of market sensing, where market information is used to understand business markets, is not an exact science. How an individual perceives, uses and interprets market information depends on their background. This is referred to as a person's *mindset* or **mental model**, which is a series of deeply ingrained assumptions, generalisations, pictures and images that influence how an individual understands the world and how they take action (Senge 1990). An individual's mental model colours the perception of the type of market information that is considered important, the interpretation of market information and the translation

of market information into appropriate actions. This can best be illustrated by taking a closer look at two key determinants of an individual's background, and therefore their mental model: functional specialisation and personal job experience. A product development engineer perceives the marketplace in terms of available technologies, technological development, suppliers offering key components and universities working at the cutting edge of science. When looking at customers, an engineer sees product users with a specific level of technological sophistication. In contrast, a marketing manager perceives the marketplace as groups of customers with similar needs and similar response patterns that are served by competing vendors. Looking at customers, a marketing manager sees interacting individuals buying the firm's offering because it offers them superior value. The product development engineer will focus on improving the product's value by developing interesting new features, while the marketing manager focuses on offering value to customers that is superior to the value offered by competitors. In practice, these technical and commercial worlds in B2B firms often clash and result in misunderstandings, miscommunication and even outright hostility (see also Chapter 10). Similarly, a person's job history determines their experiences with other contexts and contributes to the person's mental model. A salesperson who previously worked for a firm selling commodity components will have different ideas about the role of pricing to someone who used to sell capital equipment.

As Figure 3.4 illustrates, mental models influence how people combine, analyse and interpret market information and use this information to develop appropriate marketing strategies and actions. Because of different backgrounds, however, each person's mental model is contextual and subjective. These differences in mental models may be explicit and related to a person's job description; for instance, a marketing manager looks at customers at the level of market segments to design effective value propositions for groups of similar customers. A salesperson, in contrast, is expected to look at individual customers in terms of their decision-making processes and key decision-makers to increase their propensity to buy. In other cases, differences in mental models are much more insidious and people are unaware of how they colour their perceptions and way of thinking. It is senior management's responsibility to bring existing mental models into the open. This reveals the assumptions, knowledge and subjective beliefs that people draw upon to reach conclusions about specific issues. When everybody is aware of the mental models existing in the firm, they can be discussed and modified where necessary. This results in shared mental models that allow individuals to improve communication and coordinated action. These shared models are not set in stone, but modified as new information becomes available. A market's response to the firm's marketing strategies and actions adds to the firm's store of knowledge, but may also be used to modify mental models; for instance, when management expected all key competitors to go along with a price increase, but several of them responded by lowering their price and thus making their own products even more attractive to customers.

3.5 Market segmentation

The most common type of mental model is a firm's **market segmentation** scheme. Market segmentation is used to distinguish between groups of customers having similar needs and similar buying behaviour, allowing management to identify potentially profitable customer groups and develop for each group a distinctive value proposition that offers superior customer value. Identifying the firm's target segments is one of the most important decisions management has to make. It determines where and how the firm is going to compete and who will be the main competitors. Market segmentation and targeting decisions determine the game, the playing field and the key players involved. Management, however, must realise that every market segmentation scheme is a perceptual construct: it is a mental model that helps to make sense of the market and thus to make better decisions. Market segments do not exist in reality; they are just a way of looking at the market.

B2B market segmentation variables

B2B firms can use a large number of variables to partition markets into groups of potential customers with similar needs and/or characteristics who are likely to display similar buying behaviour. These potential segmentation variables can be grouped into three categories:

1. *Characteristics of the buying organisation* (type of organisation, number of employees, sales volume, industry, geographic location, product application, buying situation, degree of source loyalty).
2. *Characteristics of the buying centre* (buying roles, number of decision-makers, degree of formalisation, degree of centralisation, stage in buying process, type of perceived uncertainty, perceived amount of time pressure, decision-making style, purchasing strategy, interaction processes).
3. *Characteristics of the individual decision-makers* (age, education, organisational position, role and influence in buying centre, degree of self-confidence, degree of risk aversion, buying criteria).

Firms selling to large customers consisting of several divisions, plants or business units, may find it useful to treat large customers as markets and use segmentation variables to distinguish between different organisational units with different needs and different buying behaviour. Each type of organisational unit is subsequently targeted with different marketing tools. A vendor of telecommunications gear, for example, may distinguish between the customer's:

- *Headquarters and large business units (separate large accounts)*: personal selling through account managers and telemarketing for follow-up sales.
- *Regional offices and smaller business units (medium-sized accounts)*: personal selling through a regional sales team.
- *Smaller business units (small accounts)*: telemarketing.

INSIGHT: Market segmentation in the non-commercial sector

The literature about market segmentation focuses on how commercial firms may use the process to identify and target profitable customer groups. But market segmentation is also used by not-for-profit organisations and government agencies; for instance, major charities are experiencing increasing competitive pressures in their efforts to secure corporate donors through long-term relationships. To deal with this problem, they have started to apply market segmentation of the corporate sponsorship. Potential corporate donors (their customers) are prioritised given the significant investment costs in scarce managerial time required to develop long-term relationships. This resulted in market segments such as: corporations looking for PR benefits, corporations wanting to increase their brand reputation, corporations wanting to realise tax benefits, and pure altruists.

Source: Mitchell and Wilson (1998)

In practice, firms will often combine variables to identify the most usable market segments. A vendor of ventilation equipment, for example, may first distinguish between customer needs (adding fresh air, removing polluted air), then use the product's technical parameters (high volume/low pressure, low volume/high pressure), and finally distinguish between different buying motives (reputation, reliability, service, ease of use). The idea of combining segmentation variables is also used in two common approaches to segmenting business markets: the two-stage approach of macro-/micro-segmentation and the nested approach.

Macro- and micro-segmentation

Some 35 years ago, Wind and Cardozo (1974) presented a method for the segmentation of business markets that combines general characteristics of customer firms (such as firm size, industry and product application) with behavioural characteristics of the buying centre (the nature of the decision-making process and the individuals involved). Using this method, firms first use **macro-segmentation** to group similar customers together on the basis of their general characteristics (firm size, location, industry). SABIC Innovative Plastics, for example, groups its customers according to their industry and product application, resulting in the following segments: automotive, building and construction, bath and spa, electronics, healthcare, packaging, sign and display, storm protection, textiles, transportation and outdoor, and vehicles. The information required for macro-segmentation can be easily obtained from public secondary sources. Macro-segmentation is a common approach to market segmentation, for instance when vendors distinguish between large corporate accounts, medium-sized customers and small customers.

When macro-segmentation is insufficient to distinguish between differences in buying behaviour, the next step is to use **micro-segmentation** to look for more detailed market segments within a few selected macro-segments by using

information about the customers' buying behaviour and buying centres. When Shell Lubricants UK, for example, was dissatisfied with its existing segmentation based on industry codes and geographical data, it went on to segment its markets based on the personal characteristics of the buyers involved. It surveyed 499 lubricant buyers and discovered eight clusters, based on a mix of buyers' personality traits and purchasing styles. The segments were labelled with resounding names such as 'opportunists' (who like to negotiate with small local vendors), 'conservative followers' (who value quality and are loyal to their suppliers), 'competent bureaucrats' (large customers who periodically evaluate their suppliers) and 'urban cowboys' (small firms that select vendors based on price). Using the new segmentation approach, Shell managed to develop a stronger position in the highly fragmented UK lubricant market (Mitchell and Wilson 1998).

This two-stage approach to market segmentation acknowledges that organisational buying behaviour is a complex combination of organisational and individual decision-making processes. The method's disadvantages are that the information required for micro-segmentation is both difficult and costly to collect and that the prescribed order does not always result in usable segments.

INSIGHT: Segmenting markets based on customer groups, functions and technologies

A straightforward way to segment B2B markets is to use the three dimensions: served customer groups (who), served customer functions (what) and technologies utilised (how). Using these dimensions, a manufacturer of coatings and paint could suggest the following segmentation schemes:

- *Customer groups*: for instance, according to industry (construction, boats, transportation, chemical industry), geographic region (continent, country, province, region), nature of the customer (professional, DIY, government, industry, trade) or customer characteristics (usage, loyalty, buying centre, buying situation).
- *Customer functions*: for instance, decoration, corrosion resistance, wear resistance, making surfaces germ-free, adhesion, low friction, filling, self-healing, fire-proofing and non-wetting.
- *Technologies*: for example, chemical vapour deposition, physical vapour deposition, electroplating, extrusion, mist deposition, plasma spraying and aerosol jet deposition.

The nested approach

Bonoma and Shapiro (1983) proposed a similar, but more detailed approach to segmenting business markets. Their *nested approach* consists of five categories of increasingly detailed information about an organisation's buying behaviour:

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1 *Demographics* (industry, size, location), which can be easily obtained from various secondary sources.
2 *Process characteristics* describing the organisation's operations (technology employed, whether or not the organisation uses the vendor's product, financial stability); this information can be found in the customers' annual reports or collected through salespeople, reverse engineering and observation (which names are printed on the trucks delivering products?).
3 *Purchasing approach* (organisation of the buying centre, power structure, purchasing policies, purchasing criteria, relationship with competitors), which can be obtained through salespeople or market research.
4 *Situational factors* defined at the level of the individual order (urgency, order size, product application), which can be collected by the firm's salespeople.
5 *Personal characteristics* describing the individuals participating in the buying decision (motivation, risk perception, relationship with the vendor), which is difficult and expensive to collect.

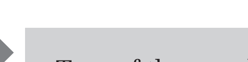
Bonoma and Shapiro recommend subsequently using all five levels of variable to identify the most useful segmentation variables. Such a systematic, hierarchical approach prevents B2B marketers from missing relevant variables; for instance, many marketers neglect situational factors, while these may be very relevant in specific situations. The required information is more difficult and costly to gather as you work your way down the five levels of variable. Firms are advised to balance the simplicity and low costs of the first levels with the rigour and expense of the later ones.

Whichever method is used, the identification of usable market segments is a process of trial and error that consists of three steps (Day 1990). First, management uses several segmentation variables to identify a number of possible segment groups. Next, they investigate if the chosen variables result in groups of customers with different response profiles. Their buying criteria, geographic location and buying behaviour must be such that they have very different requirements and costs to serve. Sometimes it may be useful to combine segments by collapsing variables that are correlated. Finally, they test the resulting segmentation scheme for relevance. Useful market segments are substantial, durable, distinctive and measurable. After all, markets can be segmented in many different ways and the only criterion to select one segmentation scheme in favour of another is that it helps to make better decisions.

MINI CASE: USING CUSTOMER PROFILES TO IDENTIFY MARKET SEGMENTS

By analysing large numbers of transactions of current customers, firms can identify groups of similar, profitable customers. The resulting profiles of profitable customers can be used to look for potential customers in the marketplace that match these profiles.

US-based Comerica Bank wanted to optimise and leverage the relationships and potential of its small-business segment. The bank collected data from millions of transactions across the enterprise that were previously unconnected and not correlated.



Tens of thousands of small businesses were separated into groupings of firms with similar buying behaviours and transaction volumes. The combinations of products and services consumed were analysed by algorithms, which uncovered patterns of similarity that would otherwise be unnoticeable (*datamining*). The bank then looked at some specific groups that appeared to have the potential for high future value; for instance, two groups had virtually identical characteristics except that one group had highly profitable loans with the bank and the other group had no loans. This information enabled the bank to effectively target the group of customers with no loans. In addition, by identifying small businesses in the marketplace who were not current bank customers but who resembled these profitable customers, the bank could efficiently market to a potentially high-profit set of prospects.

Source: Thompson (2000)

Having identified market segments, firms need to select the segments they want to target. With a differentiation approach, firms target several market segments with different value propositions. An alternative is to focus on just one or a few market segments. The attractiveness of a segment depends on its size, growth, competitive structure, entry barriers, bargaining power of customers, and threat of substitute products. In addition, a selected market segment needs to fit with the firm's competencies and the ease with which these competencies can be further developed. After all, firms want to develop and maintain a sustainable competitive advantage in their selected target markets. The next step is to develop and implement a value proposition for each segment.

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Summary of Key Concepts

- Effective marketing strategies are based on an intimate understanding of customers and the markets they are a part of. Market sensing is the process of collecting market information and making sense of it.

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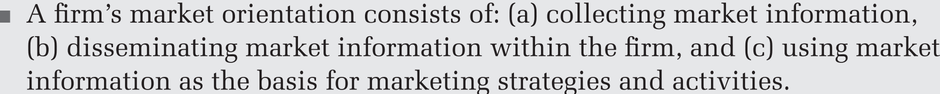

- A firm's market orientation consists of: (a) collecting market information, (b) disseminating market information within the firm, and (c) using market information as the basis for marketing strategies and activities.
- A firm's market orientation has a positive effect on sales, profits and return on investment (ROI), as well as on employee satisfaction and commitment.
- The key component of market information is information about customers' wants and needs.
- B2B vendors use a wide variety of sources to collect customer information, such as published sources, sales records, market research, interaction with customers and customer feedback.
- Salespeople are a useful source of objective, factual customer information; all other customer information is better collected by specialised market researchers.
- In addition to customer information, B2B vendors need information about other market parties (suppliers, competitors, channel partners) and market-shaping factors (economic conditions, technological developments).
- All market information is combined and integrated to construct market pictures that represent managers' perception of the market.

- Mental models influence the type of market information collected, as well as the interpretation of this information and how it is translated into marketing actions. Managers' mental models are determined by both their background and personality.
- A well-known example of a mental model is the firm's market segmentation scheme. It determines how managers perceive the market by summarising the complexity of the marketplace into a limited number of easily understood market segments.

Key terms

Competitive analysis, p. 82
Customer feedback, p. 76
Customer information, p. 69
Customer interaction, p. 71
Lead users, p. 70
Macro-segmentation, p. 87
Market orientation, p. 65
Market pictures, p. 83
Market research, p. 73
Market segmentation, p. 86
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Mental models, p. 84
Micro-segmentation, p. 87
Supplier market research, p. 78

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Discussion questions

1. Effective market sensing requires a firm to be open to a wide variety of market signals and sources. While much of the required information is available through regular channels, firms may identify more hidden opportunities and threats by using their peripheral vision. How can B2B firms develop the peripheral vision of their managers?
2. Suppose that you are a manufacturer of injection moulding machines for the plastics industry. Which information sources would you use to research your markets?
3. Which characteristics should a business market researcher possess? Suppose that you are a marketing manager at a manufacturer of complex medical equipment and are looking for a market researcher. Which requirements would you include in your advertisement?
4. Why do many B2B firms use a sales information system and a separate system for marketing information? Which problems can you expect when these two systems are unable to communicate with each other? How can you solve these problems?
5. Information about customers, suppliers and competitors can be used for various purposes. Describe a number of different ways in which a firm may use information about customers, suppliers and competitors.
6. Efficient and effective dissemination of market information is a prerequisite for effective use of market information. What specific measures can a firm implement to stimulate the effective dissemination of market information?

7. The effective use of market information may be hindered by the existence of different, conflicting mental models in a firm. How can a firm identify existing mental models? How can a firm, faced with several conflicting mental models, develop shared mental models that stimulate more effective decision making?
8. How may firms use the concept of market pictures to improve marketing decision making?
9. Despite the existence of sophisticated methods for market segmentation, most B2B firms use simple classifications based on firm size, industry or geographic location. What are the advantages of such an approach? What are the potential disadvantages of such a simple classification scheme?
10. The implementation of market segmentation is often characterised by all kinds of problems. Describe several problems that may occur when a B2B firm wants to implement market segmentation. In addition, describe for all of these potential problem areas how they may be prevented or solved.

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