

**Multi-Stage Marketing -
Overcoming Marketing Myopia in B2B Markets**

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Abstract

Customers in business-to-business (b2b) markets are sellers of goods and services of their own. Thus, b2b suppliers may exert an influence on their customers' buying decisions if taking marketing activities towards the customers of the customers. This concept is commonly referred to as "multi-stage marketing". Although the positive impacts of such activities are known, b2b companies often exclude the customers further along in the downstream supply chain from their marketing plans.

This paper illustrates the concept of multi-stage marketing and shows that it involves much more than just co-branding and ingredient branding.

In the closing section we propose several aspects of multi-stage marketing that need further investigation in order to better understand and facilitate its application in businesses.

Multi-Stage Marketing- Overcoming Marketing Myopia in B2B Markets

Introduction

Customers in b2b markets are sellers of products and services of their own. The goods and services they buy are required – directly or indirectly – for the production and the sale of other goods or services to their own customers. Consequently all business transactions in a down stream value chain are done in order to ultimately satisfy the final consumers’ needs. Since the demand of the supplier’s products and services is ultimately derived from the final consumers’, in the end suppliers and manufacturers are always dependent on the primary demand (“derived demand”, see figure 1). Therefore, when marketing their own products it would make sense for all suppliers at all stages involved in the value chain to take customers of the downstream supply chain into consideration – all the way down to the final consumers.

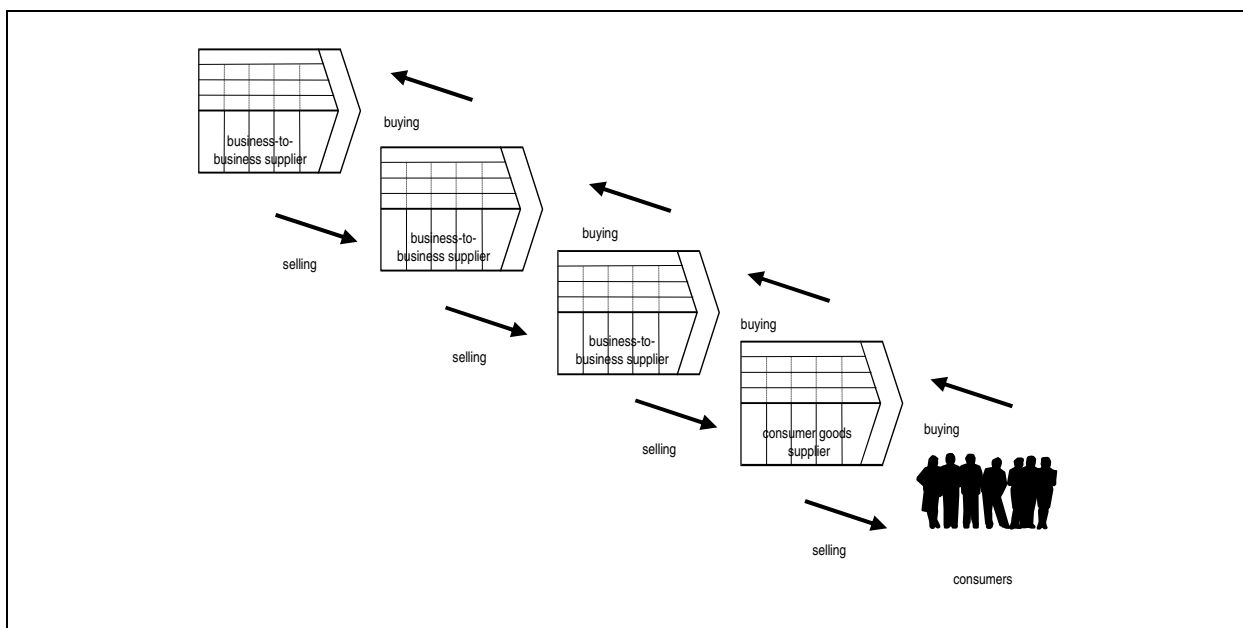


Fig. 1 “Derived demand” (Kleinaltenkamp et al., 2007)

Despite the knowledge of the importance of derived demand very few companies actively engage in multi-stage marketing activities and include the customers of the customer in their marketing plans (e.g. Intel, Tetra Pak, Goodyear Tires, etc.). The main reasons for this are: a lack of market research related to downstream markets, a lack of multi-stage marketing know-how and a lack of a multi-stage market orientation. This can be seen as a certain form of “marketing myopia” (Levitt 1975) meaning that the visions of the b2b companies are too constricted in their understanding of their business and that the companies are not able to take advantage of growth opportunities. In this sense “b2b marketing myopia” means that companies only consider the direct customer in their marketing activities but ignore the fact that customers and further actors within the downstream value chain are part of a b2b environment. And, addressing these customers and actors may open up opportunities for improving their business.

In this paper, we illustrate the concept of multi-stage marketing and introduce different aspects of the same. In particular, we discuss the aspects of co-branding and ingredient branding, and introduce the most recent and well-established studies.

The closing section of this paper proposes several aspects of multi-stage marketing that need further investigation in order to identify and better understand the importance and usefulness of marketing one's products not only to the very next downstream market stage but through various stages of the value chain before reaching the end customer.

Conceptual Background

Most industries consist of a number of market and processing stages in the value chain through which a certain product passes until it finally reaches the end customer in modified form. Thus, the inducement of the different intermediate market stages can have an effect on subsequent and/or prior decisions made by businesses or end users. Therefore, we propose that for sellers it would be necessary to consider not only the direct customer in their marketing plans but also the customers at subsequent market stages and thus overcoming the b2b marketing myopia. Such an approach is referred to as multi-stage marketing.

Even though the concept of multi-stage marketing is not new nor is its significance questioned, multi-stage marketing is a topic that has largely been neglected, and not much empirical research has been conducted so far except for certain aspects of brand management ("ingredient branding" or "co-branding").

Now, more than ever multi-stage marketing appears to be critical to business success. Due to the further shortened life cycles of many products, not only in regard to fast-moving consumer goods, it is becoming evident that manufacturers in many industries must cooperate more closely with downstream market and processing stages in order to secure or further enhance sales.

On the other hand, it makes sense for customers in downstream markets to include suppliers in upstream markets in a multi-stage marketing effort, as upstream goods and services determine to a large extent downstream competitiveness and market success.

Also, growing horizontal as well as vertical competition, especially, in saturated markets makes it increasingly attractive for manufacturers to employ multi-stage marketing, preferably long-term activities in order to reduce the risk of being substituted (Pfoertsch *et al.* 2008).

The existing literature is indecisive when it comes to defining the term of multi-stage marketing. Therefore, it is not surprising that a multitude of terms are used in this context, such as: "vertical marketing systems" (McCammon, 1970), "vertical cooperation systems" (Ericsson, 1976) and "leapfrog strategy" (Arnott, 1994).

Rudolph (1989) defines multi-stage marketing as "all marketing-related measures which are aimed at the subsequent market stages ('customers of the customers') which follow one or several direct customers". The idea behind the concept is that customers in b2b markets buy products or services because they are required – directly or indirectly – for the production and sale of other goods or services. For that reason, sellers need to consider not only the next direct customer in their marketing plans but also focus on their marketing activities at subsequent market stages in particular. A multi-stage marketing strategy thereby targets at least one subsequent stage but can also target several stages.

Multi-stage marketing generates a pull effect through the value chain (Pfoertsch *et al.*, 2008) that more or less forces the direct customer to demand the products being offered. The push strategy, in contrast, tries to push the products onto the market. The focus here lies on the direct customer. The key in multi-stage marketing is to create a joint approach by combining

both effects as it would be short-sighted and with respect to losing direct customers dangerous for the manufacturers to rely on just one of these effects.

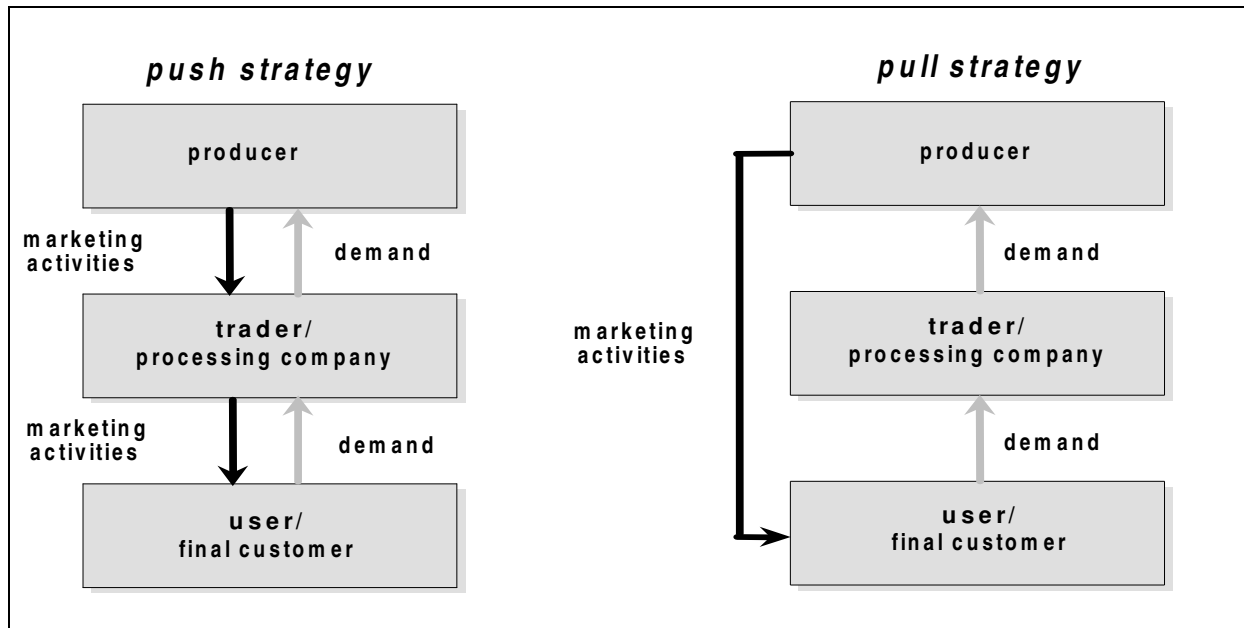


Fig. 2 “Push strategy and pull strategy”

In a multi-stage marketing plan, all relevant market stages should therefore be incorporated into one universal marketing strategy. In consequence, the intention should be to turn adversary market relations into more cooperative ones. In order to achieve this goal it is necessary to:

- analyze the relevant downstream market stages,
- identify the key and target stages and actors,
- review the essential pre-conditions of a multi-stage marketing strategy.

The latter include:

- the existence and relevance of a customer advantage,
- the communicability of the customer advantage,
- the identifiability of the manufacturer’s product in downstream market stages,
- a minimum amount of market- and marketing know-how,
- a certain degree of assurance that the desired demand pull is not and cannot be obstructed by opposing measures in downstream market stages.

Especially noteworthy is the “identifiability” of the product in downstream market stages. This identifiability may be the reason why the concepts of “ingredient branding” or “co-branding” have gained the most attention in this field. Blackett and Russell (1999) define co-branding as “a form of co-operation between two or more brands with significant customer recognition, in which all the participants’ brand names are retained”. In marketing literature, ingredient branding is defined as the only distinct sub-category of co-branding (Blackett and Russell, 1999). While co-branding combines two or more brands in a single product or service, ingredient branding is different in that it is a component of the end product (Smit, 1999).

Ohlwein and Schiele (1994) define ingredient branding as a “brand policy which extends across all market stages for a product component which normally becomes a main element (‘essential ingredient’) of the final product”. Two reasons for such branding strategies are: the

combination of two brands can signal greater product quality compared to single branded products (Rao and Ruekert, 1994). In addition, co-branded products “offer means of differentiating products in competitive environments” (Helmig *et al.*, 2008).

However, a comprehensive multi-stage marketing concept comprises much more than only branding activities. First of all, a decision has to be made whether the activities should be performed in a co-operative manner (eg. Woolmark) or if this should be an individual approach (e.g. Intel Inside). Furthermore, the application of the different marketing instruments has to be adjusted to the particular downstream supply chain. Typically, such multi-stage marketing activities concentrate on additional services, communication and contract designs, which span various market stages.

Recognition of Multi-stage Marketing in Literature

Until now research with respect to multi-stage marketing has more or less concentrated on ingredient branding and co-branding (McCarthy and Norris, 1999; Rao *et al.*, 1999; Vaidyanathan and Aggarwal, 2000; Rodrigue and Biswas, 2004; Abbo, 2005). These two fields of research, however, have rarely been put in the context of b2b marketing (Bengtsson and Servais, 2005; Erevelles *et al.*, 2007) and even less often in the context of multi-stage marketing (Pfoertsch *et al.*, 2008). However, in an attempt to measure the brand equity of ingredient-branded products, Pfoertsch *et al.* (2008) state that multi-stage marketing efforts are required due to the complexity of ingredient branding.

Ulaga and Eggert (2009) found that in the context of two market stages – wholesalers and manufacturers – the brand loyalty of end customers has a positive effect on customer-wholesaler loyalty. They also state that customer brand loyalty facilitates the customers’ intention of switching distribution channels. Therefore, a joint strategy of investing in customers’ brand loyalty, not necessarily any form of co-branding, would benefit the manufacturer as well as the wholesaler.

The authors of this paper do not know of other studies on multi-stage marketing activities conducted outside the realm of distribution channel marketing.

Conclusion

Even though joint branding strategies are the most visible forms of multi-stage marketing, they are not always related to multi-stage marketing and only make up a small portion of the entire scheme. As a result, this leaves a large field of research and a multitude of multi-stage marketing aspects to be dealt with in the future.

Before going into further research on multi-stage marketing it would be important to know why only a small number of businesses plan and conduct multi-stage marketing activities. One strand of our research will therefore engage in finding and analyzing reasons for the “b2b marketing myopia” described above. The focus will lie on market orientation and its effects on business performance (Jaworski and Kohli, 1993). However, in the context of multi-stage marketing, a business’ market does not only consist of the customers of the very next market stage, but must be viewed as being comprised of more than one of the downstream market stages. We will analyze to what extent truly market or customer oriented businesses take their customers’ clients into consideration when planning marketing activities. We hypothesize that highly customer oriented businesses are also highly indirectly customer oriented. This means that these businesses also include the customers on subsequent market stage in their marketing efforts. One reason could be that these businesses closely monitor their customers’

needs and thereby also analyze whom their customers sell their products to. This high indirect customer orientation needs to be examined to see if it has an impact on the manufacturers' business performance.

It is assumed that a company which knows its customers' needs and the needs of its customers' customers can fulfill these needs faster and more efficiently and effectively. It could thereby achieve a critical advantage over competitors and thus increase its business performance.

Further research should also consider marketing concepts such as relationship marketing including building or retaining commitment and trust (Morgan and Hunt, 1994) through multiple stages in the value chain. This strand of research could possibly identify and analyze any interdependencies in regard to commitment that exist or arise directly between the customer and the supplier, the supplier and the sub-supplier and indirectly between the customer and the sub-supplier.

It could be hypothesized that the higher the knowledge of the effects of the direct and also indirect commitment the more efficiently and effectively marketing activities can be planned and budgeted.

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