

The New B2B Marketing Imperative

Developing Fundamental Capabilities
to Capture Market Share

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The Study and Its Methodology

The findings and recommendations in this report derive from a joint study conducted by the Association of National Advertisers (ANA) and Booz & Company in late 2008 and early 2009. The impetus for the study was the lack of attention and research dedicated to marketing effectiveness in the business-to-business sector.

The study included a survey of B2B marketers, interviews with a cross section of the participants, and a rigorous analysis of the variation in capability maturity and market share among the participants. The study encompassed more than 100 B2B market-

ers in major companies representing over 10 industries, including financial services, information technology, chemicals, manufacturing, and healthcare.

The objectives of the study were fivefold: identify the unique challenges facing B2B marketers; identify a set of essential B2B marketing capabilities; evaluate the maturity level of those capabilities in B2B companies; highlight the emerging opportunities of B2B marketers; and begin to establish a broadly applicable set of best practices in B2B marketing.

Executive Summary

Marketing as a function and a profession has made tremendous strides since Peter Drucker first defined it as “the distinguishing, unique function of the business” almost 40 years ago.¹ But while business-to-consumer (B2C) companies embraced Drucker’s marketing mandate, business-to-business (B2B) companies lagged behind. Today, due to competitive and economic pressures, this situation is changing.

This study, jointly conducted by the Association of National Advertisers (ANA) and Booz & Company, finds that B2B companies are awakening to the need for greater marketing prowess and that those that develop it win increased market share. At the same time, it reveals that the majority of B2B companies still define marketing as a tactical—rather than strategic—function. Accordingly, the capabilities and skills of B2B marketers are limited and their ability to contribute to their companies’ results is constrained.

The study further identifies three core marketing capabilities—market-back product development, pricing management, and brand and reputation management—that offer B2B companies the most attractive returns. Because the practices that define these basic capabilities are well established and already proven, B2B companies needn’t reinvent the wheel. But developing them does require a rigorous and strenuous effort. Whereas many functional activities, such as pricing, can be exercised within the marketing department, these marketing capabilities must be applied throughout a company’s value chain. And because the majority of B2B companies have yet to develop them as organizational capabilities, they offer enhanced competitive advantage.

This creates a timely and valuable opportunity for B2B marketers. Those who act on the findings, implications, and recommendations of this study can help their companies grow—an especially critical need in a global economy characterized by negative growth—and establish more strategic and challenging roles for themselves.

The New B2B Marketing Imperative

Marketing does not contribute to the success of B2B companies as much as it could and should. Unlike B2C companies, where marketing has always been an important core competence, B2B companies have historically focused more on achieving product-based differentiation. Accordingly, these companies built professional sales forces to communicate that differentiation and establish and manage direct relationships with their corporate customers. B2B marketing was essentially a tactical support function that managed public relations, generated leads, and provided sales brochures and other collateral materials.

But the effectiveness of purely product-driven strategies has eroded, and traditional profit drivers have declined. Deregulation, globalization, and intense competition have accelerated the commoditization of B2B products and services, rendering product-based specifications and differentiation less effective. Further, growing sourcing sophistication, as well as industry and supply base consolidation, spawned a shift in power from sellers to buyers, as buyers were able to disaggregate a product into its components and negotiate the price of each (making it more difficult to profit from bundling and integration). And, of course, the global recession has exacerbated the need for companies to accomplish more with less, creating pressure to reduce the cost of sales.

These conditions have combined to create an urgent need for more effective marketing and the capabilities that enable it. Indeed, this joint study by the ANA and Booz & Company reveals that B2B companies that better develop their fundamental marketing capabilities can reap rewards in substantially increased market share.

In fact, the need for enhanced and more strategic marketing capabilities has already been recognized by many B2B companies. An ANA study in 2008 revealed that during the preceding three years, a third of B2B marketing organizations had been

strategically realigned; marketers were given a greater voice in developing existing customer relationships, in new business development, and in corporate strategy and innovation.²

But the same study also found that B2B marketers continued to be significantly less involved in strategic decision making than their B2C counterparts. This was especially obvious with regard to customer relationships and growth initiatives, such as entering new markets. Only 8 percent of B2B marketers said they played a key role in customer relationship decisions, compared with 42 percent of B2C marketers. Sixty-five percent of B2B marketers versus 85 percent of B2C marketers said they were involved in growth initiative decisions. B2B marketers were also less involved than their B2C colleagues in new product development decisions as well as in core marketing decisions, such as positioning, pricing, and channel strategies.

Clearly, there is still much work to be done to respond to the new B2B marketing imperative. The 2009 ANA/Booz & Company survey was designed to plumb the challenges facing B2B marketers, the opportunities and potential rewards for those with above-average skills, and the capabilities that will deliver the most value to their companies (see *“The Study and Its Methodology”*).

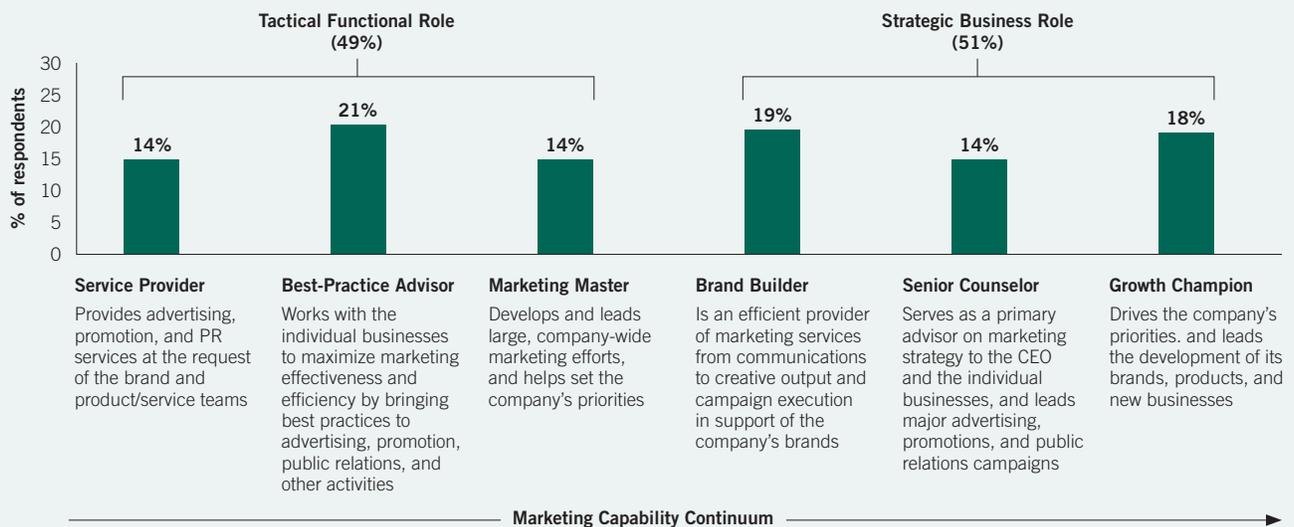
The Constrained Roles and Responsibilities of B2B Marketers

The vast majority of B2B companies continue to underutilize and undervalue marketing. In fact, only 13 percent of the respondents in the 2009 ANA/Booz & Company survey said the senior leaders in their companies had extensive marketing experience or emphasized marketing experience in their leadership development programs. As one marketing director who participated in the study declared, “Marketing is just not in the DNA of senior management.”

It is unsurprising, therefore, that on the continuum of marketing capabilities, only 18 percent of the surveyed marketers said they were operating at the most advanced levels of their discipline, as “growth champions” who drive their companies’ priorities and lead the development of brands, products, and new businesses. Further, just under half of the surveyed marketers described their roles as tactical in nature, as opposed to strategic, and relegated themselves to the less developed side of the continuum (see *Exhibit 1*).

Confirmation of the role limitations of B2B marketers can be found in how they define their responsibilities, which are also focused on tactical rather than strategic issues. For instance, while 80 percent of those surveyed were “responsible” or “accountable”

Exhibit 1: B2B Marketers Rank Themselves on the Capability Continuum



Source: 2009 ANA/Booz & Company survey of B2B marketers

for advertising, the percentages of those marketers who have similar levels of involvement in customer relations, new business development, and corporate strategy drop off precipitously (see Exhibit 2).

A Dearth of Marketing Prowess in B2B

B2B companies are not ignoring marketing: Slightly more than half now have CMOs; approximately a third have realigned marketing for a more strategic role; and in spite of the recession, roughly a fifth are recruiting marketing talent. But at the same time, the potential for performance improvement through marketing capabilities is enhanced by the fact that relatively few B2B companies have developed them. The 2009 ANA/Booz & Company study indicates that there is still much room for performance gains—at least until more B2B companies strive to capture marketing’s competitive advantages.

More than a third of the survey’s respondents said their companies’ product development process is still conducted from a perspective that is primarily inside out. While market research may be used and customer feedback solicited, customers are rarely driving the process and their input is seldom integrated from end to end. In addition, 90 percent of the B2B marketers surveyed said their function, which is a direct source of customer insight, was not tightly integrated into their companies’ product development processes. (Sales, according to some respondents, does play a more active role in B2B product development because it often fields customer requests for custom designs. But these tend to be based on the needs of individual accounts rather than market-driven demand.)

A majority of B2B marketers are not fully integrated during the major stages of product development, until the final launch—the end point of the process, when changes are most difficult and expensive. In B2B companies, marketers typically have limited involvement in R&D or are called on only as needed, as determined by a process owner from outside the function (see Exhibit 3).

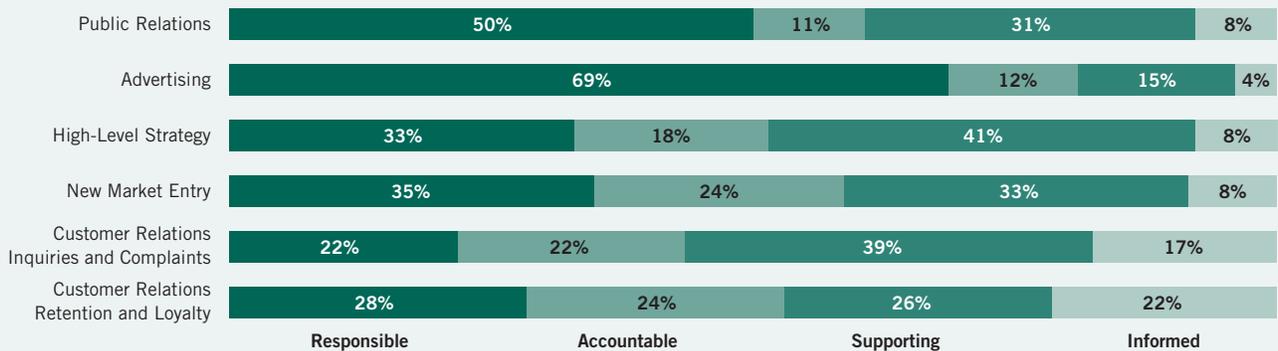
There is a similar situation in the pricing of products and services in B2B companies. Again, more than a third of the marketers surveyed reported that their companies determine prices on a cost basis, which is also an inside-out process. Conversely, less than a third of the companies are using value-based pricing strategies that derive from customer utility and that invariably yield a price better aligned to the marketplace and often actually higher.

Finally, few firms have a comprehensive strategy in place for strengthening their brand image and corporate reputation. The survey revealed that less than half of the respondents track specific brand attributes. Further, it identified brand and corporate reputation management as the least developed of the core marketing capabilities studied.

The survey also revealed that only 15 percent of the marketers feel fully confident in their ability to track sales and cost-to-serve data for individual customers across channels. Only 9 percent of the respondents capture a 360-degree view of customers. And even though a surprising 45 percent of the respondents said they are able to measure marketing ROI advertising sales lift, a recent survey of B2B media suppliers contradicts this belief; only 10 percent of the suppliers think B2B marketers are measuring the effectiveness of their advertising spend.³

These deficiencies indicate that there is a dearth of fundamental marketing prowess among B2B companies that

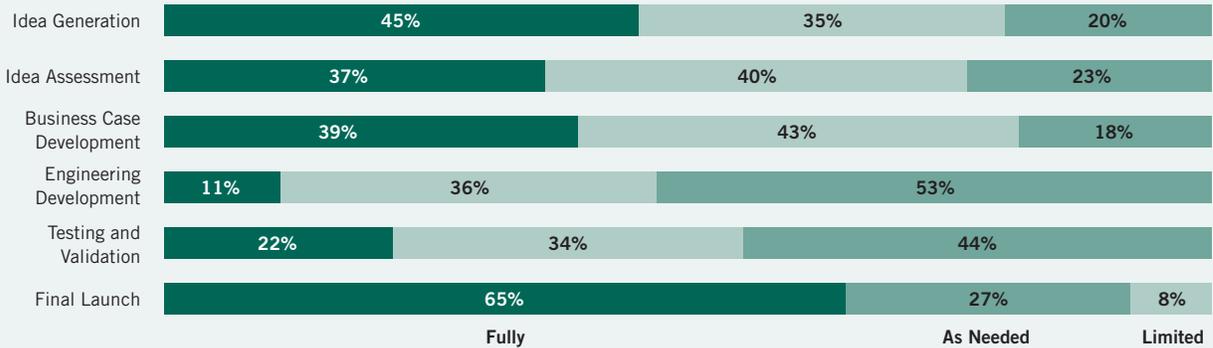
Exhibit 2: The Responsibilities of B2B Marketers



Source: 2009 ANA/Booz & Company survey of B2B marketers



Exhibit 3: B2B Marketing Integration with Product Development



Source: 2009 ANA/Booz & Company survey of B2B marketers

translates directly into a shortage of marketing’s base currency—customer insight. Since customer insight is an essential ingredient in bringing successful products and services to market, the lack of it creates barriers to growth and profitability.

Why Build B2B Marketing Capabilities, and Which Ones?

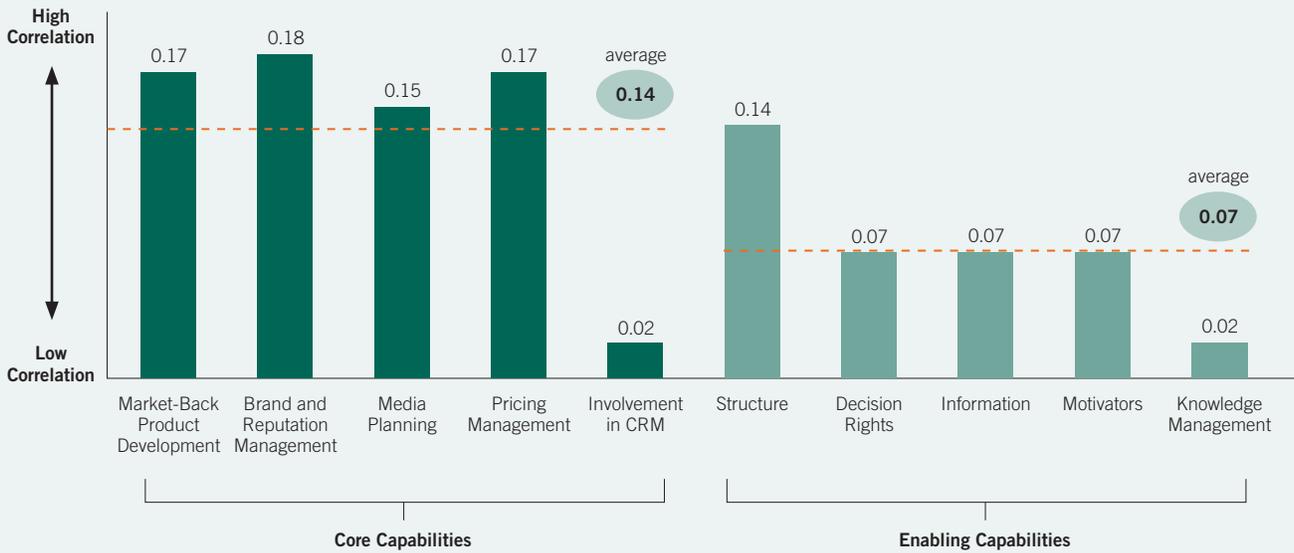
The fact that the marketing capabilities of most B2B companies are less than fully developed and lack customer insight is not itself a persuasive argument for investing in an expanded role for the function. Perhaps the B2B sector does not need the same level of marketing prowess or customer insight as a Procter & Gamble or a Unilever. Perhaps, in a global economy that is shrinking for the first time since World War II and in which liquidity is a primary consideration, B2B companies have more important priorities. So why should they bolster their marketing expertise now? The short answer: top-line growth and increased market share.

This survey revealed that B2B companies with above-average marketing capabilities gain greater market shares than those companies with below-average capabilities. When the marketing capabilities of the surveyed companies were correlated to market share gains over a three-year period, 40 percent of the above-average B2B marketers were found to have gained market share, compared with 26 percent of the below-average B2B marketers. This represents a market share gain premium for above-average marketers of 54 percent. The market share gains of those B2B marketers whose capabilities placed them in the top quartile is even greater; 56 percent of those companies recorded gains, a premium of 115 percent over the below-average B2B marketers.

Core marketing capabilities—those that directly influence customers—have the highest correlations to market share growth. Enabling capabilities—those that govern the operations of the marketing function—have a lower correlation to market share growth.

This study also found that not all marketing capabilities have the same degree of impact on market share gains (see Exhibit 4, page 6). Not surprisingly, overall, core marketing capabilities—those that directly influence customers, such as pricing and branding—have the highest correlations to market share growth. Enabling capabilities—those that govern the operations of the marketing function, such as decision rights and compensation plans—tend to have a lower correlation to market share growth. On average, the correlation between market share growth and core capabilities is double that of enabling capabilities. (This is not to say that enabling capabilities can or should be ignored. As a company’s core marketing capabilities grow, the importance of enabling capabilities grows along with them; enabling capabilities support the effectiveness and efficiency of marketers as they seek to apply core capabilities.)

Exhibit 4: The Correlation of Marketing Capabilities to Market Share Growth



Source: 2009 ANA/Booz & Company survey of B2B marketers

Of greatest interest to B2B marketers should be the three marketing capabilities that have the highest correlation to market share gains:

- Market-back product development, in which the customer's perspective is actively integrated throughout the entire process, from the initial exploratory and concept phases all the way to product development and testing, including market research and, of course, developing the business case.
- Brand and reputation management, in which a differentiated value proposition is developed and tracked for each brand and aligned with the entire marketing mix, and a comprehensive approach to managing the company's reputation with a full range of stakeholders is adopted.
- Pricing management, in which marketers quantify the economic or business value that customers derive from their offerings and incorporate this customer value, as well as cost-to-serve, into product and service prices.

When evaluated across all the companies in this survey, these three marketing capabilities were found to be significantly more developed in companies that had gained market share than in those that had not (*see Exhibit 5*).

Aside from the value of knowing which marketing capabilities offer the greatest benefit to B2B companies, it is also important to note that developing them on an organizational scale is easier said than done. Capability development, especially when capabilities involve marketplace differentiation, is often quite complex because it requires redesigning systems, processes, and metrics, as well as the roles that people play in the organization. For example, the workings of the manufacturing capability best known as the Toyota production system are common knowledge, but few carmakers have been able to emulate them in practice.

Capturing the B2B Market Share Premium

The primary implication of the 2009 ANA/Booz & Company study into B2B marketing is clear: A greater focus on fundamental marketing capabilities can yield substantial returns. But to capture these returns for their companies, B2B marketers will need to address systemic, functional, and capabilities issues.

In systemic terms, many B2B marketers will have to establish a new, more integral role for themselves in the corporate hierarchy:

- They will have to earn the attention and consideration of the senior leadership team by expanding their current roles as

advertising and PR managers into strategic advisors, engage with the team in the identification and prioritization of corporate goals, and lead the development of brands, products and services, and new businesses.

- They will have to balance marketing’s strategic agenda with the most difficult economy in decades—creating and consistently pursuing an agenda that delivers short-term returns and long-term benefits.
- They will have to understand that all marketing capabilities are not equal in terms of benefit and identify and pursue those capabilities that can best help them meet the two other goals.

In functional terms, the majority of B2B marketers will have to learn to walk before they attempt to run. Toward this end and the fulfillment of the third goal, they should consider focusing their attention on the three key capabilities identified in this survey. They should build their expertise in each of these capabilities slowly, avoid reinventing the wheel (by acquiring and adapting B2C talent and techniques), and continually demonstrate the value of their efforts.

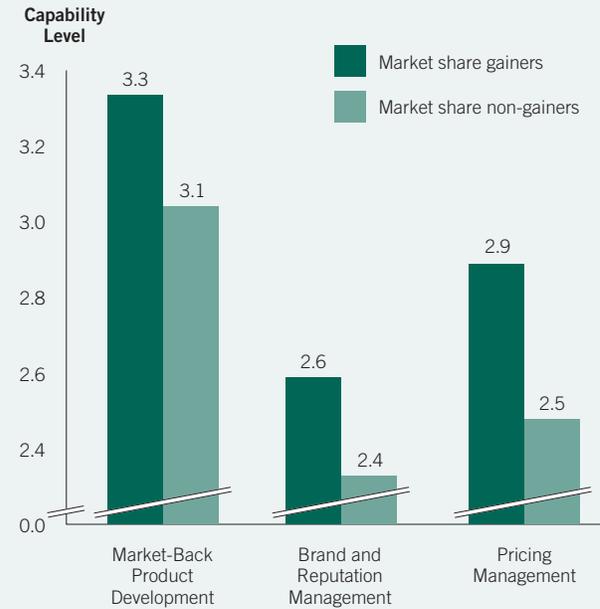
In terms of the three key capabilities, B2B marketers can begin to frame their development efforts around the following best practices:

Market-back product development: The best marketers earn a voice in the product development process by delivering customer insight. In order to obtain this insight, they identify and articulate customer needs and desires. They understand their customer segments and the value drivers in each segment. They translate the value drivers into product attributes, work with R&D to design these attributes into products and services, and set innovation priorities.

Brand and reputation management: Effective marketers manage brand portfolios that integrate, support, and achieve corporate goals—and enhance corporate reputation. They define and execute product and service strategy and positioning. They articulate brand propositions that include benefits and values. They continuously track and improve brand attributes. And they extend and leverage the appeal of the brand across all of the company’s activities, including products and services, communications, sales and service, and corporate culture.

Pricing management: Leading marketers manage pricing as an integral element of brand strategy. Pricing is proactively determined and implemented over the life cycle of the products and services. Further, in order to maximize profits, pricing is based on the value delivered to customers, in addition to costs and

Exhibit 5: Key Marketing Capabilities, Market Share Gainers vs. Non-Gainers



Source: 2009 ANA/Booz & Company survey of B2B marketers

market conditions.

Conclusion

Typically, B2B companies do not have a strong marketing tradition, but a combination of trends and conditions suggests that their need for marketing is becoming more and more compelling. Those B2B companies that have already strengthened their marketing capabilities are reaping rewards in increased market share, and the stakes will surely be raised as their capabilities mature and more and more companies follow their lead. This new marketing imperative in B2B has created an opportunity for marketers in this sector to deliver higher returns to their companies and establish more strategic roles for themselves. Those who seize this opportunity will stand among the leading marketers of the future.

¹ Peter Drucker, *Management: Tasks, Responsibilities, Practices* (Harper & Row, 1973), page 61.

² Association of National Advertisers and *BtoB* magazine, “The Continuously Changing Role of Marketing,” March 2008.

³ American Business Media and Booz & Company, “A Roadmap for Profitable Revenue Growth” (2008).

About the ANA

The ANA's mission is to provide indispensable leadership that drives marketing communications and media and brand management excellence and champions, promotes, and defends industry interests. The ANA is the industry's foremost and recognized source of marketing communications best practices. It also leads industry initiatives, influences industry practices, manages industry affairs, and advances, promotes, and protects all advertisers and marketers. The trade association represents 400 companies with 9,000 brands that collectively spend more than \$250 billion in marketing communications and advertising. For more information visit www.ana.net.

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