# CRM Issues in the Business-To-Business Context




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## Overview

Business marketers serve the largest market of all: The dollar transaction volume in the business-to-business (B2B) market is significantly greater than that in business-to-consumer (B2C) markets. Moreover, a B2B customer's level of purchasing activity can be extremely high (Hutt & Speh, 2013). For example, the purchasing department at IBM spends more than $40 billion annually on B2B products and services (Ferguson, 2006). Some of the most valuable and powerful brands in the world operate mainly in B2B markets, including, for example, Cisco, DuPont, FedEx, Hewlett-Packard, IBM, and Intel (Hutt & Speh, 2013).

Unlike the B2C context, a customer in a B2B environment is an organization (company or institution), which means that there are fewer customers. For example, Intel sells its processors to a few large manufacturers, such as, Dell and Hewlett-Packard, which then sell to millions of computer buyers (Hutt & Speh, 2013). This implies that business customers make much larger purchases than households, and the organizational buying process is far more complex. Finally, compared with B2C relationships, relationships between buyers and sellers tend to be closer (Buttle, 2009). In general, relationships can be classified as transactional (distant) or collaborative (close). Transactional relationships involve the timely exchange of basic products for highly competitive prices; collaborative relationships describe strong ties built over time, with the intent of achieving mutual benefit (Anderson & Narus, 1991). In a B2B context and in reference to the customer relationship management (CRM) definition we introduced at the beginning of this book, B2B CRM is the strategic process of strengthening relationships with business customers, especially important clients, beyond transactional relationships to better manage the value of these buyer–seller relationships. A report by Stanford University and Accenture highlights that companies can increase their market capitalization by 8% or more and earn premiums of 17–26% for their valuation, just by introducing collaborative relationships into their supply chains (Spekman & Carraway, 2006); to build such collaborative relationships, a seller needs a deep understanding of the buyer's internal business and environment, and the communication between partners should be linked to all levels of management, to guarantee extensive information exchange.

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### CRM at Work 13.1

**IBM: Identifying Customer-Contact Roles**

A number of IBM employees have contact with the customer organization when a particular customer is served. For ensuring a consistent strategy execution, IBM identifies customer-contact roles for each customer (e.g., relationship owner, project owner, and problem resolution owner), specifies the desired measureable actions for each role, and finally monitors the account's satisfaction with each role.

*Source*: Hutt and Speh (2013).

The IBM example in the preceding box shows that the sales force is an important and significant investment for most sellers, because it is entrusted with the seller's most important asset: customers. The sales force is in the unique position of being very close to the customer and thus having the ability to establish long-lasting and strong relationships. Nearly half a company's growth can be ascribed to the competence, organization, and quality of its sales force (Karlöf & Lövingsson, 2005). Thus, *sales force management* (SFM) constitutes one of the most important strategic issues in a B2B CRM context. Due to the decreasing marketing efficiency and effectiveness, as we noted at the start of this book, the task of the sales force is to effectively and efficiently manage relationships with the organization's buyers, to win over and maintain satisfied customers while keeping costs down. The most important question in this context is thus how the sales force can manage buyer–seller relationships, both effectively and efficiently.

To answer this question, we first discuss the construct of *sales force automation* (SFA) as an important subtopic of SFM within the B2B CRM

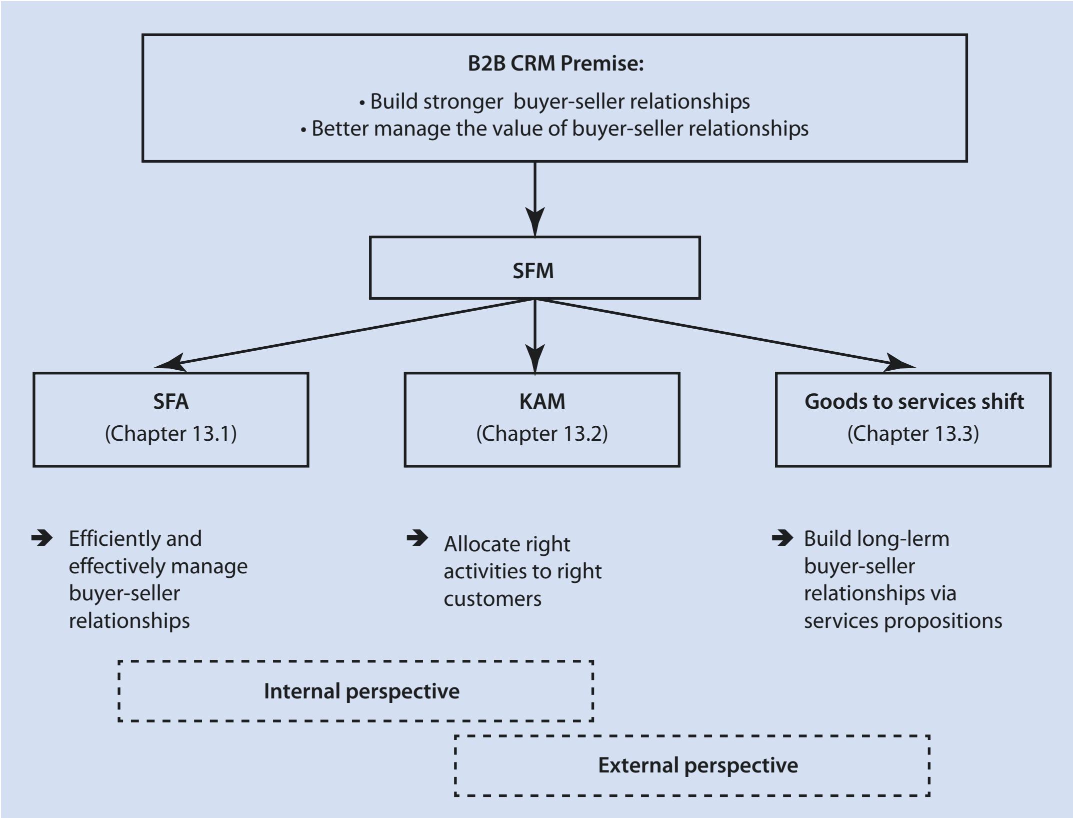


**Fig. 13.1** Conceptual organization of the chapter

domain. As a transactional tool, SFA describes any information technology applied to a sales situation that is intended to facilitate a repetitive, administrative task and to make it more efficient, especially from the internal perspective of the seller. By completing tasks more efficiently, salespeople can focus on more value-adding activities for customers and thus increase customer satisfaction, leading to greater customer retention. The effectiveness dimension describes SFA as a tool to build long-lasting relationships with customers. Because a company often needs to build this kind of relationship only with its most valuable, important clients, so called key accounts, we also acknowledge the main elements of *key account management* (KAM) in this chapter. With KAM, the firm allocates the proper activities (from the buyer's, respectively external perspective) to the most promising customers (from the seller's perspective). Finally, we discuss *the shift from goods to services*, including the emergence of *hybrid offerings*, as potential tactics for organizations to lock in customers effectively. Hybrid offerings mainly focus on buyers' demands and needs, which implies an external perspective. These three subtopics of SFM help companies build stronger buyer–seller relationships and better manage the value of their relationships, from both internal and external perspectives. Figure 13.1 outlines the conceptual organization of this chapter accordingly.

## 13.1 CRM and Sales Force Automation

In the past two decades, SFA tools have been used increasingly to facilitate customer relationship management processes. Due to advanced telecommunication devices, SFA has become more and more important, and the trend seems likely to continue in the future. We therefore begin by describing SFA and illustrating its benefits, as well as the most important conditions and prerequisites facilitating them.

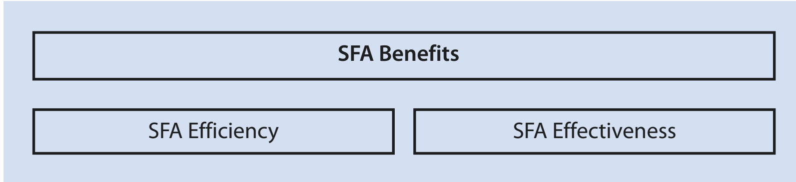


**Fig. 13.2** Two dimensions of SFA benefits

### 13.1.1 What Is SFA?

The term SFA refers to any information technology applied to a sales situation with the goal of supporting the sales function. The variety of hard- and software capabilities in SFA technologies mean they can vary in terms of their complexity and the degree to which they should be integrated into the company's organizational infrastructure (Speier & Venkatesh, 2002). Relevant technologies include, for example, electronic data interchange, databases, Internet, spreadsheets, sales forecasting tools, inventory management systems, contact management programs, e-mail programs, graphics and presentation software, laptops, cellular phones, and fax machines (Hunter & Perreault, 2007).

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**InvisibleSolutions: Bridging the Gap between Business Apps and Productivity Tools**

«InvisibleSolutions is a technology provider of tools engineered to increase user adoption and ROI of enterprise applications by seamlessly integrating them into the way business people work every day. These tools enable users to work with their customer and corporate information, without leaving their favorite communication applications – Office 365 and Gmail.»

*Source*: Businesswire (2015).



SFA tools are designed specifically to support the seller's organization in its efforts to meet its CRM objectives. A primary topic then is its impact on sales productivity. For example, SFA software capabilities can capture, store, analyze, and distribute customer-related data to salespeople to make them more efficient. By efficiently completing sales routine tasks, salespeople reallocate their time to more personal contacts with their customers, which leads to more effective buyer–seller relationships (Hunter & Perreault, 2007). It thus becomes evident that the two main dimensions of SFA's benefits are its *efficiency* and *effectiveness* (Fig. 13.2).

### 13.1.2 SFA Benefits

Salespeople, sales managers, and senior management can derive a lot of benefits from implementing SFA. With SFA tools, salespeople gain timely access to customer, product inventory, and market intelligence information and thus can respond to customer questions more quickly and with better information. The sales force appears more informed, knowledgeable, competent, and responsive than its competing forces; it also enjoys a better customer understanding. Customers perceive that their needs are better catered to and met, leading to improved customer relations through increasing customer satisfaction. Better process accuracy achieved through shorter order cycles, for example, might increase customer satisfaction and sales productivity, which in turn raises the benefits attained by sales managers (Rogers, Stone, & Foss, 2008). The same pattern holds for improved resource allocation. By using SFA tools, the sales force can perform administrative tasks more efficiently and thus spend more time with the customer, engaging in value-adding activities that increase customer satisfaction and improve customer relations. Finally, SFA efficiency and effectiveness, including increased sales productivity and improved customer relations, lead to greater sales revenue for senior management and the firm as a whole. Figure 13.3 summarizes how these different beneficial characteristics are linked and how they contribute to increased sales revenues.

At this point, we also should mention that SFA can increase sales revenue only in certain conditions, as we discuss in the next section.

### 13.1.3 Conditions for Realizing Benefits

To gain efficiency and effectiveness benefits from employing SFA tools, sales managers and senior management must ensure that the entire sales

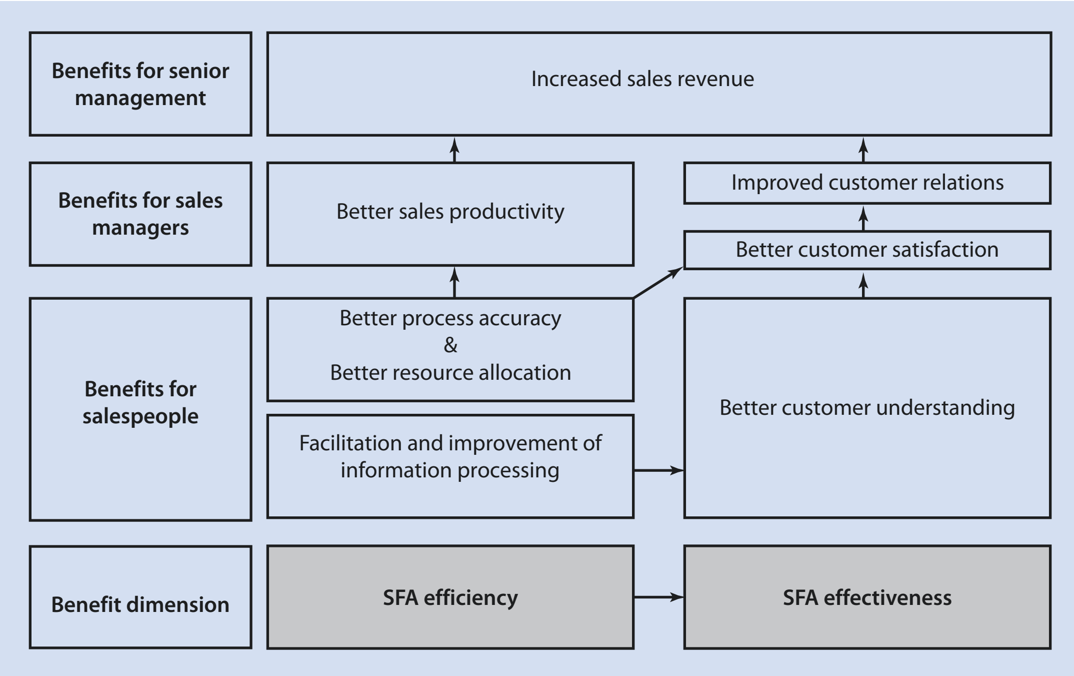


**Fig. 13.3** Beneficial characteristics of SFA

force actually adopts and uses the SFA technology. A failure in adopting or using these tools represents the biggest barrier to a firm's pursuit of the full range of SFA benefits. Important drivers that enhance *SFA adoption* include the commitment of both top management and immediate supervisors to the technology. Both variables influence SFA adoption individually, whereas the salespeople's perceptions of the alignment between the two commitment variables (called management commitment alignment) influences SFA adoption even more. Therefore, any resources expended to reach such alignment condition are easily justifiable (Cascio, Mariadoss, & Mouri, 2010). The likelihood of adoption also is positively influenced by personal innovativeness (the extent to which a person is quick to adopt innovative ideas compared with others in the system), the perceived usefulness of the new system (the extent to which a person believes use of the system will enhance his or her job performance), overall attitude toward the new system, and compatibility with the existing system (the extent to which the new system fits with the adopter's existing values, experiences, and needs) (Jones, Sundaram, & Chin, 2002). Moreover, the perceived usefulness of the new system and its compatibility with the existing system are influenced by the salesperson's own individual characteristics. Individual perceptions of SFA technology tend to be more positive among younger employees, male employees, and employees who have strong computer self-efficacy, as well as those with more computer playfulness tendencies. Organizational characteristics such as management support, perceived voluntariness of the use, and early involvement and participation of the user population also can have positive influences on individual perceptions of SFA technology (Speier & Venkatesh, 2002).

The adoption of SFA technology thus is strongly associated with its usage. The extent of *SFA technology usage* depends on personal innovativeness, attitude toward the new system, and usage-facilitating conditions i.e. the extent to which a person believes she or he has been provided with sufficient resources and external support to use the system (Jones et al., 2002). Furthermore, the extent of use of SFA technology relates positively to a salesperson's degree of market information processing (Park, Kim, Dubinsky, & Lee, 2010).

To guarantee the adoption and usage of SFA technology, the seller's organization should ensure and communicate the commitment and support

**Table 13.1** Seller's benefit conditions checklist

| Benefit conditions | Measures |
|---|---|
| **Adoption** | Ensure and communicate commitment and support of top management and supervisors |
| Commitment of top management and supervisors | |
| Personal innovativeness | Hire salespeople who demonstrate personal innovativeness during the interview process |
| Positive attitude toward new system | Hire young salespeople with computer playfulness and computer self-efficacy |
| Perceived usefulness and compatibility | Inform salespeople about the system's features and benefits |
| Individual characteristics | |
| Organizational characteristics | Provide continuous support and training |
| **Usage** | Involve salespeople before purchasing and implementing SFA tools |
| Personal innovativeness | |
| Positive attitude toward new system | Provide the sales force with necessary market information |
| Facilitating conditions | |
| Market information | |

of top management and supervisors and hire young salespeople who demonstrate, during the interview process, personal innovativeness, a high degree of computer playfulness, and computer self-efficacy. Furthermore, the firm should inform salespeople about the system's features and benefits, provide continuous support and training, involve salespeople before purchasing and implementing the SFA tools, and provide the sales force with all necessary market information. Table 13.1 summarizes these measures to ensure that the seller receives the full benefits of SFA. One important prerequisite for SFA adoption and usage certainly is that new SFA tools are integrally embedded into the legacy system or the legacy system can easily be replaced with new SFA tools.

As it has been pointed out in this chapter, a seller can improve customer relations by implementing SFA. But we also must recognize that increased customer satisfaction and improved customer relations are most critical for the most valuable customers of the seller's organization, which leads us to the topic of CRM and key account management.

## 13.2 CRM and Key Account Management

KAM is one of the most significant trends in B2B marketing practice in recent years. Pressures exerted on suppliers by increasing globalization, customer power, procurement sophistication, complex offerings, and the need to find innovative ways to handle a company's most important customers produced the concept of KAM, with its unique characteristics and steps for successful implementation.

### 13.2.1 What Is KAM?

A lot of different terms, such as key account selling, national account management, national account selling, strategic account management, and global account management, can be subsumed under the term KAM. Today, key account management is the most widely used term in research publications (Homburg, Workman, & Jensen, 2002). KAM refers to the performance of additional activities and/or dedication of special personnel to a company's most important customers (Workman, Homburg, & Jensen, 2003). Instead of being transaction-oriented, these additional activities are relationship-oriented and aim to create long-term customer relationships. Additional activities and special personnel offer critical benefits and opportunities for profit enhancement for the seller, along with the benefit enhancements for the buyer (McDonald, Millman, & Rogers, 1997). Thus, for CRM in a B2B context, KAM is a highly relevant topic that cannot be ignored.

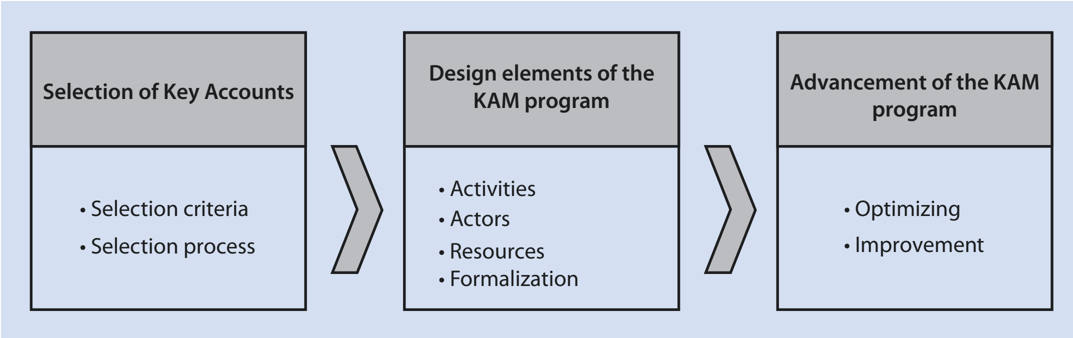


**Fig. 13.4** Key steps for successfully implementing a KAM program

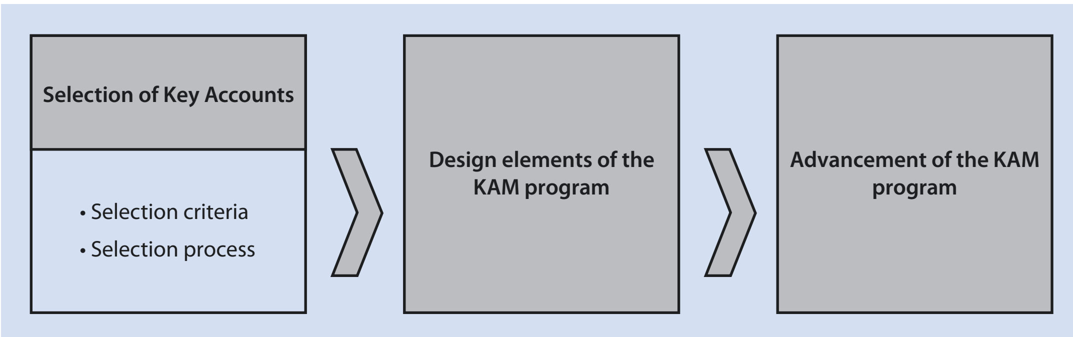


**Fig. 13.5** Step 1 of the implementation process

### 13.2.2 Implementation of the KAM Program

To implement a KAM program successfully, a company should follow three key steps:

1. Selection of key accounts
2. Design elements of the KAM program
3. Advancement of the KAM program (Fig. 13.4)

#### Step 1: Selection of Key Accounts

The essential step of selecting key accounts is central to the definition of KAM (Workman et al., 2003). Before carrying out the *selection process*, a company must select different *criteria* for distinguishing normal from more important customers (Fig. 13.5).

**Selection criteria**

In general, both quantitative (financial) and qualitative (strategic) criteria serve to decide which customer is a key account, and which are just regular accounts.

The quantitative criteria might include:

- Sales volume
- Market share
- Revenues/contribution/profit

Because financial data are quite easy to measure and can address fixed costs, most companies use certain financial «rules» as prime criteria for deciding on the key account status of their customers (Winkelmann, 2013):

- Key accounts must generate 50–60% of the sales volume.
- The Pareto rule identifies key accounts as those 20% of customers that account for 80% of sales volume.
- Key accounts are the top 10 customers.

Yet there are also qualitative criteria to define key accounts; for example:

- Image
- Reference potential
- Technology potential and know-how
- Interorganizational and cultural fit

**Table 13.2** (Dis)Advantages of selection criteria

| | Advantages | Disadvantages |
|---|---|---|
| **Quantitative criteria** | Relatively easy to measure | Monetary and short-term focused |
| | Coverage of fixed costs | |
| **Qualitative criteria** | Positive spillover effects | Not very easy to measure |
| | Multiplier function of the buyer | No coverage of fixed costs |
| | Additional knowledge | |
| | Long-term and interorganizational focused | |
| | Strategic focused | |

**Table 13.3** Example of a selection process

| 1. Criterion | 2. Weighting (W) (%) | 3. Evaluation (E) | 4. Final Points (W × E) |
|---|---|---|---|
| Sales volume | 40 | 5 | 2 |
| Market share | 5 | 1 | 0.05 |
| Image | 30 | 8 | 2.4 |
| Interorganizational and cultural fit | 25 | 9 | 2.25 |
| **5. Sum (Final Score)** | **100** | | **6.7** |

The evaluation points range from 1 (low) to 10 (high)

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A positive image of the buyer might allow the seller to realize positive spillover effects onto its own image and brands. With a high reference potential, the key account can function as a market multiplier for the seller by positively influencing other important buyers. Furthermore, a high technology potential and know-how in the buyer's organization can offer the seller additional knowledge and thus might be useful for encouraging the development of the seller's organization. In these qualitative criteria, the focus thus is on long-term and interorganizational relationships, as well as on strategic aspects. Table 13.2 summarizes the various (dis)advantages of different types of selection criteria.

Because the buying process in B2B relationships is rather complex, and the buyer–seller relationships seem closer, B2B marketers cannot only focus on quantitative facts but also need to consider qualitative aspects associated with long-term, interorganizational relationships when selecting their key accounts. A mix of quantitative and qualitative criteria allows companies to combine the advantages and minimize the disadvantages of these different measures.

## Selection process

After having chosen the criteria, the company is ready to begin the selection process. A very pragmatic approach first arranges a list of all selection criteria that are relevant for the company, which then need to be prioritized and weighted, from the seller's point of view. Next, the seller evaluates these different criteria for every potential key account. After the evaluation is multiplied by the corresponding weighting of the criterion, the seller can calculate the sum of all points. The higher the final score of a buyer, the more attractive that customer is in terms of key account status (Capon, 2001) (Table 13.3).

**CRM at Work 13.3**

**FestoAG: Selecting Key Accounts**

Festo is a leading, worldwide supplier of automation technology and the performance leader in industrial training and education programs. Its 18,700 employees globally maintain its portfolio of approximately 33,000 catalogue products, with several hundred thousand variants. Festo's key account selection process contains the following steps:

1. Definition of the most interesting industries (potential).
2. Searching for the world's biggest companies within the different industries (sales volume).
3. Preparation of a list with the 200 biggest companies with the highest potential.
4. Analysis of attractiveness (sales volume, competitive situation, image, etc.), chances of acquisition, and segmentation (products, industry, etc.) of these 200 companies.
5. Selection and clustering of potential key accounts.
6. Definition of most interesting key accounts.

*Source*: Klebert (1999).

## Step 2: Design Elements of the KAM Program

In this section, we discuss the types of decisions the seller should take into account when designing its key account program, namely, what is done, who does it, with whom it is done, and how formalized it is. That is, the elements that must be designed for a KAM program are *activities*, *actors*, *resources*, and *formalization* (Fig. 13.6).

Activities refer to interorganizational (external) elements, whereas actors, resources, and formalization describe intraorganizational (internal) elements of a KAM program. Figure 13.7 depicts their relationships (the following illustrations refer to Homburg, Workman, & Jensen, 2000; Homburg et al., 2002; Workman et al., 2003).

### Activities

Regarding the marketing mix, suppliers can offer special activities for their key accounts, such as special pricing, product customization, joint coordination of the workflow, information sharing, or taking over business processes outsourced by the customer. The intensity and proactiveness of these activities distinguish them from those offered to an average customer. Intensity designates the extent to which additional activities get performed for the most important customers, while proactiveness refers to the extent to which the supplier initiates the activities. Proactive activities make the seller more flexible in designing activities that match its own interests and capabilities. Moreover, an intensive, proactive KAM shows the buyer that the supplier is willing to invest in the relationship, which should deepen trust in the key account and strengthen the buyer–seller relationship.

**CRM at Work 13.4**

**3M: Activities for Key Accounts**

Especially for its key accounts, 3M offers a 2-day event, «Fascination Glue,» which features lectures, discussions, shows, and evening events. Thus 3M not only provides its most important customers with up-to-date information about special topics, trends, innovations, and solutions that 3M can provide but also offers them the promise of building or strengthening networks with other companies, suppliers, and processing plants, as well as with researchers. But only for its strategic key accounts.

*Source*: 3M (2015).

### Actors

Special actors represent the personal coordination mode of KAM, which entails top management involvement, the use of teams, and key account managers. Top management involvement is the extent to which a company's top management actively participates in KAM. With senior-level involvement in KAM, the firm displays its commitment to key accounts, leading to greater involvement and a further strengthening of the buyer–seller relationship. However, key account managers remain the main point of contact for the key account. These managers need specific skills, including integrity, extensive product/service knowledge, communication skills, selling and negotiating skills, and a deep understanding of the buying company's business and environment (McDonald et al., 1997). Thus, key account managers have to be trained exhaustively in order to fulfill these requirements. The use of teams can ensure a broader set of available skills. Dedicated teams that can coordinate the activities for key accounts preferably should be composed of members from various functions and backgrounds, to

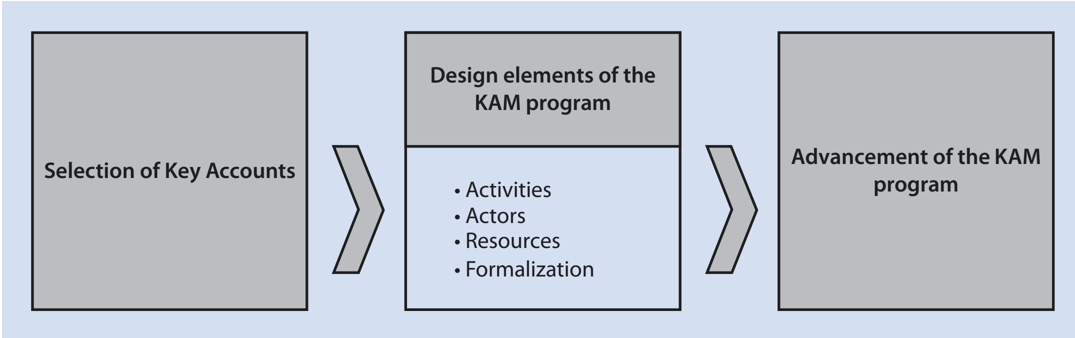


**Fig. 13.6** Step 2 of the implementation process

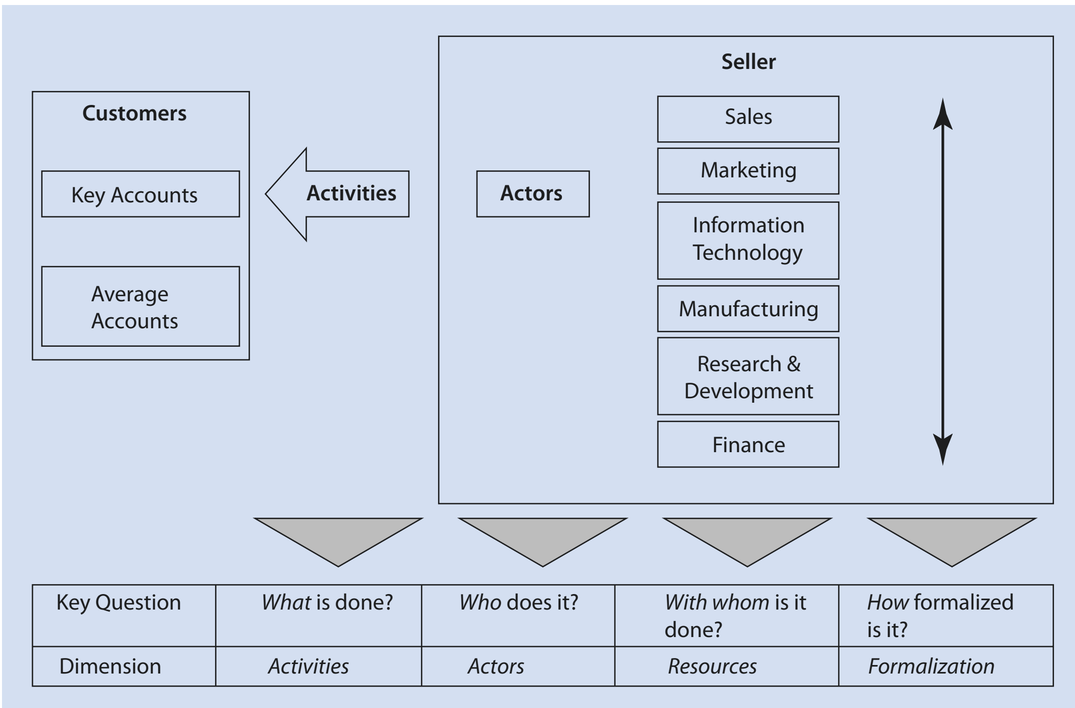


**Fig. 13.7** Conceptualization of KAM (*Source*: Homburg et al. 2002)



guarantee access to different types of resources that can meet the buyer's needs. For example, the key account manager at SAP knows all the contacts linked to each key account, so when new requests arise, the manager can compose a special, task-related team and adjust existing structures to address the specific requirements (Belz, Müllner, & Zupancic, 2004).

## Resources

Successful KAM requires the coordination of activities within the organization. The esprit de corps of the selling center and access to (non)marketing and (non)sales resources represent important assets for building strong, long-lasting buyer–seller relationships. Esprit de corps refers to the extent to which the members of the selling center feel linked to common goals and to other members. Access to (non)marketing and (non) sales resources is the extent to which a key account manager obtains necessary contributions to KAM from (non)marketing and (non)sales groups. Only KAM coordinators with access to such necessary resources can fulfill their organizations' commitments and thus succeed in building strong relationships with buyers.

**CRM at Work 13.5**

**Philips: Access to Various Kinds of Resources**

By cross-functionally composing its KAM team, Philips guarantees that the key account manager has access to resources from customer support service, production, R&D, marketing, and the sales department.

*Source*: Belz et al. (2004).

### Formalization

Formalization refers to the extent to which key account handling has been formalized through rules and standard procedures established in the seller's organization. A high degree of formalization leads to bureaucracy and a lack of flexibility in responding to the different needs of heterogeneous key accounts, which is rather unfavorable for establishing effective buyer–seller relationships.

In all then, a proactive and intensive KAM, involving top management, cross-functional teams, and key account managers with special skills, as well as access to (non)marketing and (non)sales resources, plus a low degree of formalization can advance efforts to establish effective buyer–seller relationships.

## Step 3: Advancement of the KAM Program

After having designed the key elements of a KAM program, the firm needs to advance its program by *optimizing* and continuously *improving* it (Fig. 13.8). The following illustrations refer to Davies and Ryals (2009).

### Optimizing

In the optimizing phase, the firm makes significant financial investments to integrate the KAM program throughout the entire organization. All members gain an education in and become engaged with KAM, so the whole culture of the organization adopts a strong KAM orientation. Internal performance measurements fade away, replaced by benchmarking against competitors and reliance on customer feedback. The adaption of internal processes, policies, and IT systems is another primary element in this phase.

### Improvement

During the continuous improvement phase, the company becomes increasingly focused and targeted, with fewer and fewer key accounts. To reduce the use or waste of expensive resources, top management becomes less involved. The focus on cost management thus is a main element of this phase.

KAM is never fully implemented but always can be described as an ongoing, continuous, very long-term commitment to improving among the best practice KAM companies.

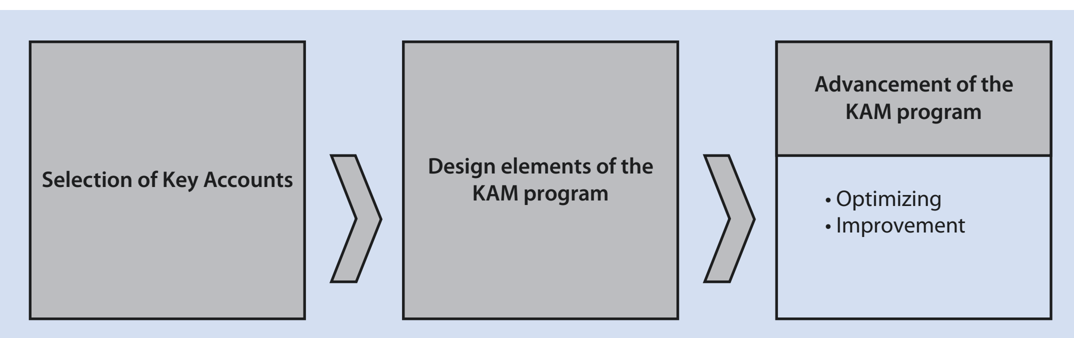


**Fig. 13.8** Step 3 of the implementation process

**CRM at Work 13.6**

**Hilti: Best Practices**

Hilti is a global leader that provides value-added, top-quality products for professional customers in the construction and building maintenance industries. Hilti's top management is involved in the management of the key accounts, and KAM is integrated throughout the company's overall strategy.

In terms of its activities for key accounts, Hilti offers «VIP» solutions that solve specific customer problems in fleet management; the solutions support and maintain a broad composition of electronic tools. Hilti expects much of its key account managers, including extensive experience in international, multicultural environments; absolute fluency in English; demonstrated global, corporate thinking and acting; leadership; motivational abilities; excellent communication; superior negotiation skills; and analytical and interpersonal skills. To achieve its best results, Hilti provides special training to all key account executives, such as presentation and negotiation techniques, teamwork, and the use of analytical and strategic tools.

*Source*: Belz et al. (2004).

The example of Hilti's best practices in the preceding box shows that additional services represent one method of offering the right activities for the right customers. Therefore, especially in B2B markets, the shift from goods to services is a compelling possibility for establishing mutually beneficial, long-term buyer–seller relationships.

## 13.3 CRM and the Shift from Goods to Services

Nowadays, many firms combine products with services to create innovative offerings, widely known as hybrid offerings, hybrid solutions, solution selling, or customer solutions. In so doing, they hope to defend their positions in increasingly competitive product markets and increase revenues and cash flows. For example, Xerox sells not just the printers that initially made its name but also offers a consulting service to help customers publish their documents. These hybrid offerings can attract new customer segments and increase demand among existing customers by providing additional, superior value (Shankar, Berry, & Dotzel, 2009), which increases customer loyalty and retention. We therefore describe a typology of services for hybrid offerings and illustrate the advantages and disadvantages of the shift from goods to services. In turn, we offer a set of rules for a successful shift.



**CRM at Work 13.7**

**Oracle: Best Practice**

Oracle offers an integrated array of applications, databases, servers, storage, and cloud technologies to empower modern business, with more than 420,000 customers and deployments in more than 145 countries. Companies of all sizes rely on Oracle's complete, modern, and secure portfolio of enterprise and industry applications to connect the entire organization and provide data-driven intelligence. Oracle offers maximum personalization and choice, including applications for customer experience, enterprise performance management, enterprise resource planning, human capital management, supply chain management, and more.

At the beginning of 2016, Oracle launched Oracle Partner-Network (OPN) Cloud program to support their partners accelerate innovation, lead business transformation and fully realize the competitive advantages gained through Oracle Cloud. The new Cloud program, with tiered designations, recognizes those partners that engage with Oracle and invest in Oracle Cloud, by offering them incremental and progressive benefits to complement and build on the existing OPN program levels. Oracle shares assets with its partners who can use them to educate themselves, increase awareness, drive demand, and impact sales via Oracle Sales Central.

In March 2016, Oracle introduced Oracle Dynamic Hybrid Bundles, to offer Value Added Resellers (VARs) the opportunity to drive growth on their existing engineered systems hardware business and cloud. VARs can foster additional revenue and profitability with a solution selling approach that combines the best of Oracle Engineered Systems on-premise solutions with Oracle Cloud metered platform and infrastructure services. Oracle's unique competitive differentiator is being the exclusive public Cloud service provider that employs the same technology for Cloud and on-premise solutions enables VARs to strategically position themselves as hybrid solution providers.

*Source*: Oracle (2016a, 2016b).

**Table 13.4** Classification scheme of industrial services for hybrid offerings

| | | Service recipient | |
|---|---|---|---|
| | | *Service oriented toward the supplier's good* | *Service oriented toward the customer's process* |
| **Nature of the value proposition** | *Supplier's promise to perform a deed (input-based)* | Product lifecycle services (PLS) | Process support services (PSS) |
| | *Supplier's promise to achieve performance (output-based)* | Asset efficiency services (AES) | Process delegation services (PDS) |

*Source*: Based on Ulaga and Reinartz (2011)

### 13.3.1 What Are Hybrid Offerings?

Hybrid offerings can be defined as a combination of «one or more goods and one or more services, creating more customer benefits than if the good and service were available separately» (Shankar, Berry, & Dotzel, 2007). There are several types of services a seller can combine with physical goods to form hybrid offerings; the resultant classification contains two dimensions. The first dimension refers to whether the service is directed at the supplier's good or the customer's process. The second pertains to whether the supplier's service value proposition is input-based, which implies it is grounded in the promise to perform a deed, or output-based, which means it promises to achieve certain performance. In combining these two dimensions, we can derive four categories (Table 13.4) that fundamentally differ in the resources and capabilities needed to develop the hybrid offerings (Ulaga & Reinartz, 2011).

- **Product Lifecycle Services (PLS):** These input-based services are oriented toward the supplier's good. They facilitate the customer's access to the supplier's good and ensure its proper functioning throughout its lifecycle. For example, the installation of a high-voltage circuit breaker is a PLS. In this category, sellers cost-efficiently meet buyers' basic expectations, using standardized services.
- **Asset Efficiency Services (AES):** These services are also oriented toward the supplier's good, but they are output-based. AES are offered to achieve productivity gains from assets invested by customers, such as welding robot software customization. In moving from PLS to AES, firms commit to performance related to asset productivity, and shift from cost-based to value-based pricing for their hybrid offerings.
- **Process Support Services (PSS):** These services that are oriented toward the customer's processes are input-based. They help customers improve their own business processes, tailored to their specific contexts and needs. For example, a lot of industrial gases (e.g., hydrogen, oxygen) are regarded as pure commodities, but by understanding the application of the gases in the buyers' processes (e.g., food conservation in a meat processing plant), the manufacturer can differentiate itself in the market.
- **Process Delegation Services (PDS):** Finally, PDS are oriented toward the customer's processes and are output-based. These services perform processes on behalf of the customers, such as tire fleet management for a trucking company. The goods and services are integrated and individually customized. To guarantee this customization, there must be a high degree of interactivity in communication and exchange of information between the buyer and the seller. These characteristics reflect the high degree of complexity of these services.

The promise for services is great, especially for PDS (widely regarded as 'solutions'). BASF Coatings, a best practice example in the field of PDS, offers solutions for automotive manufacturers and supports them in the painting process; thus it generates a transaction volume of €2.3 billion annually (Ahlert & Kawohl, 2008). However, approximately half of all solution sellers manage to realize only modest benefits and one-fourth actually lose money (Stanley & Wojcik, 2005). The shift from goods to services is not a simple or innate process; it may pose certain challenges.

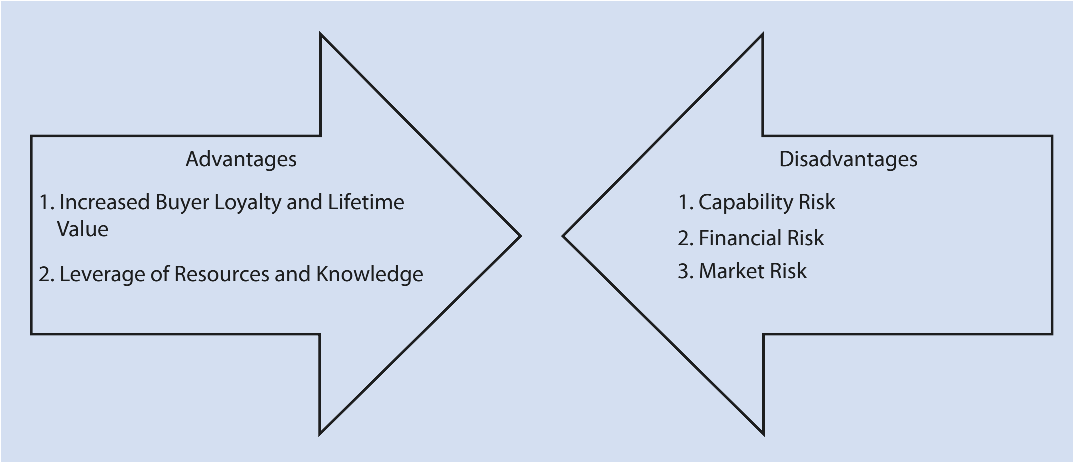


**Fig. 13.9** (Dis)Advantages of the shift

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### 13.3.2 Advantages and Disadvantages of the Shift to Hybrid Offerings

In the B2B CRM context, the main benefit of extending products to hybrid offerings for a seller is increased *buyer loyalty*. Because hybrid offerings are more intangible to the customer, they are more difficult to evaluate, which decreases market transparency but increases the buyer's perceived purchase risk. Furthermore, greater interactivity in terms of communication and information exchanges between the buyer and seller that is required in service selling (compared to product selling), especially in PDS, should produce strong, collaborative relationships featuring higher degrees of trust and cooperation. Because the seller has developed an individually customized and integrated solution to solve the buyer's special problem, the seller becomes more important for the buyer, and the buyer becomes dependent or locked in to the relationship. As long as the buyer's needs and requirements are fulfilled, long-term and loyal relationships can be established via selling hybrid offerings, leading to an increase in *customer lifetime value*. Furthermore, the seller might *leverage its resources and knowledge* from product manufacturing to service manufacturing and thus realize synergies that offer cost savings and competitive differentiation advantages in increasingly competitive product markets. These advantages refer to those illustrated in Fang, Palmatier, and Steenkamp (2008).

But in the course of this shift, firms must consider the prevalent potential for *capability risk* (the mentioned disadvantages refer to those illustrated in Fang et al., 2008; Sawhney, Balasubramanian, & Krishnan, 2004). The greater complexity of hybrid offerings (compared with pure product offerings) may cause a seller to lose its strategic focus. The seller has to acquire a lot of organization's resources, capabilities, and competencies from different domains to develop suitable hybrid offerings and meet a buyer's needs and requirements. In this confusing realm, a seller often fails to develop effective hybrid offerings, because it cannot optimally allocate required resources across the different domains or because its existing capabilities and organizational culture do not fit with the required offerings, leading to organizational conflict. This conflict usually harms employees' motivation, effort, and productivity, which can decrease the ability to create value for the buyer. Because the margins of services also tend to be lower than those for products, sellers also face a *financial risk* in transitioning to services. Their intense efforts to gather resources and capabilities, as well as the high level of complexity make it difficult to increase these margins. Moreover, *market risk* is a key concern; it describes the possibility that the buyer does not adopt the service, whether because it does not want to or is not able to do so. For example, if the interactivity in communication and exchange of information between the buyer and the seller fails, the developed hybrid offering may be ineffective and thus not valuable for the buyer, because it does not meet its requirements and needs. Figure 13.9 summarizes these advantages and disadvantages of shifting an offer from goods to services.

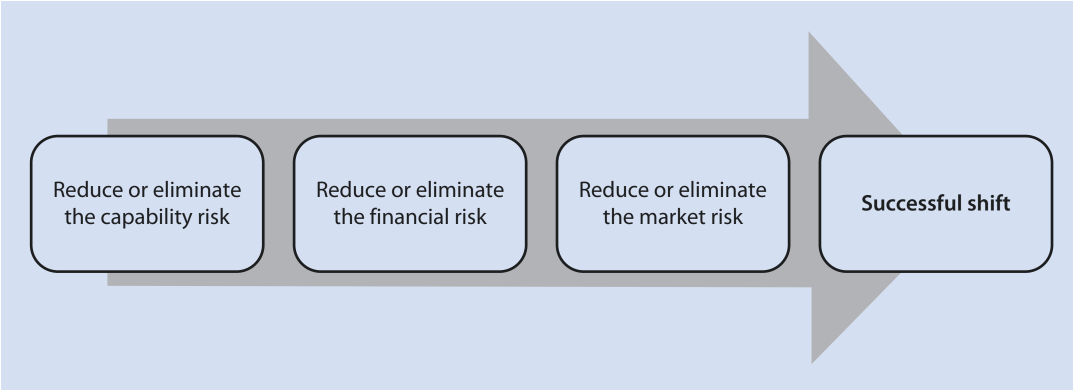


**Fig. 13.10** Rules for the successful shift

Managers should be well prepared to overcome the possible disadvantages and keep in mind certain aspects that will help them build long-term relationships and realize the advantages of increased customer loyalty and lifetime value, instead of the disadvantages. We thus offer some rules for a successful shift from goods to services, with reference to possible risk types.

### 13.3.3 Rules for Successful Shifts

In line with our discussion of the disadvantages of the shift from goods to services, the rules for successful shifts aim to reduce or eliminate capability, financial, and market risks (Fig. 13.10).

To *reduce or eliminate capability risk*, especially the loss of strategic focus and organizational conflicts, the seller has several options (Sawhney et al., 2004; Ulaga & Reinartz, 2011):

- Mandate a centralized administration of services, such as putting different services in one location or a separate organization.
- Design services that build on existing product platforms.
- Ensure access to resources, such as data about the installed base product usage and process, product development and manufacturing assets, sales forces and distribution networks, and a field service organization that build the required capabilities.
- Leverage the partner organization's capabilities by acquiring or partnering with a service-cultured company that has key resources, capabilities, and competencies.

To *reduce or eliminate the financial risk*, the seller could, for example, (Sawhney et al., 2004; Shankar et al., 2009):

- Identify the most profitable product/service and combine it with the most commonly bought product/service.
- Use the Internet to link goods and services and thereby lower the total unit costs of the offering.
- Find opportunities to balance the timing and magnitude of cash flows from products and services.
- Perform robust, early, and frequent economic value analyses.

Finally, to *reduce or eliminate market risk*, the seller should (Sawhney et al., 2004):

- Create a service-savvy sales force.
- Offer trial periods, prototypes, and iterations.
- Blueprint according to customer specifications.
- Focus on existing customers and processes and meet their needs and requirements through effective hybrid offerings.

In summary, we note three different types of risks—capability, financial, and market—that limit the advantages of hybrid offerings (i.e., increased customer loyalty and lifetime value), so the seller must reduce or eliminate these risks. For PDS in particular, few firms venture into this area, because of the very sophisticated capabilities required to achieve its benefits without suffering from its risks (Ulaga & Reinartz, 2011). The following box offers a good conceptualization of solutions (or PDS) and their effectiveness.

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### PDS: Effective Solutions

Tuli, Kohli, and Bharadwaj (2007) define solutions as a set of buyer–seller relationship processes that address buyers' business needs. The processes include:

- Customer requirement definition
- Customization and integration of industrial goods and/or services
- Their development
- Post-deployment customer support.

For the seller, the most important factor is guaranteeing that a buyer adopts the solution and to meet the buyer's needs and requirements through the design of effective solutions. Thus the seller has to know which factors will ensure the success or effectiveness of a solution. Because of the need for interactivity in communication and information exchanges between the buyer and the seller, solution effectiveness depends on specific supplier- and customer-related variables.

**Supplier Variables**

- *Contingent hierarchy*: Must be multiple and flexible, instead of stable, to develop successful solutions, because it ensures a greater power balance across the supplier's firm units/divisions.
- *Documentation emphasis*: The degree to which supplier employees are required to document the purpose of the solution, individual roles, work performed, and outcomes; it helps manage the complexity of the solution's development and guarantees that the post-deployment support team has access to critical knowledge.
- *Incentive externality*: Describes the extent to which employee incentives are complementary across units and divisions; greater complementarity leads to more effective development and better postdeployment, as well as more shared information across units.
- *Customer interactor stability*: The duration for which salespeople and support staff, or customer interactors, are assigned to the customer; the greater the stability, the stronger the relationship with the customer and the better their understanding of customers' requirements.
- *Process articulation*: The degree to which a supplier firm clearly gives information about the solution development process to employees, such as rules for specifying reporting structures, sharing customer information, and clarifying responsibilities; offers a framework for interaction across units, functions, and customers that can help guarantee the correct definition of customers' requirements and articulation of needs.

**Customer Variables**

- *Customer adaptiveness*: Refers to the extent to which the customer is able and willing to adapt internal routines and processes to accommodate the supplier's products and/or services; high customer adaptiveness makes it easier to customize and integrate a solution, so the supplier firm can work more effectively.
- *Political counseling*: The degree to which a supplier receives information and guidance about the political landscape facing the customer organization; through political counseling, the supplier firm gains a better understanding of the varying priorities of different stakeholders in the customer firm, leading to a better definition of the customer's requirements, increased customization and integration of goods and/or services, and more effective postdeployment support.
- *Operational counseling*: The degree to which a supplier receives information about the customer's operations, including details about the technical system, business process, and policies; the supplier firm can define the customer's requirements more completely and accurately and can better customize and integrate a solution with such information.

Managers should be aware of any changes and developments, especially in the customer variables involved in adopting particular activities and practices.
*Source*: Tuli et al. (2007).


## Summary

Over the course of this chapter, we have discussed several CRM-related issues in the B2B context. We first introduced *SFA* as a tool for efficiently and effectively managing buyer–seller relationships by increasing sales productivity and improving customer relations, which should lead to increased sales revenue. We also pointed out the conditions—namely, SFA adoption and usage by the sales force—and measures that sales managers and senior management can take to guarantee and support the pursuit of the relevant benefits. Furthermore, we noted the promise of *KAM* as a means to allocate the right activities to the right customers. The selection of key accounts, design elements of the KAM program, and advancement of the KAM program constitute three key steps for successfully implementing a KAM program and realizing its goal of creating long-term relationships with the seller's most important and valuable buyers. Finally, acknowledging its actual relevance in B2B markets, we have illustrated the widespread

*shift from goods to services*, respectively the shift to *hybrid offerings* as a method to provide the right activities to customers. In addition to defining hybrid offerings and creating a typology of services in hybrid offerings, we outlined the advantages and disadvantages of this shift, as well as some rules for avoiding the risks and realizing the advantages, which in turn should lead to stronger buyer–seller relationships. With this chapter, we therefore have illustrated that with SFA, KAM, and hybrid offerings, a seller can build strong, lasting, valuable buyer–seller relationships and better manage the value of these relationships, which means it can achieve its ultimate goals within a B2B CRM context.

### International Perspectives: Did You Know?

1. The global SFA solution of Infosys, a global leader in technology services and consulting, boosted sales force efficiency and effectiveness in 116 countries for a large logistics client that operated at a country-level without global processes or an IT road map. The challenges of disconnected customer-facing processes and information residing in disparate systems arose due to rapid growth and restructuring. However, to facilitate effective selling, the sales and marketing team needed visibility into opportunities and potential customers in the global, regional and country segments. That is, the sales force required a SFA and marketing system that would not only enable to implement a new global sales and marketing process and provide regional language flavors but that would also be rapidly available to users in all the countries to realize time-to-market benefits. Infosys helped the client consolidate its global sales and marketing processes, and developed an IT road map to provide the best-in-class SFA for the global sales application. Infosys' single-instance multi-lingual sales and marketing solution supported the global processes and was flexible to support local requirements. This solution, currently available to over 8,500 users in 116 countries, has boosted sales force efficiency and effectiveness through improvements in pipeline management, global cross- and up-selling, and insightful analytics (Infosys, 2017).
2. DMG MORI Used Machines, the world's largest dealer in used CNC (Computerized Numerical Control) machine tools from Germany, delivers tailored solutions for used machines. These solutions include, for example, the complete refurbishment of old machines, buying back old machines, or simply exchanging an old machine for a new, more powerful used machine (DMG MORI, 2017).
3. To offer additional services, a company requires comprehensive key account management. The German market leader in enterprise application software, SAP, introduced SAP RealSpend, a tool for the sales team to manage their budgets actively. The app pulls data from core financial reporting systems and thus enables line managers to conduct ad hoc spend analysis and other «on-the-fly» calculations that allow live business processing. Usually, line managers outside the corporate finance function do not have detailed insights into budget and spending. Spreadsheets containing weeks-old data and predefined reporting dimensions from central controlling impede real-time decision making amid changing business conditions. SAP RealSpend integrates actual, committed, approved and pending spends into a holistic view on individual dimensions (SAP, 2016).

### Exercise Questions

1. Describe the benefits of SFA and their linkages.
2. How can sales managers and senior management support SFA adoption and usage by employees?
3. What are the key steps to successfully implementing a KAM program?
4. Explain the advantages and disadvantages of the different criteria for selecting key accounts.

5. Explain which type of hybrid offering Xerox provides to its customers.
6. What are the risks associated with the shift from goods to services?
7. How can the risks of the shift from goods to services be reduced or eliminated?

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