2 MSM and its consequences

The aim of this study is to analyze the potential effects of MSM on direct customers' willingness-to-pay, satisfaction, and loyalty. First, I focus on the cause variable given by the concept of MSM (section 2.1). I begin with an extensive review and analysis of the existing literature on MSM and its effects. The review shows that MSM is not commonly defined. To achieve the level of concreteness necessary for empirical research, the concept of MSM must be defined carefully. For this study, I conceptualize MSM as the behavioral perspective of an extended market orientation. This allows me to develop a consistent definition of MSM, differentiating it from other related constructs and adopting the value creation potential of MSM. Second, I introduce and describe the outcome variables (section 2.2). A final section summarizes the findings and gives implications for further study (section 2.3).

2.1 MSM as an object of investigation

With respect to the aim of the present study, I perform an extensive review and analysis of relevant literature, concentrating on contributions characterized by the multi-stage idea and effect analyses of MSM. My review shows that marketing theory regularly covers important elements of MSM, but empirical analyses of MSM effects are scarce in extant literature. Furthermore, there is a multitude of varying terms and definitions for MSM. First, I present a review of previous marketing literature with respect to multi-stage perspectives and potential MSM effects (section 2.1.1). Second, I focus on a conceptualization and consistent definition of MSM, which is important to further analyze the effect mechanisms of MSM (section 2.1.2).

2.1.1 MSM perspectives in existing literature

The idea of MSM is not new (Kleinaltenkamp et al. 2009, p. 3). Concentrating on their potential to create competitive advantages, I present a comprehensive overview of important concepts that include multi-stage marketing characteristics (sections 2.1.1.1 through 2.1.1.5). I divide them into different literature streams and assess them with respect to their potential effects, as well as according to the multitude of existing MSM concepts and definitions (section 2.1.1.6).

Alejandro-Marcel Schönhoff, *Does Multi-stage Marketing Pay?,* Business-to-Business-Marketing,
DOI 10.1007/978-3-658-05559-2_2,

2.1.1.1 Market orientation

By 1960, Levitt had introduced the concept of “marketing myopia” and had explained that some companies had stopped growing not because of market saturation but because of shortsighted management being product oriented instead of customer-oriented (Levitt 1960, p. 45; Levitt 1975, p. 26). Day and Wensley (1988) developed the concept of a market-oriented approach to overcome myopia. Finding sources for competitive advantages, their “customer-focused assessments start with detailed analyses of customer benefits within end-use segments and work backward [along the value chain] from the customer to the company” (Day and Wensley 1988, p. 1). More recently, Kuhn and Zajontz (2011, p. 10) speak about a “multi-stage problem” and explain that suppliers in B-to-B markets cannot consider direct customers and competitors only. Suppliers must analyze market processes of end customer markets also. Similarly, Homburg et al. (2009, p. 331) explain that companies should include the preferences of downstream customer tiers in planning their own marketing activities. Suppliers should especially concentrate on creating long-lasting preferences on the following market stages, for example, by using a specific communication or product policy (Homburg and Krohmer 2009, p. 1006). Narver and Slater (1990, p. 21; see also Levitt 1980, pp. 87) assert:

> A seller must understand not only the cost and revenue dynamics of its immediate target buyer firms, but also the cost and revenue dynamics facing the buyers’ buyers, from whose demand the demand in the immediate market is derived. Hence, a seller must understand the economic and political constraints at all levels in the channel. Only with such a comprehensive framework can a seller understand who its potential customers are at present as well as who they may be in the future, what they want now as well as what they may want in the future, and what they perceive now as well as what they may perceive in the future as relevant satisfiers of their wants.

This statement underpins two perspectives relevant to this study. First, Narver and Slater (1990, p. 21) examine the importance of downstream customers. According to the authors, market orientation requires the consideration of the entire value chain and not only of immediate customers. Similar, Wilson (2003, p. 176) postulates that “value in value chains is driven from the ultimate end customer.” The approach is in line with Day and Wensley’s

(1988) concept of a "market back orientation," designed to create competitive advantages. As recognized by Hillebrand and Biemans (2011, p. 73), previous literature has repeatedly emphasized the necessity of broadening the construct of market orientation (Greenley and Foxall 1996; Hillebrand and Biemans 2011; Maignan and Ferrel 2004; Matsuno et al. 2005). But it is Hillebrand and Biemans (2011) who more concretely *extend market orientation* vertically. These authors explore the consequences of derived demand (Fern and Brown 1984), and the managerial challenges it causes, by investigating how upstream firms are oriented toward downstream customers and which problems they face in extending their market orientation. In line with the original conceptualization of the market orientation construct, which claims that firms must understand the cost and revenue dynamics of the buyer's buyers (Kohli and Jaworski 1990; Narver and Slater 1990), Hillebrand and Biemans (2011, p. 72) postulate:

> After all, even though immediate customers may be interested in a product, success frequently requires downstream customers also to acknowledge the product's value and invest in it. This is especially relevant for B-to-B suppliers of entering goods (such as components and raw materials) that become part of the customer's product. Extending one's view beyond the firm's immediate customers thus will contribute to product success and firm performance.

Second, Narver and Slater (1990) describe what currently is referred to as *anticipated* or *proactive customer orientation*[3]—a necessity for creating superior customer value. Although most research on market orientation has focused on processes for responding effectively to customers' current, expressed needs, there has been little insight into the nature or effects of proactively understanding customers' latent and future needs (Blocker et al. 2011, pp. 216, referring to Atuahene-Gima et al. 2005; Narver et al. 2004; Tsai et al. 2008). "Although being responsive to customer requests plays a critical role in satisfying customers, qualitative studies suggest that business customers also want providers to proactively understand and

[3] As Blocker et al. (2011, p. 217) explain, Narver et al. (2004) "specify *proactive* and *responsive market orientations* as two forms of market orientation. However, the constructs they measure deal only with identifying and satisfying customers' needs and do not encompass the other traditional dimensions of a market orientation [which are competitor orientation and interfunctional coordination, see section 2.1.2.1]. Thus, in the interest of being more precise, we utilize the terms *proactive customer orientation* and *responsive customer orientation*." The present study will follow this approach and use the respective terms as proposed by Blocker et al. (2011).

address their latent and future needs as part of an ongoing, value-creating, relational process" (Blocker et al. 2011, p. 217, referring to Beverland et al. 2007; Flint et al. 2002; Tuli et al. 2007). Knowing what customers currently value is not enough, "but suppliers must also have the capability to anticipate what customers will value" (Flint et al. 2011, p. 219, also referring to Flint et al. 2002).

The concept of market orientation, including a consideration of not only immediate but also downstream customers as well as a consideration of not only current, expressed but also latent and future customer needs, strongly relates to the concept of MSM. As I will show, an extended market orientation offers one of the key aspects relevant for the conceptualization and definition of MSM (see section 2.1.2). However, there are also more specific concepts related to MSM. The probably most prominent examples are ingredient branding and vertical marketing which I describe in the following sections.

2.1.1.2 Ingredient branding

Ingredient branding is especially common for consumer goods (for ingredient branding in the context of consumer goods, see Havenstein 2004). Some popular examples of ingredient branding are DuPont's Teflon and Lycra, Shimano gears for bicycles, Gore-Tex, and G.D. Searle's NutraSweet, an artificial sweetener used in some foods and beverages (BBDO Consulting 2003, p. 3; Norris 1992, pp. 20). Yet the best-known example of ingredient branding is the 1990s Intel Inside campaign, which increased that brand's awareness from 24% to more than 90% and made Intel one of the most recognized brands of microprocessors in the world (BBDO Consulting 2003, p. 3; Hermeier and Friedrich 2007, pp. 33; Norris 1993).

In contrast, brand management remains relatively unexplored in the area of B-to-B marketing (Baumgarth 2008, p. 347; Homburg et al. 2009, p. 338, referring to Reid and Plank 2000). Based on their visibility in the final product, it is possible to divide B-to-B brands into processing brands and ingredient brands (Homburg et al. 2009, p. 339, and literature cited therein; Kleinaltenkamp 2003). A *processing brand* is not visible to end customers; it is visible only to intermediaries such as manufacturers or end producers. For example, original equipment manufacturers (OEMs) sell branded air-conditioning systems or airbags that remain "invisible" to car buyers (Homburg et al. 2009, p. 142). In contrast, end customers normally notice *ingredient brands*. They are most relevant in the context of the marketing mix (product decisions) and in particular decisions about the vertical reach of a product brand ("brand reach") (Homburg et al. 2009, p. 142).

Another aspect of brand reach is the concept of *co-branding* (dual branding) (Homburg et al. 2009, p. 142). This refers to a supplier branding its own (already branded) products with an additional brand name or symbol (Ohlwein and Schiele 1994, p. 577). This might benefit an unknown brand by creating favorable associations. Some firms use co-branding to aim for increased competitive strength through an additional functional or emotional benefit and thus an increase of the consumer response to co-branded products or product variants. It might also enable domestic firms to enter new markets through a strategic branding effort alliance with foreign competitors (Homburg et al. 2009, p. 142; Shocker et al. 1994, p. 150). However, in its simple form, co-branding does not necessarily constitute MSM (Kleinaltenkamp and Rudolph 2002, p. 302). There are two types of co-branding. In the case of *horizontal co-branding*, two or more producers on the same market stage collaborate. In contrast, *vertical co-branding* involves collaboration between producers of different market stages (Baumgarth 2008, p. 161). This is where the multi-stage characteristic comes in. Vertical brand alliances correspond to ingredient branding (Baumgarth 2008, p. 198; Freter and Baumgarth 2005, p. 463). To be more precise, Desai and Keller (2002, p. 73) refer to a *co-branded ingredient branding strategy* (for further information on co-branding, see also Blackett and Russell 1999; Helmig et al. 2008; Ohlwein and Schiele 1994; Rao and Ruekert 1994).

Norris (1992, pp. 20) describes the differences between supplier-initiated and manufacturer-initiated ingredient branding. *Supplier-initiated ingredient branding* is the supplier's attempt to build awareness and preference for its own products on the end customers' market levels and thereby achieve a demand pull on the direct customers' market stage. Examples are DuPont's Teflon and Kevlar and 3M's Scotchgard (Norris 1992, p. 21). In contrast, *manufacturer-initiated ingredient branding* aims for a differentiation of the host brand (Desai and Keller 2002, p. 73). "The basic motivation for using ingredient branding is that it enhances the differentiation of the host brand from competition by characterizing the ingredient attribute in the host brand more specifically.… This will improve the competitiveness of the host brand. Moreover, ingredient branding could enhance the equity of the host brand by sending a strong signal to consumers that the host product offers the combined benefits of two quality brands in one" (Desai and Keller 2002, p. 73). For example Beech-Nut baby food promotes the use of Chiquita bananas with the aim of benefitting from Chiquita's quality image (Norris 1992, p. 20). In this context, Erevelles et al. (2008) analyze the reasons for downstream manufacturers participating in relationships that strengthen a supplier's market position. The authors assert that vertical co-branding arrangements benefit both the supplier and the manufacturer. "The incumbent supplier benefits from the reduced probability of competitor entry, and the downstream manufacturer is rewarded with a lower price" (Erevelles et al. 2008, p. 940).

Hermeier and Friedrich (2007) as well as Voigt et al. (2006) focus on the application of ingredient branding in the automotive industry. Despite the significantly increasing importance of suppliers of car components (75% of a new car's components are not engineered by the OEM itself), OEM brands continue to dominate the automotive industry (Hermeier and Friedrich 2007, p. 42; Voigt et al. 2006, p. 1). Only a few automotive suppliers (e.g., Recaro, Blaupunkt, Bose, Michelin, Goodyear, Bosch, and Johnson Controls) have been able to create a brand image in consumers' minds. This is because two conditions make ingredient branding difficult in the automotive industry: The visibility of the branded ingredient and the consumer's option to "pull" for the branded ingredient through the final product (Hermeier and Friedrich 2007, pp. 46). Hermeier and Friedrich (2007, p. 63) conclude that "it is not certain that ingredient branding can be transferred to the automotive industry." They suggest that suppliers include their corporate brands in *image campaigns* so there is communication and interaction within the value chain.

Such branding strategies could be less expensive and do not require arrangements with OEMs. And even if they are not sufficient to generate a pull effect on the consumer level, they are likely to increase the company's brand awareness and to support the effort to build it (Hermeier and Friedrich 2007, pp. 63). "Companies that are brands possess a valuable property that is important even though it is immaterial. That's because a company's value consists not only of its revenues, production plants, employee potential, and patents, but also of the immaterial value of its brand (or brands). Strong brands result in bigger sales volumes and can also demand higher prices. What's more, they are also more attractive for investors and employees" (Evonik 2007, p. 56). Evonik's 2007 commercials, Figure 2-1, are an example of a successful image campaign.

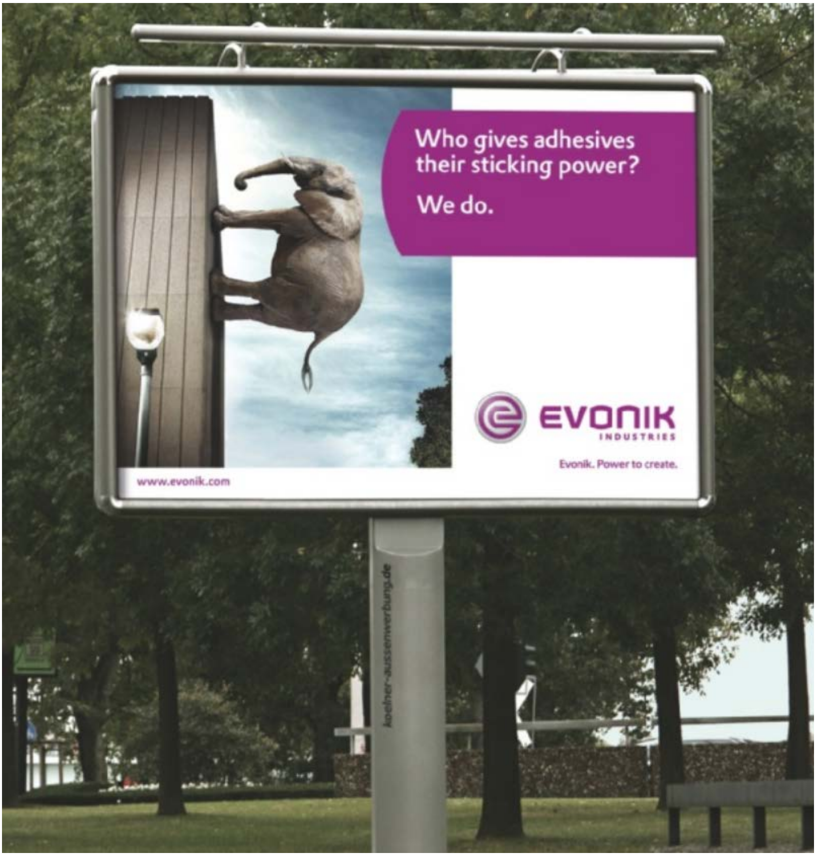

Figure 2-1: Advertisement in Evonik's image campaign (source: Evonik 2007, p. 57)

Beside ingredient branding and the related concepts of co-branding and image campaigns, vertical marketing represents another specific aspect assignable to the overall concept of MSM. I present the idea of vertical marketing in the following section.

2.1.1.3 Vertical marketing

The idea of vertical marketing (also known as "integrative sales strategy" or "vertical sales") goes back to system management theory (Voigt et al. 2006, p. 2). As McCammon (1970, p. 43) describes, "Planned systems are professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum market impact. Stated alternatively, these *vertical marketing systems* are rationalized and capital-intensive networks designed to achieve technological, managerial, and promotional economies through the integration, coordination and synchronization of marketing flows from point of production to points of ultimate use." Voigt et al. (2006, pp. 2) emphasize the last part of the definition and specify that vertical marketing encompasses the integration, coordination, and synchronization of marketing activities along the entire value chain.

Extant marketing literature uses the concept of vertical marketing mainly in the context of business-to-consumer (B-to-C) markets. Triadic relationships among production companies, retailers, and end customers build the center of attention and vertical marketing systems pertain to the (administered) cooperation of a manufacturer with the distributor(s) of its products to consumers (Dawson and Shaw 1989; Etgar 1976). Therefore, vertical marketing is likely to improve the business performance of the involved companies, in particular achieving sales growth, cost savings, profit increases, risk reduction, or an improvement of the company image (Steffenhagen 1974, p. 675). But besides vertically coordinating the marketing mix, vertical marketing also presents a big conflict potential among the involved players. Possible causes for this are target conflicts, clashing roles, an unbalanced power structure, as well as a vertically declining information structure (Steffenhagen 1974, pp. 679). Not surprisingly, literature on vertical marketing often focuses on conflict management between producers and distributors (Rudolph 1989, p. 40; see also Meffert and Steffenhagen 1976; Steffenhagen 1974, pp. 679; Steffenhagen 1975) and loyalty building mechanisms among customers, manufacturers (brand loyalty), and wholesalers (Eggert et al. 2009). Wuyts et al. (2004) extend the view of consumer products and analyze vertical marketing systems for complex products, such as integrated computer networks. In particular, "the authors investigate buyers' preferences for specific patterns of relationships among buyers, intermediary vendors, and suppliers of complex products" (Wuyts et al. 2004, p. 479; for further information on vertical marketing, see Becker 1988, pp. 484; Bucklin 1970; Dingeldey 1975; Hansen 1972; Kunkel 1977; Meffert 1975, pp. 15; Thies 1976).

Ingredient branding and vertical marketing represent rather specific aspects of MSM. Now I turn to a broader perspective of MSM. In the following section, I present the concept of pull strategies aiming to achieve a demand pull on the direct customers' market stage.

2.1.1.4 Pull strategy

The pull effect is one of the central marketing aims of MSM (Kleinaltenkamp et al. 2012, p. 148). "In the pull strategy, the manufacturer takes major responsibility for creating end-user demand through advertising and personal selling activities aimed directly at end-users" (Webster 1991, p. 221). Supplier-initiated ingredient branding is one method. In this concept, a supplier intends to advertise its own products on indirect customers' market stages. Higher product awareness and increased preferences on downstream market stages might result in a demand pull and, therefore, a successful pull strategy (Norris 1992, pp. 20). Yet ingredient branding is not always the most appropriate instrument to use on indirect market stages. Demanding and complex products might need supplementary explanations. This is often the case in B-to-B markets in which personal selling is essential. Characteristically, suppliers build on strong relationships with direct customers. However, when aiming to create a demand pull, personal relationships might be important for indirect market stages as well (Kleinaltenkamp et al. 2012, pp. 167).

Chiou et al. (2010) investigate simultaneous push and pull effects. The authors find that "both sales strategy toward channel members (push) and marketing communication programs (pull) can strengthen the loyalty of the retailer toward the brand owner" (Chiou et al. 2010, p. 432). Their study supports Frazier's (1999) and Webster's (2000) idea that "pure pull or push strategies are things of the past" (Chiou et al. 2010, p. 431). However, because distribution channels are comparatively straightforward and consumers can easily identify the products, the problems of a pull strategy for consumer goods are much fewer and less complex than for industrial goods (Rudolph 1989, pp. 14). Especially in B-to-B markets, brand owners should not initiate a pull strategy on their own but should do it in combination with a push strategy. Trying to force direct customers to follow a special behavior could cause significant resistance. Therefore, it is important to harmonize push and pull activities to reach defined market targets. All involved parties must perceive a resulting value in their favor. Contractual bindings can help ensure appropriate sharing of generated value (Günter 2006, pp. 773; Kleinaltenkamp et al. 2012, pp. 149 and pp. 170; Voigt et al. 2006, pp. 4).

Unger-Firnhaber (1996, p. 56) underpins a pull strategy's potential to create value apart from indirect market stages: "Supplier pull strategies should go beyond demand stimulation in the user market towards offering … customers strong incentives such as channel assistance and market intelligence. Therefore, a pull strategy supports mutually beneficial seller-buyer relationships. This indicates the necessity to view supplier pull strategies as taking part in, and not outside, the channel." Building on this, Voigt et al. (2006, pp. 4; see also Unger-Firnhaber 1996, pp. 60) describes three different types of pull strategies. *Autonomic pull marketing* includes measures such as independent exhibitions, direct mailings, and print advertisements. *Cooperative pull marketing* refers to marketing measures applied in collaboration, especially with other suppliers or influencers such as consultancies. Finally, *synergetic pull marketing* refers to common marketing measures of suppliers and OEMs—for example, common advertisement, ingredient branding, and support of OEMs with special training. Although the authors had automotive markets in mind, these ideas are also applicable to other industries.

Including a multitude of applicable marketing measures as well as the potential to create value on several market stages, pull strategies relate to a broader perspective of MSM. Yet some authors explicitly refer to the concept of MSM. I present different approaches of an overall concept of MSM in the following section.

2.1.1.5 Multi-stage marketing

Engelhardt (2001, p. 1114) explains that *multi-stage marketing* approaches customers' subsequent market stages. More concretely, Rudolph (1989, p. 34) and later Kleinaltenkamp et al. (2012, p. 143)[4] define MSM as involving "all sales-related measures which are aimed at the subsequent market stages ('customers of the customer') which follow one or several primary customers in order to influence the buying behavior of these primary

[4] Rudolph (1989) focuses on MSM in the context of B-to-B markets for raw materials. Kleinaltenkamp and Rudolph (2002) and later Kleinaltenkamp et al. (2012) extend this view, analyzing MSM more broadly for B-to-B markets.

http://www.springer.com/978-3-658-05558-5

Does Multi-stage Marketing Pay?
Creating Competitive Advantages Through Multi-stage Marketing
Schönhoff, A.-M.
2014, XVII, 283 p. 35 illus., Softcover
ISBN: 978-3-658-05558-5